TOWN OF ARLINGTON

CAPITAL PLANNING COMMITTEE

Report to Town Meeting

June 2005

CAPITAL PLANNING COMMITTEE REPORT
TABLE OF CONTENTS

EXHIBITS

TABLES

FIGURES

June 2005

REPORT OF THE CAPITAL PLANNING COMMITTEE

The FY 2006 Capital Budget and the five-year Capital Plan are presented to you in this report. The recommended vote includes both “Non-Exempt” and “Exempt” debt service, the latter so-called because it is excluded from the limitations of Proposition 2½ by votes of the citizens of the Town in 1997, 2000 and 2001. In the course of this report we will refer to such debt and debt service as Exempt, and traditional capital spending debt and debt service as “Non-Exempt”, because it remains within (is not exempt from) the spending limits of Proposition 2½. The Finance Committee and the Capital Planning Committee have agreed to budget Non-Exempt capital spending at 5% of the Town’s annual revenues.

In addition, a referendum for an override of the limits of Proposition 2½ has been scheduled for June 11, 2005. The outcome of this referendum is not yet known as of the time of the preparation of this report. Therefore, the report will present and discuss the “Override” version of the budget. A table highlighting the items that are deleted in the event the override does not pass, and a “No Override” version of the budget are also presented in the appendices. Furthermore, two complete versions of the Vote (an Override version and a No Override version) as recommended by the Capital Planning Committee are included.

<u>Sources of Funding: Bonds, Cash And Other</u>

Each year , the Capital Planning Committee (the “ CPC " or the "Committee") presents to Town Meeting the following fiscal year's Capital Budget and a five-year Capital Plan, the first year of which is the Budget for the following fiscal year. The Capital Budget and Capital Plan expenditures are described by type of expenditure and source of funding. The Committee uses the acronyms “Bonds”, “Cash” and “Other" to describe the sources of funding for the capital budget and plan. “Cash” refers to those expenditures that are paid for in their entirety in the next fiscal year directly from the general fund. “Bonds” refers to those expenditures that are acquired through borrowing, the payments for which may or may not affect the next fiscal year, but in any event are paid for over an extended period of time, usually three to twenty years. Those extended payments include both principal and interest, usually referred to as "debt service". “Other” refers to those expenditures that are financed from sources that do not arise directly from the Town's tax levy; these sources may be state or federal grants, user fees, private donations, trust funds and other non-tax sources.

In the vote for the capital appropriation for FY 2006, you will be asked to approve 1) payments for the debt service on capital acquisitions of prior years that are financed through bonds, 2) payments for the current year acquisition for new projects using funds obtained directly from the tax levy, 3) authorize the issuance of bonds to finance new acquisitions that will be paid for in future fiscal years, and 4) authorize acquisitions using sources of funds other than the tax levy. You are only asked to vote on the budget for this year under Article 47, and not the five-year Capital Plan. However, your vote to authorize the Town to finance acquisitions through borrowing encumbers future Town Meetings just as Town Meetings of the past have obligated this Town Meeting to pay the debt service for prior borrowings.

Table I Expenditure Comparison FY 2006 vs. FY 2005

	Expenditure FY 2006 vs. FY 2005			
	Expenditure FY 2005	Expenditure FY 2006	Change Amount FY 06 - FY 05	Change % FY 06 - FY 05
Prior Debt Service				
Exempt	$2,986,027	$3,235,354	$249,327	8.35%
Non-Exempt	$3,727,206	$4,149,755	$422,549	11.34%
Less MWRA Debt		($73,960)	($73,960)	
Total Prior Debt Service	$6,713,233	$7,311,149	$597,916	8.91%
New Debt Service	$67,897	$136,409	$68,512	
Total Debt Service	$6,781,130	$7,447,558	$666,428	9.83%
Cash Expenditure	$626,000	$707,110	$81,110	12.96%
Total Expenditure	$7,407,130	$8,154,668	$747,538	10.09%
Non-exempt Expenditure	$4,421,103	$4,993,274	$498,211	11.27%
Less Antenna Funds	($100,000)	($140,000)	($40,000)	40.00%
Less Capital Carry Forward				
Less SBAB Reimbursement for Ottoson	($436,717)	($436,717)		
Adjusted Non-Exempt Expenditure	$3,884,386	$4,416,557	$458,211	11.80%

