

# Capital Investment

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## INTRODUCTION

Everything the Town does, from providing services to its residents and citizens, to equipping employees to effectively perform their jobs, requires the existence of certain basic physical assets. These assets include streets, water mains, parks, buildings, large equipment and technology. They must be purchased, maintained and replaced on a timely basis or their usefulness in providing public services will diminish. The Town's five-year Capital Improvements Program and annual Capital Budget are developed to ensure adequate capital investment in the Town's assets.

## DEFINITION OF CAPITAL PROJECTS

A capital project is a major, non-recurring expenditure involving one or more of the following:

- Acquisition of land for a public purpose;
- Construction of, or addition to, a facility such as a public building, water or sewer lines, play field, etc.;
- Rehabilitation or repair of a building, facility; provided the cost is \$25,000 or more and the improvement will have a useful life of 10 years or more;
- Purchase of equipment costing \$25,000 or more, with a useful life of 5 years or more (all cars are defined to be non-capital items);
- Any planning, engineering or design study related to a specific capital project.

## CAPITAL POLICY FRAMEWORK

In 1991 the Board of Selectmen adopted a capital policy framework to ensure adequate planning and funding for capital investment, particularly cash capital projects within the general fund. This capital investment strategy was composed of the following major elements:

- multi-year planning for capital investment;
- debt exclusions for major capital projects;
- allocating 5% of general fund revenues for cash funding of small capital projects; and
- ensuring sufficient operating budget resources for maintaining capital assets.

The Town was not able to meet the 5% cash capital policy goal in either the FY2003 or FY2004 budgets due to fiscal constraints. For FY2005, money raised through the cash capital policy was appropriated to the stabilization fund, while bond authorizations were approved by

FY 2005 Appropriated Budget

Town Meeting for essential projects. This built up cash reserves in the stabilization fund as one way to address the negative outlook given in Moody's recent bond rating. A systematic review of Lexington's capital policies is ongoing.

## FIVE-YEAR CAPITAL PROGRAM

Five-year capital improvement planning has been part of Lexington's budget development process for many years. Multi-year planning allows proper staging and sequencing of capital projects to even out spikes and make funding needs more predictable. Capital investment requirements can be uneven, sometimes involving unique large projects such as a new fire engine or a new school building. Other capital investment needs are recurring. Lexington will continue to refine the five-year planning process in an attempt to determine an appropriate annual level of capital investment.

The five-year Capital Improvement Program shown on the following pages includes all capital projects identified by school and municipal departments over the next five years. The program includes three major categories of projects that are described below.

The Cash Capital Plan for the General Fund is a critical element of the integrated five-year Capital Improvement Program. Cash projects are those relatively small renewal capital investment projects such as the annual street resurfacing program, renewal of building systems, and replacement of large equipment.

A second element of the Capital Improvement Program is five-year planning for Enterprise Funds. The Water and Sewer Enterprise Funds are financially able to support all capital needs projected over the five-year planning period. The Recreation Enterprise Fund is able to fund capital investment only for revenue producing assets, such as the golf course and the aquatics facilities, while other capital needs are requested from the General Fund.

The final element in the Capital Improvement Program is proposing debt exclusions for large capital projects, generally those costing over \$1 million that can be bonded for ten years or more. The debt service for these projects is repaid outside of the Proposition 2-1/2 limit.

