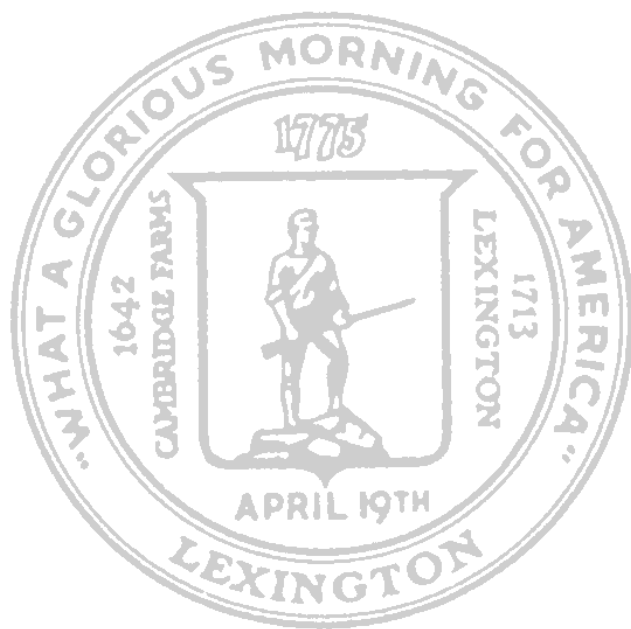


# Section IV: Capital Investment

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# 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 and debt service of small capital projects; and
- ensuring sufficient operating budget resources for maintaining capital assets.

A systematic review of Lexington's capital policies is ongoing.

In FY2005, money raised through the cash capital policy was appropriated to the stabilization fund, while bond authorizations

were approved by Town Meeting for essential projects. This appropriation of cash reserves was one way in which Lexington was able to maintain a "Aaa" bond rating with a negative outlook. For FY 2006, money set-aside for cash capital was used for small capital projects, establishing a recurring maintenance appropriation and debt service.

## 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 Capital Plan for the General Fund (page IV-5) 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 2006-2010 Capital Improvement Plan

Dept. Priority	Capital Project Requests	Dept. Recommended Funding Source	FY2006 Requested	FY2006 Recommended	FY2006 Appropriated
<b>Program 1000: Education</b>					
	Glass Entrance Replacement	GF Debt	75,000	75,000	75,000
	Exterior Lighting	GF Debt	100,000	100,000	100,000
	Intercom/Phone Systems	GF Debt	125,000	125,000	125,000
	Diamond Generator	GF Debt	140,000	140,000	140,000
	Diamond Heating Controls	GF Debt	150,000	150,000	
	Clarke Heating Controls	GF Debt	200,000	200,000	456,500
	System-Wide School Monitoring	GF Debt	250,000	250,000	0
	School Technology	GF Debt/Cash	350,000	350,000	270,000
	Central Office Building Repairs & Design	GF Debt	400,000	400,000	300,000
	Maintenance Equipment	GF Debt/Cash	404,100	405,000	143,500
	Hastings Mechanical Upgrades	GF	0	0	0
	Estabrook New Roof	GF	0	0	0
	Clarke Roof Repair	GF	0	0	0
	LHS Fieldhouse Facia Repairs	GF	0	0	0
	LHS Roof Replacement (Science)	GF	0	0	0
	Diamond Theatrical Lighting	GF	0	0	0
	Harrington Window Replacement	GF	0	0	0
	Harrington Boiler Replacement	GF	0	0	0
	Bowman New Roof	GF	0	0	0
	Bridge Mechanical Upgrade	GF	0	0	0
	Bowman Mechanical Upograde	GF	0	0	0
	LHS Auditorium Upgrades	GF	0	0	0
	LHS Fieldhouse Court Replacement	GF	0	0	0
<b>Program 3000: Community Services (DPW)</b>					
1	DPW Equipment	GF Debt	504,500	485,000	485,000
2	Building Envelope	GF Cash/Debt	458,000	150,000	150,000
3	Street Improvements (3)	GF Cash/ Debt/ Chapter 90	1,000,000	960,000	960,000
4	Storm Sewer Improvements	W/S Enterprise Cash	0	0	0
5	Traffic Improvements	GF Debt	177,000	100,000	100,000
6	Sidewalk Improvements	GF Debt	50,000	50,000	50,000
7	Water Distribution System Improv.	Water Enterprise Cash/Debt	0	0	0
8	Sanitary Sewer Improvements	Sewer Enterprise Cash/Debt	0	0	0
9	DPW Operations Facility	GF Debt	800,000	720,000	720,000
<b>Program 4000: Public Safety</b>					
1	Communications Design Study	GF Cash	40,000	50,000	50,000
2	Rescue 2 - Replacement	GF Cash	165,000	165,000	165,000
3	Engine 1 - Replacement	GF	0	0	0
4	Two-Way Radio System - Replace.	GF	0	0	0
5	Engine 5 - Replacement	GF	0	0	0
6	Rescue 1 - Replacement	GF	0	0	0
<b>Program 5000: Culture &amp; Recreation: Library</b>					
1	E. Lexington Branch - Renovation (4)	GF / Debt Exclusion	0	0	0
<b>Program 5000: Culture &amp; Recreation: Recreation</b>					
1	Lincoln Park Restrooms	Recreation Enterprise Cash	200,000	200,000	0
2	Playground Improvements	GF Debt/Rec Enterprise Cash	65,000	65,000	65,000
3	Pine Meadows Improvement	Rec Enterprise Cash	50,000	50,000	50,000
4	Pine Meadows Equipment	Rec Enterprise Cash	0	0	0
5	Valley Tennic Court Improvements	Rec Enterprise Cash	0	0	0
6	Center Pool Complex	Rec Enterprise Cash	0	0	0
7	Old Reservoir Management	Rec Enterprise Cash	0	0	0
<b>Program 6000: Social Services</b>					
1	Senior Center (4)	GF / Debt Exclusion	0	0	0
<b>Program 8000: General Government: Town Clerk</b>					
1	Touch Screen Voting Equipment	GF	0	0	0
<b>Program 8000: General Government: MIS</b>					
1	Remote Network Access	GF	0	0	0
2	Electronic Permitting	GF	0	0	0
3	Replace Phone System	GF	0	0	0
<b>TOTAL</b>			<b>5,703,600</b>	<b>5,190,000</b>	<b>4,405,000</b>