The proposed FY2006 budget of $8,154,668 consists of Exempt Debt Service, Non-Exempt debt service and direct cash outlays as outlined in

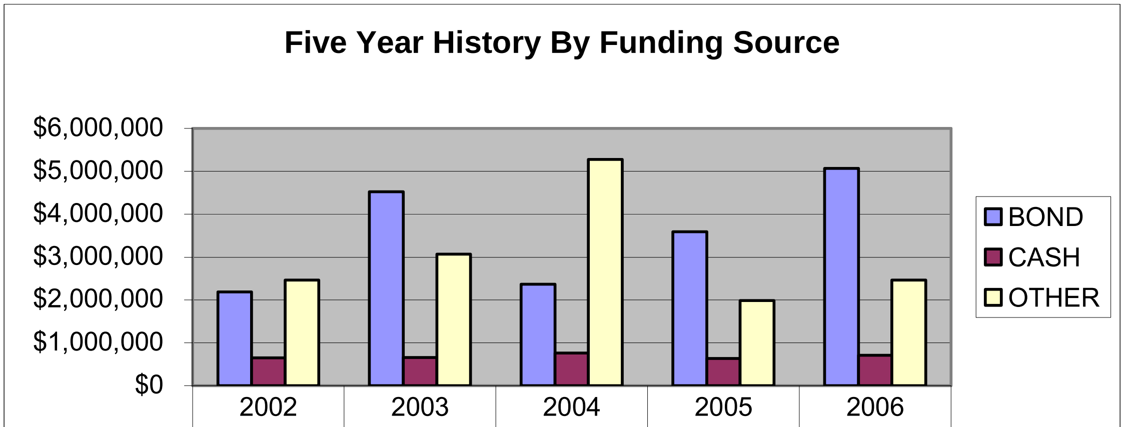
Table I Expenditure Comparison FY 2006 vs. FY 2005 . The total Capital Budget has increased by $747,538, or 10.09% over last year. The Non-Exempt portion has increased 11.27%. However, this does not take into consideration SBAB reimbursement of **$**436,717, which goes directly into the General Fund. Adjusted for this reimbursement, and excluding the Exempt debt service, this year's Capital Budget is **$**4,416,557, or 11.8% higher than last year. The detailed vote of Article 47 is provided at the end of this report as Exhibit I.

As a result of the efforts of the Capital Planning Committee and its close cooperation with the Town Manager, the Finance Committee, and the Treasurer, Town Meeting in recent years has approved continued road improvements, new data processing equipment, renovation of Town Hall, improvements to Robbins Farm and Spy Pond Shores, replacement of critical fire equipment and many other capital projects essential to Town services and Arlington's future. A description of the Capital Planning Process and the Committee's evaluation criteria are included in Exhibit VII at the end of this report.

2004 TOWN MEETING: CAPITAL BUDGET AND PLAN FISCAL YEARS 2005 - 2009

The 2004 Town Meeting received a five-year capital program for fiscal years 2004 through 2009, and approved a capital budget for 2005 of $4,421,103 before $437,000 in SBAB reimbursement and $100,000 offset in Antenna and other funds, or $3,884,386 net. Total recommended new capital acquisitions were $6,241,566: $1,985,756 (or 32%) funded by sources other than local tax revenues including enterprise funds, $3,629,810 (or 58%) funded by new bonding, and $626,000 (or 10%) funded by direct appropriation. Of the total direct appropriation of $7,407,130 (before adjustments), $6,713,233 was to fund pre-2004 debt, and $757,120 was to fund capital acquisitions directly. Portions of the proposed outside source expenditures were proposed to be funded by CDBG funds, which are allocated at the discretion of the Board of Selectmen and Town Manager.

Figure 1 Funding Source History FY 2002 – FY 2006 shows the capital expenditures by funding source for FY 2002 through FY 2005 which are actual, as well as the proposed levels for FY 2006.