# FY 2005-2009 CAPITAL IMPROVEMENT PLAN

Dept. Priority	Capital Project Requests	FY2005 Recommended Funding Source	FY2005 Requested	FY2005 Recommended	FY2005 Appropriated
<b>SCHOOLS</b>					
1	Hastings Foundation Stress Crack	GF Debt	85,000	85,000	85,000
2	Harrington Gym Floor (1)	GF Debt	55,000	55,000	55,000
3	Estabrook Roof Repair	GF Debt	85,000	85,000	85,000
4	High School Indoor Track	GF Debt	100,000	100,000	100,000
5	LHS Auditorium Improvements	GF Debt	165,000	165,000	165,000
6	Lexington High Roof Repair	GF Debt	75,000	75,000	75,000
7	Hastings Shingled Roof Replacement	GF Debt	125,000	125,000	125,000
8	School Technology	GF Debt	250,000	250,000	250,000
9	Harrington Boiler Replacement	N/a	0	0	0
10	Hastings Mechanical Upgrades	N/a	0	0	0
11	Estabrook Emergency Generator	N/a	0	0	0
12	Bowman New Roof	N/a	0	0	0
13	Clarke Roof Repair	N/a	0	0	0
14	LHS Fieldhouse Facia Repairs	N/a	0	0	0
15	Diamond Generator	N/a	0	0	0
16	Diamond Theatrical Lighting	N/a	0	0	0
17	Harrington Window Replacement	N/a	0	0	0
18	Bridge Mechanical Upgrade	N/a	0	0	0
19	Bowman Mechanical Upograde	N/a	0	0	0
20	Central Office Building Repairs	N/a	0	0	0
<b>SHARED EXPENSES</b>					
	Cash Reserves in Stabilization Fund	GF Cash	489,868	489,868	807322
	Laconia Street Acceptance		0	0	335000
<b>DEPARTMENT OF PUBLIC WORKS (Community Services)</b>					
1	DPW Equipment	GFDebt/W/S Enterprise Cash	500,000	365,000	370,000
2	Building Envelope	GF Debt	485,000	385,000	340,000
3	Street Improvements (3)	GF Cash/ Debt/ Chapter 90	1,000,000	1,000,000	1,000,000
4	Storm Sewer Improvements	W/S Enterprise Cash	150,000	150,000	150,000
5	Traffic Improvements	GF Debt	95,000	0	0
6	Sidewalk Improvements	GF Debt	100,000	100,000	100,000
7	Water Distribution System Improv.	W/S Enterprise Cash/Debt	850,000	850,000	850,000
8	Sanitary Sewer Improvements	W/S Enterprise Cash	600,000	600,000	600,000
9	DPW Operations Facility (4)	N/a	0	0	0
<b>FIRE</b>					
1	Engine 2 - Replacement	GF Debt	344,600	345,000	345,000
2	Rescue 2 - Replacement	N/a	0	0	0
3	Engine 1 - Replacement	N/a	0	0	0
4	Two-Way Radio System - Replace.	N/a	0	0	0
<b>RECREATION</b>					
1	Playground Improvements	GF Debt	35,000	35,000	35,000
2	Tennis and Basketball Improvements	Rec Enterprise Cash	130,000	130,000	130,000
3	Pine Meadows Equipment	N/a	0	0	0
4	Pine Meadows Improvement	N/a	0	0	0
5	Center Pool Complex	N/a	0	0	0
6	Old Reservoir Management	N/a	0	0	0
<b>LIBRARY</b>					
1	E. Lexington Branch - Renovation (4)	N/a	0	0	0
<b>SOCIAL SERVICES</b>					
1	Senior Center (4)	N/a	0	0	0
<b>TOWN CLERK</b>					
1	Touch Screen Voting Equipment	N/a	0	0	0
<b>GENERAL GOVERNMENT (MIS)</b>					
1	Remote Network Access	N/a	0	0	0
2	Electronic Permitting	N/a	0	0	0
3	Replace Phone System	N/a	0	0	0
<b>TOTAL</b>			<b>5,719,468</b>	<b>5,389,868</b>	<b>6,002,322</b>

(1) The 2003 Town Meeting appropriated \$65,000; FY2005 request is balance of project cost

(3) \$500,000 for in General Fund cash for streets is included every year as a result of the FY2001 override. In addition, \$460,000 in Ch.90 street funding is anticipated for FY2005.

(4) The estimates for the DPW Operations Facility, the East Lexington Branch Library and the Senior Center are not representative of any cost studies. The estimates simply serve as placeholders and require further evaluation.