(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 a

(4) The estimates for the East Lexington Branch Library and the Senior Center are not representative of any cost studies. The estimates simply serve as plac

Project Request	FY2007 Request	FY2008 Request	FY2009 Request	FY2010 Request	Total
<b>Program 1000: Education</b>					
Glass Entrance Replacement	0	0	0	0	75,000
Exterior Lighting	0	0	0	0	100,000
Intercom/Phone Systems	0	0	0	0	125,000
Diamond Generator	0	0	0	0	140,000
Diamond Heating Controls	0	0	0	0	150,000
Clarke Heating Controls	0	0	0	0	200,000
System-Wide School Monitoring	0	0	0	0	250,000
School Technology	250,000	0	0	0	600,000
Central Office Building Repairs & Design	0	0	0	0	400,000
Maintenance Equipment	0	0	0	0	405,000
Hastings Mechanical Upgrades	100,000	0	0	0	100,000
Estabrook New Roof	550,000	0	0	0	550,000
Clarke Roof Repair	270,000	0	0	0	270,000
LHS Fieldhouse Facia Repairs	85,000	0	0	0	85,000
LHS Roof Replacement (Science)	0	200,000	0	0	200,000
Diamond Theatrical Lighting	0	75,000	0	0	75,000
Harrington Window Replacement	0	750,000	0	0	750,000
Harrington Boiler Replacement	0	600,000	0	0	600,000
Bowman New Roof	0	0	600,000	0	600,000
Bridge Mechanical Upgrade	0	0	50,000	100,000	150,000
Bowman Mechanical Upograde	0	0	50,000	100,000	150,000
LHS Auditorium Upgrades	0	0	250,000	0	250,000
LHS Fieldhouse Court Replacement	0	0	0	150,000	150,000
<b>Program 3000: Community Services (DPW)</b>					
DPW Equipment	490,000	491,000	484,000	450,000	2,400,000
Building Envelope	1,000,000	1,000,000	1,000,000	1,000,000	4,150,000
Street Improvements (3)	1,100,000	1,200,000	1,300,000	1,400,000	5,960,000
Storm Sewer Improvements	335,000	345,000	360,000	365,000	1,405,000
Traffic Improvements	350,000	30,000	500,000	200,000	1,180,000
Sidewalk Improvements	105,000	110,000	115,000	115,000	495,000
Water Distribution System Improv.	850,000	800,000	800,000	500,000	2,950,000
Sanitary Sewer Improvements	600,000	600,000	600,000	600,000	2,400,000
DPW Operations Facility	7,000,000	0	0	0	7,720,000
<b>Program 4000: Public Safety</b>					
Communications Design Study	0	0	0	0	50,000
Rescue 2 - Replacement	0	0	0	0	165,000
Engine 1 - Replacement	380,000	0	0	0	380,000
Two-Way Radio System - Replace.	0	190,000	0	0	190,000
Engine 5 - Replacement	0	0	180,000	0	180,000
Rescue 1 - Replacement	0	0	0	180,000	180,000
<b>Program 5000: Culture &amp; Recreation: Library</b>					
E. Lexington Branch - Renovation (4)	100,000	0	4,500,000	0	4,600,000
<b>Program 5000: Culture &amp; Recreation: Recreation</b>					
Lincoln Park Restrooms	0	0	0	0	200,000
Playground Improvements	200,000	50,000	200,000	70,000	585,000
Pine Meadows Improvement	0	0	0	0	50,000
Pine Meadows Equipment	50,000	0	50,000	0	100,000
Valley Tennis Court Improvements	0	100,000	0	0	100,000
Center Pool Complex	30,000	0	0	0	30,000
Old Reservoir Management	0	0	0	50,000	50,000
<b>Program 6000: Social Services</b>					
Senior Center (4)	7,680,000	0	0	0	7,680,000
<b>Program 8000: General Government: Town Clerk</b>					
Touch Screen Voting Equipment	65,000	0	0	0	65,000
<b>Program 8000: General Government: MIS</b>					
Remote Network Access	25,000	0	0	0	25,000
Electronic Permitting	0	0	150,000	0	150,000
Replace Phone System	60,000	0	0	0	60,000
<b>TOTAL</b>	<b>21,675,000</b>	<b>6,541,000</b>	<b>11,189,000</b>	<b>5,280,000</b>	<b>49,875,000</b>