	2002	2003	2004	2005	2006
BOND	$2,182,700	$4,524,500	$2,368,400	$3,589,810	$5,071,627
CASH	$645,262	$656,853	$757,120	$626,000	$707,110
OTHER	$2,464,185	$3,066,852	$5,272,256	$1,985,756	$2,460,300

Figure 1 Funding Source History FY 2002 – FY 2006

Many of the items approved by the 2004 and prior Town Meetings have been acquired and put in service. Progress on these acquisitions is monitored by the Comptroller and reported to the Capital Planning Committee.

The Jaws of Life have been acquired, Community Safety Building repairs are in process, and various School and Town infrastructure improvements that were funded are underway. Construction of the Robbins Farm project and Spy Pond shoreline are underway. The new 911 Dispatch Center is in progress. Reservoir Dam Repair is currently under construction.

CAPITAL BUDGET AND PLAN FISCAL YEARS 2005-2009

Financing Capital Improvements

Exhibit III, after page 14, is the proposed capital budget for FY 2006, indicating the source of funding for each expenditure. Exhibit IV is the five-year capital plan for FY 2006 through FY 2010. The expenditures planned for FY 2006 are the proposed budget for FY 2006 as well.

Exhibit V is a model of the estimated debt service for all of the bonded items in the capital plan. Exhibit V gives added visibility to those items that affect the Town's rate of debt retirement in any given year. The principal factors affecting the debt retirement schedule are the amount of each item bonded, the payment term in years and the interest rate, which is conservatively estimated at 4%-5%. Data in this report uses actual debt service amounts for previously issued debt, and estimated purchase costs and interest rates for forecasts of future borrowing costs. Allowed lifetimes, or retirement terms, are set by statute for classes of assets. This report generally follows those guidelines.

The Ottoson school project and the first three elementary school projects were planned and have been undertaken with consideration of 63% reimbursement by the Commonwealth. However, the full cost of the Ottoson debt service (principal and interest) is reflected in the capital budget, but the reimbursement is reflected in Town receipts. In addition, bonds for the Brackett, Bishop, Hardy and Peirce schools (and in the future Dallin, Stratton and Thompson) are Exempt from the limitations of Proposition 2½; however, the debt service for these bonds is reflected in the vote in Article 47.

Where possible we draw attention to the cash flows for reimbursement, and to the different impacts of "Exempt" and "Non-Exempt" expenditures, debt levels and debt service. The current planning agreement with the Finance Committee is to maintain the impact of 'Non-Exempt" capital spending under 5% of Town Revenues.

Financing long-term assets via bonding is both legitimate and desirable. The direct benefit is to level, over longer time periods, the effect on the tax rate of large capital acquisitions or projects that would otherwise severely impact individual tax years. A well-constructed and balanced capital plan, such as Arlington's, optimizes the effects of direct tax base, bonded, and externally-funded expenditures. Retirement of earlier bond issues allows continued investment in Arlington's capital base without disruptive tax rate effects. Table II below illustrates the composition of each forecast capital vote over the next five-years, including both Exempt and Non-Exempt debt.

Table II Composition of Capital Appropriation FY 2006 - 2010

Fiscal Year	2006	2007	2008	2009	2010	Total
Prior Non-Exempt Debt	$ 4,149,755	$ 3,580,109	$ 3,434,994	$ 3,019,972	$ 2,703,174	$ 16,888,004
Cash	707,110	745,958	721,458	690,000	645,018	3,509,544
New Non-Exempt Debt Service	136,409	968,569	1,424,543	1,903,538	2,180,398	6,613,456
MWRA Bonds	(73,960)	(73,960)	(73,960)	(73,960)	(73,960)	(369,800)
Adjust for Antenna Funds	(140,000)					
Total Non-Exempt Tax Burden	**$ 4,779,314**	**$ 5,220,676**	**$ 5,507,035**	**$ 5,539,550**	**$ 5,454,630**	**$ 26,501,204**
Exempt Debt Service	$ 3,235,354	$ 3,156,373	$ 3,070,205	$ 2,854,932	$ 2,770,833	$ 15,087,697
Net Appropriation	**$ 8,014,668**	**$ 8,377,049**	**$ 8,577,240**	**$ 8,394,482**	**$ 8,225,463**	**$ 41,588,901**