Project Request	FY2006 Request	FY2007 Request	FY2008 Request	FY2009 Request	Total
<b>SCHOOLS</b>					
Hastings Foundation Stress Crack	0	0	0	0	85,000
Harrington Gym Floor (1)	0	0	0	0	55,000
Estabrook Roof Repair	0	0	0	550,000	635,000
High School Indoor Track	0	0	0	0	100,000
LHS Auditorium Improvements	0	0	0	250,000	415,000
Lexington High Roof Repair	0	0	200,000	0	275,000
Hastings Shingled Roof Replacement	0	0	0	0	125,000
School Technology	0	0	0	0	250,000
Harrington Boiler Replacement	1,600,000	0	0	0	1,600,000
Hastings Mechanical Upgrades	100,000		872,000	0	972,000
Estabrook Emergency Generator	200,000	0	0	0	200,000
Bowman New Roof	0	600,000	0	0	600,000
Clarke Roof Repair	0	270,000	0	0	270,000
LHS Fieldhouse Facia Repairs	0	85,000	0	0	85,000
Diamond Generator	0	200,000	0	0	200,000
Diamond Theatrical Lighting	0	0	150,000	0	150,000
Harrington Window Replacement	0	0	750,000	0	750,000
Bridge Mechanical Upgrade	0	0	0	50,000	50,000
Bowman Mechanical Upograde	0	0	0	50,000	50,000
Central Office Building Repairs	0	0	0	550,000	550,000
<b>SHARED EXPENSES</b>					
Cash Reserves in Stabilization Fund	0	0	0	0	489,868
	0	0	0	0	345,000
<b>DEPARTMENT OF PUBLIC WORKS (Community Services)</b>					
DPW Equipment	370,000	350,000	300,000	340,000	1,725,000
Building Envelope	1,000,000	1,000,000	1,000,000	1,000,000	4,385,000
Street Improvements (3)	1,100,000	1,200,000	1,300,000	1,400,000	6,000,000
Storm Sewer Improvements	335,000	345,000	360,000	365,000	1,555,000
Traffic Improvements	350,000	30,000	500,000	200,000	1,080,000
Sidewalk Improvements	105,000	110,000	115,000	115,000	545,000
Water Distribution System Improv.	850,000	800,000	800,000	500,000	3,800,000
Sanitary Sewer Improvements	525,000	600,000	600,000	600,000	2,925,000
DPW Operations Facility (4)	1,490,000	12,770,000	0	0	14,260,000
<b>FIRE</b>					
Engine 2 - Replacement	0	0	0	0	345,000
Rescue 2 - Replacement	190,650	0	0	0	190,650
Engine 1 - Replacement	0	380,000	0	0	380,000
Two-Way Radio System - Replace.	0	0	190,000	0	190,000
<b>RECREATION</b>					
Playground Improvements	85,000	200,000	54,000	35,000	409,000
Tennis and Basketball Improvements	90,000	0	80,000	0	300,000
Pine Meadows Equipment	0	50,000	0	50,000	100,000
Pine Meadows Improvement	400,000	0	0	200,000	600,000
Center Pool Complex	0	30,000	0	0	30,000
Old Reservoir Management	0	0	50,000	0	50,000
<b>LIBRARY</b>					
E. Lexington Branch - Renovation (4)	0	100,000	0	4,500,000	4,600,000
<b>SOCIAL SERVICES</b>					
Senior Center (4)	7,680,000	0	0	0	7,680,000
<b>TOWN CLERK</b>					
Touch Screen Voting Equipment	65,000	0	0	0	65,000
<b>GENERAL GOVERNMENT (MIS)</b>					
Remote Network Access	25,000	0	0	0	25,000
Electronic Permitting	0	0	0	150,000	150,000
Replace Phone System	0	60,000	0	0	60,000
<b>TOTAL</b>	<b>16,560,650</b>	<b>19,180,000</b>	<b>7,321,000</b>	<b>10,905,000</b>	<b>59,701,518</b>

## **FUNDING OF CAPITAL INVESTMENT**

The following funding sources are used to finance the town's capital investment:

- **Cash for Immediate Capital Investment (Cash Capital)** – The town regularly appropriates monies from the general fund and the enterprise funds to finance short-term, small capital investment projects.
- **Stabilization Fund** – The Town occasionally makes use of the policy of appropriating a small portion of cash capital funding to a stabilization fund. This funding source is then set aside and used to mitigate the costs of capital items in future years.
- **Debt Service** – The Town has traditionally financed large capital projects with debt. In recent years budget constraints have squeezed out “cash capital” funds and some of these projects have also been funded through borrowing. Debt can be appropriated under the General Fund Tax Levy (either under the Proposition 2 ½ levy limit or from a voter approved debt exclusion – see glossary for definitions) or from the Enterprise Funds.
- **Other Sources** – The town uses dedicated state aid and grant funding to finance capital investment when these funds are available.

## **RELATIONSHIP BETWEEN OPERATING BUDGET AND CAPITAL INVESTMENT**

There are two critical aspects of the relationship between the operating and capital budgets that must be balanced as part of a decision about the appropriate size of the Town's overall budget.

First, assets must be adequately maintained through a combination of capital and operating funding in order to give proper service. Major rehabilitation, renewal or replacement requires adequate capital funding. In addition, any capital projects taken on by the Town must have the operating resources necessary to support and maintain them over their useful life. Specifically, the technical, manpower and maintenance resources needed to protect the Town's capital investments must be accounted for in the operating budget in order to maintain long-term investments made in the Town's infrastructure.

Secondly, the financial structure of the Town's capital program must be balanced between cash and debt. Stretching out the payment of a long-term asset through permanent borrowing can be beneficial. On the other hand, overuse of debt financing compromises the ability to fund needed projects with cash in future years. A more thorough discussion of Lexington's debt policy can be found in the Debt section of this document.

## **FY2005 CASH CAPITAL FINANCING PLAN**

Review of FY2005 projects was undertaken within the following parameters:

- Projection of a planning figure for cash capital of \$489,868. As the budget was crafted, that amount varied and finally became \$807,322. As previously mentioned, this amount was set aside in the stabilization fund in order to build up the Town's cash reserves.
- Consideration of projects appearing new in the budget year only under emergency circumstances. The integrity of the five-year capital planning process requires that future projects be identified as early as possible and projected in the out-years of the plan, moving forward on planned funding schedule.
- When debt financing is required for time-critical projects, the intention is to issue permanent financing. A total of \$2,170,000 worth of general fund projects is proposed for bond authorization if FY2005.
- Funding of enterprise-related projects from enterprise funds. All requested water, sewer, and recreation enterprise fund projects are recommended for FY2005.
- Proposal of large capital projects for debt exclusion. At this point there are no specific proposals for future debt exclusion.

## CASH CAPITAL FINANCING PLAN (General Fund)

The following table projects cash capital policy amounts under the Selectmen's FY2001 policy.

	FY2005	FY2006	FY2007	FY2008	FY2009
5% of General Fund Policy	\$4,806,314	\$5,176,005	\$5,397,102	\$5,558,343	\$5,723,634
Debt Service (1)	(4,041,446)	(4,729,470)	(3,735,013)	(2,833,595)	(1,902,116)
Short-Term Debt (2)	(275,000)	(275,000)	(275,000)	(275,000)	(275,000)
Adjustments for Cuts and O/R					
Preliminary Cash Capital	\$807,322	\$171,535	\$1,387,089	\$2,449,748	\$3,546,518
Streets from FY2001 Override	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Total Cash Capital	\$1,307,322	\$671,535	\$1,887,089	\$2,949,748	\$4,046,518

(1) This line shows debt service obligations from existing authorizations, as well as projected issuance of existing and proposed new bond authorizations.

(2) The Town uses short-term borrowing in anticipation of State reimbursement for road and school projects and to provide cash for authorized capital projects in advance of obtaining permanent debt issuance.