anticipated for FY200!

holders and require further evaluation

## 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. This policy is currently under review.
- **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.

## FY 2006 CAPITAL FINANCING STRATEGY

Review of FY2006 projects was undertaken within the following parameters:

- Projection of a planning figure for cash capital of \$713,805. As the budget was crafted, that amount varied and finally became \$653,000. This will pay for a number of smaller capital projects.
- Consideration of projects appearing new in the budget year only under critical 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.
- A total of \$3,085,000 worth of general fund projects is proposed for bond authorization in FY2006.
- Funding of enterprise-related projects from enterprise funds. This parameter is standard year-to-year, but has been modified this year. There are no requested projects from the water or sewer enterprise funds this year. In addition, funding is requested from the tax levy for portions of two recreation enterprise fund projects.
- Proposal of large capital projects for debt exclusion. At this point, there are no proposals that are designated for debt exclusion in FY 2006. The design funds requested for a DPW Facility would be eligible for debt exclusion in later years once the project is defined and put to a vote.
- \$83,000 of this year's original cash capital amount will be used to fund a supplemental appropriation for a current (FY 2005) capital project.
- \$1,865,000 of this year's bond authorizations will be used as supplemental appropriations for prior year's capital projects.

# Capital Financing Strategy (General Fund)

	FY2006	FY2007	FY2008	FY2009	FY2010
5% of General Fund Policy	\$5,193,503	\$5,506,021	\$5,671,072	\$5,840,248	\$6,009,615
Debt Service (1)	-4,204,698	-2,570,797	-1,708,883	-1,445,054	-1,061,077
Short-Term Debt (2)	-275,000	-275,000	-275,000	-275,000	-275,000
Operating/Balancing Needs	-143,805	0	0	0	0
<b>Preliminary Capital</b>	<b>\$570,000</b>	<b>\$2,660,224</b>	<b>\$3,687,189</b>	<b>\$4,120,194</b>	<b>\$4,673,538</b>
Streets from FY2001 Override	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
<b>Total Capital</b>	<b>\$1,070,000</b>	<b>\$3,160,224</b>	<b>\$4,187,189</b>	<b>\$4,620,194</b>	<b>\$5,173,538</b>

## Notes

(1) This line shows debt service obligations from existing authorizations. Projected issuance of existing and proposed new bond authorizations is NOT included. Total authorized but not permanently unissued within levy debt totals \$7,565,000, with another \$2,795,000 proposed at this year's Town Meeting.

(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.

The chart above shows the general Capital Financing Strategy for Fiscal Years FY 2006-2010 according to the 5% policy. This assumes taking 5% of the current year's general fund revenues and setting it aside for the purpose of paying capital projects and any associated debt service. This chart shows that the amount of money available for capital projects from the levy increases as permanently issued debt service is retired. What it does not show,

however, is the more than \$15 million dollars of temporarily borrowed and proposed debt issuances that the Town has accumulated over the last several years. Although this budget recommends continued borrowing to fund capital projects, a thorough review of the capital policies is needed to maximize the available resources.

## FY 2006 Capital Improvement Plan

Shown below is the detailed capital improvement plan for FY 2006. The plan is subdivided by program, project, anticipated cost and funding amount. The FY 2006 Capital Improvement Plan proposes \$6,353,000 of capital requests - \$4,405,000 for FY 2006 projects and \$1,948,000 for supplemental capital projects. \$1,153,000 will come from the general fund - \$500,000 from the roads set-aside and \$653,000 from Cash Capital.

