

**CAPITAL IMPROVEMENTS PROGRAM COMMITTEE
RECOMMENDATIONS for 2017 CAPITAL FUNDING
PRELIMINARY REPORT, November 30, 2016**

STRUCTURE and SCOPE of WORK:

The Committee has assembled an Excel workbook covering Capital Reserves, Expendable Trusts and certain Revolving Funds. Each germane account then was analyzed for expected expenditure over the six years 2017 to 2022, with notations for large items expected for the following six years. Estimated December 31, 2016 balances were added and estimated funding needs calculated for the initial six-year period. Where appropriate, proposed bond issues were added. A summary of those detail accounts is presented at the front of the workbook. Contributions for 2016 were noted and compared to proposed 2017 contributions.

The summary page of the workbook also offers comments on each fund as well as a summary of possible future bond offerings. The Committee offers a program to fund capital at a sustainable, but predictable and orderly manner.

Our numbers, at present, do not assume inflation and interest rate changes, but of which will become factors in future years. The focus of this year's effort was to construct a basic model that will be refined over future years.

The report is offered as a basis for further discussion and a means to evaluate suggested changes within the context of a disciplined model.

OBSERVATIONS and COMMENTS:

Overall 2017 funding is down by \$9,500 from 2016 funding even though 2017 includes:

- Creation in 2018 of a new Capital Reserve for Fire Self Contained Breathing Apparatus (SCBAs) with recurring contributions of \$34,000;
- One-time special DPW Facilities excess funding of \$80,000; and
- Providing an additional \$30,000 in the Police Cruisers Capital Reserve to cover all purchases.

Three years ago, SCBAs required a special Warrant Article for a lease/purchase running through 2020. The Committee believes that SCBAs should be subject to regular Capital Reserve contribution provisions over their estimated remaining seven-year life. However, Selectmen may wish to defer this provision to 2018 to better level out the DPW spike in 2017, even though it may require a slight addition to the annual contribution over the remaining seven years.

DPW's 2017 essential needs were determined as too small (and vote risky) for bonding.

Police cruisers is a tax rate neutral exchange from the General Fund to Capital Reserve contribution. Showing all purchases in one account properly presents costs to the town and allows for better accountability.

This puts both Police and DPW vehicle on a manageable cash fund-as-we-go basis, which is appropriate for shorter-life assets. However, certain heavy fire trucks are simply too large a ticket items. Moreover, there extended life (20+ yrs.) suggests longer-term bonding.

The bulk of the reduction in annual contributions is a result of electing to bond high cost major fire truck acquisitions. To cash fund-as-we-go regular replacements would require a minimum of \$200,000 per year, up \$120,000 from the current \$80,000. Over the next six years, 20-year bond annual debt service is estimated at approximately \$34,000 commencing in 2018 and increasing to \$65,000 in 2021. Projected annual cash contributions to Fire Trucks Capital Reserve is budgeted at on \$20,000, down \$60,000 from 2016.

Other larger adjustments were to zero fund Conservation Land Acquisition and reduce funding to Whitcomb Hall. The Carpenter Home's capital needs (estimated at nearly \$400,000) were deferred pending the discussion as to its continued operations.

Note is taken that the Road Rehabilitation/Reconstruction Reserve estimate was provided without specific road references. Accordingly, the Committee is unable to express any opinion on the adequacy of the reserve provision and urges a more disciplined approach be initiated by the Board of Selectmen.

The Committee also recommends that Insurance Deductibles be terminated, and that funds therein (\$4,000) be restored to the General Fund.

BONDING:

It was decided to fund the proposed \$400,000 (New estimated cost of \$393,922, including 10% contingency, plus additional issuance cost/reserve of \$6,078) Police Station expansion/renovation through a single purpose 10-year bond with estimated annual level debt service (principal plus interest) of approximately \$45,000.

For Committee purposes, it was further decided to treat all annual CIP-related bond debt service as an additional annual CIP cost to properly reflect true tax rate cost. Hence, the Committee would effectively represent an annual contribution to Police Facilities of that \$45,000 over the next ten years. Future bond debt services will be similarly reflected.

For best accountability, CIPC elected to only consider bonds for specific projects, eschewing bundled project bonds. Likewise, the Committee is considering proposing more specific capital expenditure Warrant Articles.

Two contemplated additional bond funded projects, Wilson Pond Dams repairs and Christian Hill Bridge replacement were recommended for further study and are not included in these six-year projections. CIPC believes removal of the Upper Wilson Dam should be studied and understands that Christian Hill Bridge replacement alternatives are currently under study by a separate committee.

Although Town Hall renovation/replacement and Fire Station #2 (Swanzy Center) were deferred to at least 2018, we have included minimum construction costs and related bonding as a placeholder.

SUMMARY:

Following is a summary of six year inclusive costs. As related leases run off, essential level funding occurs from a tax rate perspective.

	<i>(in \$ thousands)</i>						
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Expected Cash Contribution	\$ 572	\$ 557	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511
Bond Annual Debt Service:							
Police	-	23	45	45	45	45	45
Fire Trucks	-	-	34	34	34	34	34
Town Dams	-	-	-	-	-	-	-
Town Bridges	-	-	-	-	-	-	-
Fire Trucks	-	-	-	-	-	31	31
Total Regular Reserves	572	580	590	590	590	621	621
Related Prior Years Leases:							
Sidewalk Tractor	18	18	-	-	-	-	-
SCBAs	32	32	32	32	32	-	-
Police Cruiser	25	-	-	-	-	-	-
Police Software	2	2	-	-	-	-	-
	649	632	622	622	622	621	621
Special Facilities Bonds:							
Town Hall	-	-	-	83	83	83	83
Fire Station #2	-	-	-	63	63	63	63
Inclusive Total	<u>\$ 649</u>	<u>\$ 632</u>	<u>\$ 622</u>	<u>\$ 768</u>	<u>\$ 768</u>	<u>\$ 767</u>	<u>\$ 767</u>

The forgoing has flexibility to absorb possible spikes in Dams and Bridges needs that will be better understood over time. Please remember that Special Bonds are 'placeholder' numbers only, and they are at minimum levels.

In addition, interest rates are now trending higher with an expected Federal Reserve rate increase later this month. Rates used are estimates.

The Committee recognizes that some of these complex recommendations may be controversial. Our intent is to be responsible, educational and transparent to the Town of Swanzey. There are grave deferred needs resultant from years of underfunding that must be addressed. The intent is to create a procedural model that will be carried forward and refined each year on a fully accountable basis.

The Committee would also like to thank town staff, department heads and other committees for their assistance in preparing this report.

Lastly, one must consider the bottom line tax effect that MRSD has on Swanzey voters. They represent close to 60% of our combine Town, School, County, and State property tax bill. Their increases against declining enrollment literally sucks all the air out of any honest Swanzey Town debate and is even greater than Keene's millage rate, after Keene built a new Middle School.

CIPC, at this point, awaits further direction from the Board of Selectmen and looks forward to our joint meeting on December 7, 2016.

For the Committee,

Steven Bittel, Chair

Glenn Page, Vice Chair

Bruce Bohannon

Deborah Davis

Francis Faulkner

Jane Johnson (Planning Board Alt.)

Don Skiba

Robert Smith

Sly Karasinski (Selectmen's Rep.)