A critical planning issue is how to arrive at a plan of future capital expenditures based on estimates of the debt service and other factors but still keep within the constraints of the current Town budget and future forecasts. State funding this year is essentially flat with respect to last year. As our economy improves the Committee is anticipating annual growth of about 1.5% in the near future, principally because of lower local receipts and little or no growth in state aid. Forecasts of future Town revenues are subject to high variability. In addition, the Town does not have an indefinite supply of reserves to meet its obligations.

In the FY 2006 – FY 2010 Capital Plan, the Committee assumed a revenue growth projected in the Town Manager's Five Year Plan, assuming a successful override. We also assumed that bond issues occur at the end of each fiscal year, shifting principal and interest payments into the next fiscal year. Interest rates are conservatively forecast at 4% to 5% depending on the year. Table III assumes the existing Non-Exempt debt service obligations incurred by the Town, and forecasts the future obligations that would be incurred if future Town Meetings were to vote to spend the cash and bonded expenditures shown over the next five fiscal years in the Five Year Capital Plan FY 2006 – FY 2010 as presented in Exhibit III of this report.

Table III Forecast of Future Capital and Debt Service Costs

Fiscal Year	2006	2007	2008	2009	2010	Total
Prior Non-Exempt Debt	$4,149,755	$3,580,109	$3,434,994	$3,019,972	$2,703,174	$16,888,004
Cash	$707,110	$745,958	$721,458	$690,000	$645,018	$3,509,544
New Non-Exempt Debt Service	$136,409	$968,569	$1,424,543	$1,903,538	$2,180,398	$6,613,456
MWRA Bonds	($73,960)	($73,960)	($73,960)	($73,960)	($73,960)	($369,800)
Total Non-Exempt Tax Burden	$4,919,314	$5,220,676	$5,507,035	$5,539,550	$5,454,630	$26,641,204
Adjust for Antenna Funds	($140,000)					($140,000)
Capital Carry Forward						
Adjust for Ottoson	($436,717)	($436,717)	($436,717)	($436,717)	($436,717)	($2,183,585)
Net Non-Exempt Plan	$4,342,597	$4,783,959	$5,070,318	$5,102,833	$5,017,913	$24,317,619
Pro Forma Budget	$ 93,134,512	$ 96,640,488	$ 100,722,996	$ 104,465,966	$ 109,152,377	504,116,339
Budget For Plan at 5%	$4,656,726	$4,832,024	$5,036,150	$5,223,298	$5,457,619	25,205,817
Plan as % of Revenues	4.66%	4.95%	5.03%	4.88%	4.60%	4.82%
Variance From Budget	$314,128	$48,066	($34,168)	$120,465	$439,706	$888,198

Table III Forecast of Future Capital and Debt Service Costs indicates how the Capital Plan affects expenditures and how those expenditures compare to the budget agreement with the Finance Committee. Compared to Town Revenues as currently estimated and forecast, the Capital Budget is 4.82% of revenues on an aggregate five year basis. Expenditures rise in future years because current demand is shifted into the future to meet current financial constraints.

