How can we keep pace?

Developing a process for making capital investments in (continuously) difficult financial times

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Agenda

• Context
• Process
• Recommendations
Economic Context in 2012

• Economy is still struggling

• 2000’s called “lost decade” for stock market

• Both US and Massachusetts unemployment rates more than double 2000 levels

• Among top stories on MMA homepage – “MTF report: Municipalities mired in worst 2-year stretch in 3 decades”
Infrastructure Context in 2012

• Construction/equipment needs often take second priority to operating budget

• Growing claims against resources from pension, healthcare and other mandates

• ASCE gives US an overall grade of “D” for meeting America’s infrastructure needs
Conclusion

• America, generally, is not keeping pace with capital needs

• Governments can, and many do, defer capital work in favor of maintaining programs or in order to meet other obligations

• While deferment relieves some short-term claims on funding, backlog of needs continues to grow
What is Capital?

• Communities define capital differently

• In Wellesley, capital is generally regarded as any project or equipment purchase:
  – > $5,000
  – Useful life beyond 10 years
  – Any building construction project >$25,000 is subject to oversight by Permanent Building Committee
Why is it important to plan?

- Large financial obligations
  - May require borrowing or substantial use of reserves
  - Unplanned projects place additional pressure on programs

- May span multiple fiscal years

- Required to fulfill mission critical functions (buildings, systems, equipment)
Wellesley’s “Planning Maxims”
(From Hans Larsen’s “Best Practices: Financial Planning” in City & Town, August 2008)

1. Focus on environmental changes; set priorities based on level of financial risk
2. Gain buy-in for your strategy
3. Simplify
4. Create a dashboard
5. Emphasize the need for accountability
Planning Process, step-by-step*

1. Organize and prepare for capital planning;
2. Prepare an inventory of existing facilities;
3. Determine the status of previously approved projects;
4. Prepare project request;
5. Develop project evaluation criteria;
6. Evaluate project requests;
7. Establish project priorities
8. Assess financial capacity and
9. Develop a CIP report with financing plan

*Process described by Maureen Valente in Chapter 11 of the Finance Committee Handbook (page 11-3)
Planning Process: Habits and other shortcomings

• Loose association with comprehensive or strategic plan (if any)
• Affordability analysis tied as much to the current year capital budget as the multi-year capital plan
• Operating pressures “crowd-out” pay-as-you-go capital outlays
• Out-year projections are imprecise
Capital Plan Execution

• Need to ensure that sufficient capacity exists to complete projects (staff, contract admin., etc.)

• Need to follow appropriate procurement laws
  – Supplies & Services: MGL c.30B (Uniform Procurement Act)
  – Designer Selection: MGL c.7, §§38A½ - O
  – Vertical Construction: MGL c.149
  – Horizontal Construction: MGL c.30, §39M
Modest recommendations

- Assess the condition and needs of facilities and other infrastructure

- Identify and target benchmark levels of infrastructure reinvestment (e.g. % of replacement value)
Modest recommendations (continued)

• Develop policies that establish a fixed percentage of revenue for capital spending (and stick to it!)

• Develop policies around use of available funds
  – Special Purpose Stabilization Fund (for Capital)
  – Community Preservation Act
  – In Wellesley: Debt Exclusion for any new construction
QUESTIONS?