## FY2005 General Fund Capital Plan

FY 2005 Cash Capital Projects		FY2005	FY 2005	FY 2005 Appropriated	
		Request	Recommended	General Fund	Enterprise
Hastings	Stress Crack	\$85,000	\$85,000	\$85,000	
Harrington	Gym Floor*	\$55,000	\$55,000	\$55,000	
Estabrook	Roof Repairs	\$85,000	\$85,000	\$85,000	
High School	Indoor Track	\$100,000	\$100,000	\$100,000	
High School	Auditorium Lighting	\$165,000	\$165,000	\$165,000	
High School	Roof Repairs	\$75,000	\$75,000	\$75,000	
Hastings	Roof Replacement (shingled)	\$125,000	\$125,000	\$125,000	
Systemwide	Technology	\$250,000	\$0	\$250,000	
<b>Subtotal Education</b>		<b>\$940,000</b>	<b>\$690,000</b>	<b>\$940,000</b>	<b>\$0</b>
Stabilization	Cash Reserves	\$489,868	\$489,868	\$807,322	
Gen. Gov.	Laconia Street Acceptance	\$0	\$0	\$335,000	
<b>Subtotal Shared Expenses</b>		<b>\$489,868</b>	<b>\$489,868</b>	<b>\$1,142,322</b>	<b>\$0</b>
DPW	Equipment Replacement	\$500,000	\$365,000	\$370,000	
Building Envelope	Re-sleeve TOB Elevator	\$85,000	\$85,000	\$85,000	
"	Upgrade 1993 Facilities Study	\$100,000	\$100,000	\$55,000	
"	ADA Improvements	\$50,000	\$50,000	\$50,000	
"	Cary Hall Audio-Visual Upgrades	\$150,000	\$150,000	\$150,000	
"	Replace Visitors' Center Electric	\$100,000	\$0	\$0	
DPW	Street Related Improvements**	\$1,000,000	\$1,000,000	\$1,000,000	
DPW	Storm Sewer Improvements	\$150,000	\$150,000	\$150,000	
DPW	Traffic Improvements	\$95,000	\$0	\$0	
DPW	Sidewalk Improvements at Schools	\$100,000	\$100,000	\$100,000	
DPW	Water Distribution Improvements	\$850,000	\$850,000	\$850,000	
DPW	Sanitary Sewer Improvements	\$600,000	\$600,000	\$600,000	

FY 2005 Cash Capital Projects		FY2005	FY 2005	FY 2005 Appropriated	
		Request	Recommended	General Fund	Enterprise
<i>Subtotal DPW</i>		\$3,780,000	\$3,450,000	\$1,810,000	\$1,600,000
Fire	Replace Engine #2	\$344,600	\$345,000	\$345,000	\$0
<i>Subtotal Public Safety</i>		\$344,600	\$345,000	\$345,000	\$0
Recreation	Kineen Playground Upgrade	\$35,000	\$35,000	\$35,000	\$0
Recreation	Adams Tennis, Basketball, Playgrnd	\$130,000	\$130,000	\$0	\$130,000
<i>Subtotal Culture &amp; Recreation</i>		\$165,000	\$165,000	\$35,000	\$130,000
<b>Totals</b>		<b>\$5,719,468</b>	<b>\$5,139,868</b>	<b>\$4,272,322</b>	<b>\$1,730,000</b>
	Cash	\$2,269,868	\$2,269,868	\$1,307,322	\$1,280,000
	State Aid	\$460,000	\$460,000	\$460,000	
	Debt	\$2,989,600	\$2,410,000	\$2,505,000	\$450,000

\* \$65,000 was appropriated at the 2003 Annual Town Meeting toward the \$120,000 total project cost.

\*\* The FY2001 override established an annual cash appropriation of \$500,000. An additional \$460,000 is anticipated from Chapter 90 funds.

*Note: Since the cash capital policy is under review, and future-year planning for a few capital areas needs to be further refined, no specific project recommendations have been made for FY2006-9.*

*It is projected that approval of this new debt will add the following debt service costs to future years' budgets: FY2006 - \$503,720 ; FY2007 - \$485,216 ; FY2008 - \$466,712 ; FY2009 - \$448,208.*