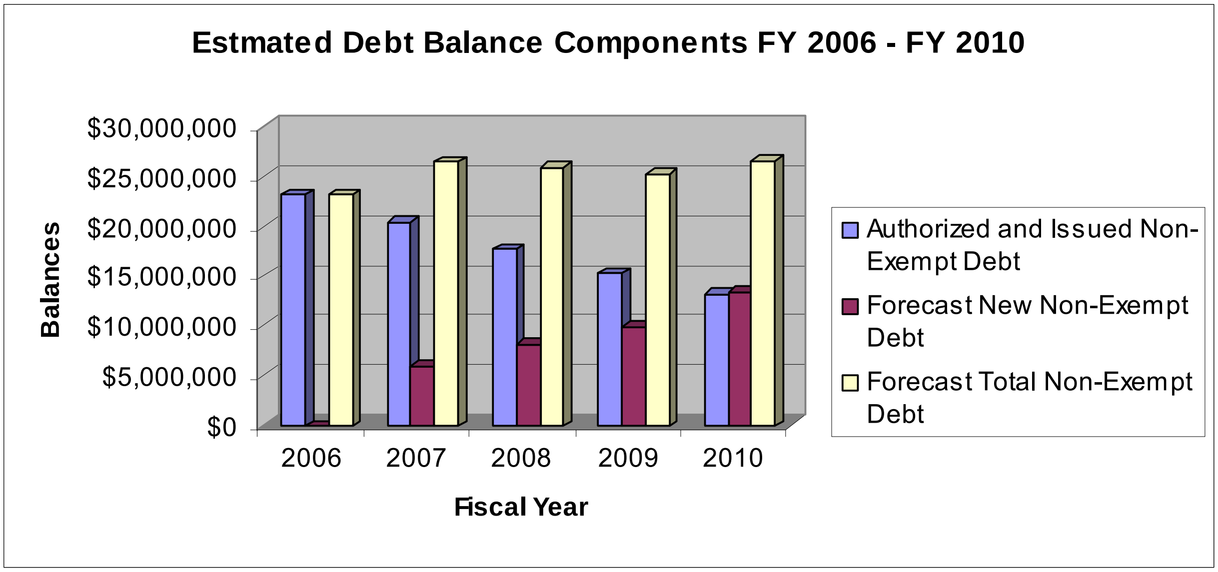


Figure 2 Forecast of Debt Balance Components

Figure 2 Forecast of Debt Balance Components shows the various components of Arlington's debt load in future years. These debt balances are shown as of the beginning of each fiscal year. "New debt" includes only forecast items in this FY 2006 – FY 2010 Capital Plan.

Figure 3 Estimated Total Debt Balances indicates the aggregate categories of prior Exempt, Forecast Non-Exempt and Total Debt outstanding for the Town over the five year period. The Exempt Debt balances for the Bishop, Brackett, Hardy and Peirce school projects are included in the existing Exempt Debt balances. The newly issued Dallin Bond Anticipation Notes are carried in the exempt debt balances.