Staff proposes borrowing \$3,085,000 to cover capital projects. The Recreation Enterprise Fund would cover \$80,000 worth of projects. No projects are being requested this year that require money from the Water or Sewer Enterprise Funds. We anticipate receiving \$460,000 in Ch. 90 State Aid for Street Improvements. Finally, \$1,575,000 is requested for a supplemental appropriation for Fiske Elementary Construction project.

<b>Capital Requests Summary</b>	
General Fund Cash	\$ 1,153,000
Cash Capital Policy	\$ 653,000
FY 2001 Override Roads Set-Aside	\$ 500,000
General Fund Debt	\$ 3,085,000
FY 2006 Projects	\$ 2,795,000
Prior Year's Supplementals	\$ 290,000
Exempt Debt (Supplemental)	\$ 1,575,000
Recreation Enterprise	\$ 80,000
State Aid	\$ 460,000
<b>Total (all Funds)</b>	<b>\$ 6,353,000</b>

# FY 2006 Capital Improvement Plan\*

FY 2006 Projects				
Priority/Location	Item	FY 2006 Cost	Funding Source	
<b>Education</b>				
			<b>Type</b>	<b>Amount</b>
Bridge, Bowman, HS	Glass Entrance ways (door fronts)	\$ 75,000	GF Debt	\$ 75,000
System Wide	Exterior Lighting	\$ 100,000	GF Debt	\$ 100,000
Bridge, Bowman	Intercom / phone systems	\$ 125,000	GF Debt	\$ 125,000
Diamond	Generator	\$ 140,000	GF Debt	\$ 140,000
Diamond	Heating & Cooling Controls	\$ 456,500	GF Debt	\$ 456,500
Clarke			GF Debt	
System Wide	Technology	\$ 270,000	GF Debt	\$ 155,000
			GF Cash	\$ 115,000
Central Office	Design phase planning/relocation funds	\$ 240,000	GF Debt	\$ 240,000
	Repairs	\$ 60,000	GF Cash	\$ 60,000
System Wide	Equipment to maintain buildings	\$ 143,500	GF Debt	\$ 90,000
			GF Cash	\$ 53,500
<b>Total Education</b>		<b>\$ 1,610,000</b>	<b>\$ 1,610,000</b>	
<b>DPW</b>				
			<b>Type</b>	<b>Amount</b>
1	DPW Equipment Replacement	\$ 485,000	GF Debt	\$ 485,000
2	Building Envelope	\$ 150,000	GF Debt	\$ 100,000
			GF Cash	\$ 50,000
3	Street Improvements	\$ 960,000	GF Cash	\$ 500,000
			State Aid	\$ 460,000
4	Storm Sewer Improvements	\$ -	-	
5	Traffic Improvements	\$ 100,000	GF Debt	\$ 100,000
6	Sidewalk Improvements	\$ 50,000	GF Debt	\$ 50,000
7	Water Distribution Sys. Imp.	\$ -	Water. Ent.	\$ -
8	Sanitary Sewer Improvements	\$ -	Sewer Ent.	\$ -
9	DPW Operations Facility	\$ 720,000	GF Debt	\$ 720,000
<b>Total DPW</b>		<b>\$ 2,465,000</b>	<b>\$ 2,465,000</b>	
<b>Public Safety</b>				
			<b>Type</b>	<b>Amount</b>
1	Communications Design Safety	\$ 50,000	GF Cash	\$ 50,000
1	Rescue	\$ 165,000	GF Cash	\$ 165,000
<b>Total Police</b>		<b>\$ 215,000</b>	<b>\$ 215,000</b>	
<b>Recreation</b>				
			<b>Type</b>	<b>Amount</b>
1	Park & Playground Imp.	\$ 65,000	GF Debt	\$ 35,000
			Rec. Ent. Cash	\$ 30,000
2	Pine Meadows Imp.	\$ 50,000	Rec. Ent. Cash	\$ 50,000
<b>Total Recreation</b>		<b>\$ 115,000</b>	<b>\$ 115,000</b>	
<b>Prior Year's Supplemental Projects</b>				
Department	Item	FY 2006 Cost	Funding Source	
Education	Fiske Supplemental	\$ 1,575,000	Exempt Debt	\$ 1,575,000
Education	Supplemental School Capital	\$ 125,000	GF Debt	\$ 125,000
DPW	Supplemental Building Envelope	\$ 248,000	GF Debt	\$ 165,000
DPw			GF Cash	\$ 83,000
<b>Total Supplementals</b>		<b>\$ 1,948,000</b>	<b>\$ 1,948,000</b>	
<b>Total all Funds</b>		<b>\$ 6,353,000</b>	<b>\$ 6,353,000</b>	

\* For detailed information on all of these projects, please see Section XIV: Program 9000: Capital Budget