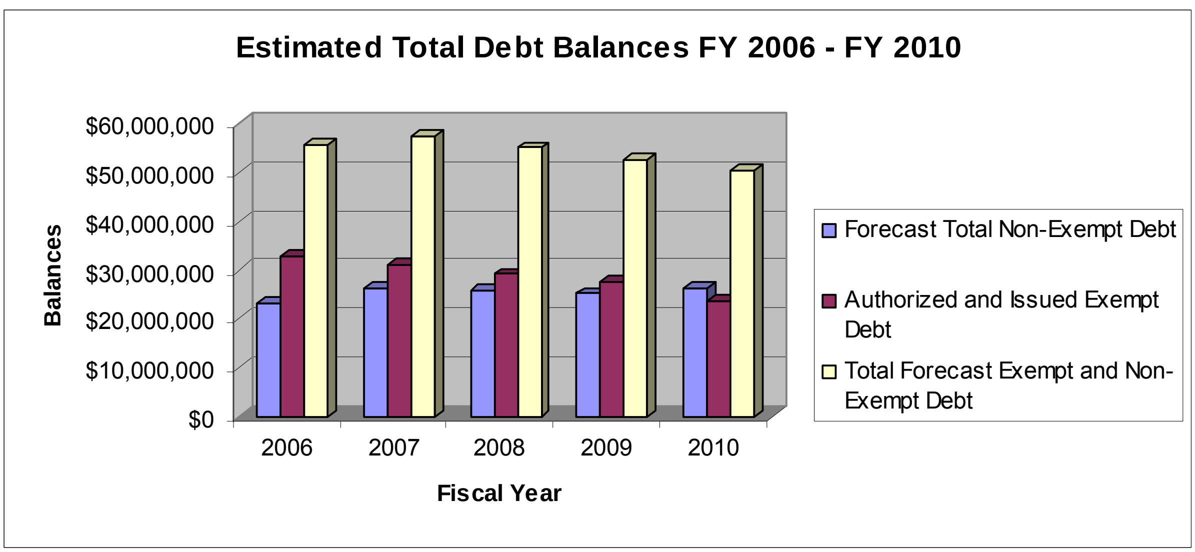


Figure 3 Estimated Total Debt Balances

The impact of the Stratton and Thompson school projects are not in these forecasts. The status and actions of the new School Building Authority with respect to new projects is uncertain at this time. Hence, it is difficult to predict the impact of these projects on the Exempt Debt schedule at this time.

In addition, Town Meeting has previously formed an "Infrastructure Working Group" to recommend how the school infrastructure rebuilding process should be financed. Policy recommendations on these issues are the charter of that Committee (in which the Capital Planning Committee participates); pending the Infrastructure Working Group's recommendations on these issues, the Capital Planning Committee has not forecast the impact of the debt service and debt balances for those projects.

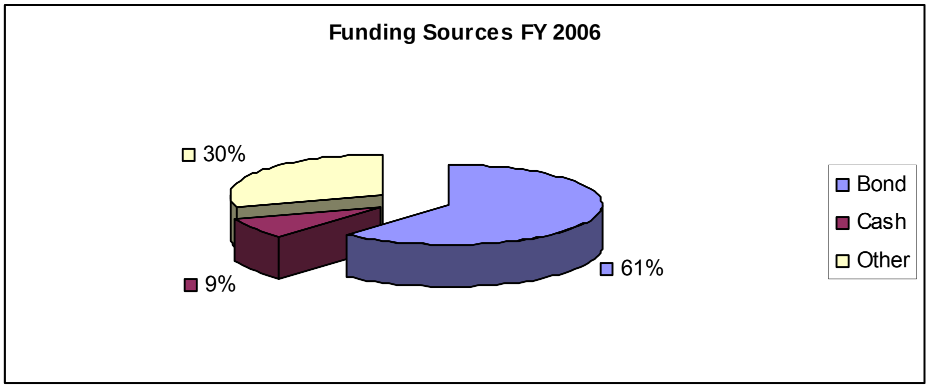


Figure 4 Funding Sources

The Capital Planning Committee, the Town Manager, the Board of Selectmen, and the Finance Committee have approved the Capital Budget for FY2006, except for the recommended renovation of the Park Circle Fire Station, which the Finance Committee has not supported (see later discussion) . Total recommended new capital acquisitions are $8,239,037: $2,460,300 (or 30%) is funded by sources other than local tax revenues including enterprise funds, $5,071,627 (or 61%) is funded by new bonding, and $707,110 (or 9%) is funded by direct appropriation. The total direct appropriation, after the application of Antenna Funds, is $8,014,668. Of this amount, $7,385,109 is to fund prior debt, $136,409 is for new debt service and $707,110 is to fund capital acquisitions directly. Portions of the proposed outside source expenditures ("Other") may be funded by CDBG funds, which are allocated at the discretion of the Board of Selectmen and Town Manager. Table IV summarizes the details upon which Town Meeting is being asked to vote.

Table IV Summary of FY 2006 Capital Vote Article 47

FY2006 Article 47 Version C	Expenditures
By Funding Source	
Cash	$707,110
Bond	$5,071,627
Other	$2,460,300
Total	**$8,239,037**
Calculation Of Net Appropriation of Article 47 Version C	
FY2006 Article 47 Version C	**Capital and Debt Service**
Prior Years Debt Service	
Principal	$5,043,960
Interest	$2,341,149
Total Prior Debt Service	$7,385,109
Less MWRA	($73,960)
Net Prior Debt Service	$7,311,149
New Non-exempt Debt Service	$136,409
Less Transfer From Antenna Funds	($140,000)
Current Year Cash Outlay	$707,110
Total Article Appropriation	**$8,014,668**

Of the $7,385,109 of debt service, the Town will receive $1,343,025 in SBAB reimbursements from the state. Of these reimbursements $436,716 for the Ottoson goes into the general fund and $906,309 in reimbursement for the Brackett, Hardy and Bishop are used to reduce the exempt debt service that is applied to the taxpayer.

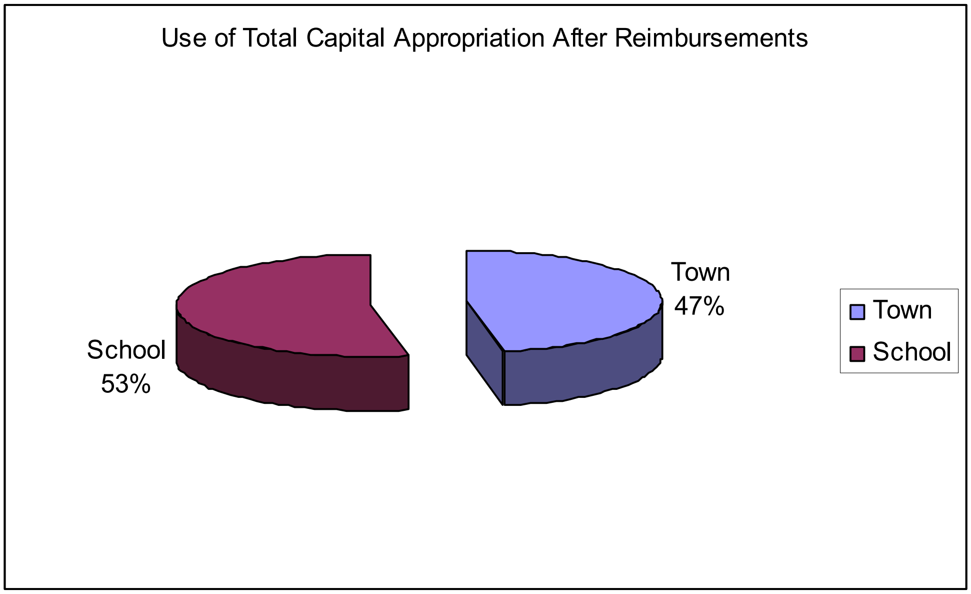


Figure 5 Uses of Appropriation Net of Reimbursements

Figure 5 above shows the general uses of the FY 2006 Exempt and Non-Exempt appropriation after the FY 2006 state SBA reimbursement. All of the Exempt debt service is used to fund school reconstruction. During Fiscal Year 2005 the Treasurer refunded portions of the Town's debt, saving the Town $515,000 in debt service costs. After distribution of the state's 63%, the savings to the Town is $190,550, which will flow to the general fund over a multi-year period.

SPECIAL ITEMS AND ANALYSES

Proposition 2½ Override Referendum June 11, 2005

As of the preparation of this report, the outcome of a referendum to allow an override of the 2½% levy limit, scheduled for June 11, 2005, is not known. This report presents the form of capital request assuming that the override passes. The proposed vote is presented in Exhibit I, referred to as Article 47, Version C. The Finance Committee, in its report has presented Version A, which is similar to Version C except that the Finance Committee's vote does not include the recommendation for the renovation of the Park Circle Fire Station. This is included in the Capital Planning Committee's recommendation, Version C.

Version B, the recommended vote in the event that the override does not pass, is an identical recommendation by both the Finance Committee and the Capital Planning Committee. A copy is included at the back of this report as Exhibit VII.

Fire Station Reconstruction Program – Park Circle

History

In late 1999 Fire Chief Richard Maimone prepared a capital planning request for the renovation of Arlington's three fire stations. The architectural firm of Ammondson Architects, Inc. was hired to conduct a feasibility study to access the physical conditions of the buildings and estimate the cost of reconstruction or renovation. The study recommended that the Park Circle Station be completely reconstructed and the Central and Highland Fire Stations be renovated. After touring the three stations and a detailed review of the proposal, the Capital Planning Committee agreed that the three stations, whose average age was over seventy five years, and in which the working and living conditions were deplorable, were in desperate need of major renovation. Since this was a decision which would result in facilities that would serve the town for 50 to 70 years, the Committee was concerned about whether all three stations were required and whether or not they were optimally used. At the Annual Town Meeting in June 2000, the Committee asked for funds to allow Chief Maimone to retain outside consultants to review the configuration and use of the stations.

One year of the planning cycle was lost when the Town received no bids in response to its request for proposals for the Fire Station Study. In 2002, the Town received bids and retained the firm of MMA, a well known consulting firm in the area of fire department operations. Later the Town would retain this firm again in the search for a new chief to replace retired Chief Maimone. MMA conducted a study over a period of twelve months. Their report concluded that

1. The Town could consolidate the Fire Stations from three to two, closing Park Circle, and still maintain an adequate level of service for Arlington citizens,
2. That the department should be reconfigured to comply with emerging standard 1710 using four man crews rather than three man companies, and
3. The number of companies should be reduced from 6 to 3, deploying a "quint" (a combination pumper/ladder) rather than a pumper and a ladder company, and eliminating another engine company.

Following the completion of the study, the Committee held a number of formal and informal meetings with Chief Maimone during which he rejected the findings of the consultant citing a number of factors he felt the consultant had not taken into consideration. The Capital Planning Committee extensively debated the Chief's position versus that of MMA. The Committee eventually recommended a three station renovation program, proposing to start with Central Station, following with Highland and ending with Park Circle. The Committee felt that this would allow the Town to further study the issue, but would at least get the station improvements underway. The Committee also believed that if the Fire Department were restructured, the Park Circle Station might be redundant, further arguing that it be addressed last.

In 1999, the floor of the Park Circle station had sagged under the area where Engine 3 was parked. The Town called in structural engineers, who shored up the building, but it sagged further in 2001 and eventually, Engine 3 had to be relocated to a temporary garage constructed on MWRA park property across the street, but now in the driveway of the station. This structural defect drove the decision to proceed with the Park Circle Station first.

In 2002, new Town Manager Phillip Farrington supported the Chief's recommendation to first address Park Circle Station, followed by Central and Highland. In June, 2002, the Board of Selectmen held a public hearing on the future of Park Circle; attendees and speakers were overwhelmingly supportive of retaining and renovating Park Circle Station. The Board of Selectmen voted to retain Park Circle and renovate it first, following the recommendation of Chief Maimone and the Town Manager. Upon the recommendation of the Capital Planning Committee, the Board of Selectmen and the Finance Committee, the 2002 Annual Town Meeting voted $220,000 to move forward with the reconstruction plans for the Park Circle Station.

By June 2003, the fiscal crisis that hit the state had now rolled through cities and towns. The Town received the architectural plans for the station, which envisioned a new building with a cost of $2,300,000. With the uncertainty of an override referendum (it did not pass) and the outlook for future increases in state aid grim, the project was moved out by one year. In June 2004, both the Board of Selectmen and new Town Manager Brian Sullivan requested another one year postponement so that Mr. Sullivan and the Board could further review the requirements and impacts of the proposed program, especially in the light of the complex discussion revolving around the MMA report.

Current Status

We are now nearly six years from the date structural faults were first found in Park Circle Station. Three Town Managers, two Fire Chiefs and the contemporaneously serving Boards of Selectmen have all recommended the renovation of the Park Circle Station. The Board of Selectmen, Capital Planning Committee and Finance Committee recommended funding the architectural plans and the 1992 Annual Town Meeting voted the funds for architectural plans, which have been prepared, and with an affirmative vote on the recommendations of the Capital Planning Committee construction can begin.

The Finance Committee is not supporting reconstruction of Park Circle. While they have not recommended a clear alternative, it is apparent that members of the Finance Committee believe that a) there are viable alternatives that have not been considered; b) the recommendations of the MMA consulting group should trump the professional judgment of Arlington's Fire Department management (including two different chiefs), the Town Manager (three different Town Managers) and the policies of the Board of Selectmen; and c) The data does not support the need for the Park Circle Station or perhaps there has not been sufficient analysis to support it.