

# **DPW Facility Funding Proposal**



**August 30, 2018**

**Robert G. Nunes  
Town Manager**

# History of the DPW Building Committee

- Article 16 of the June 7, 2004 Special Town Meeting established a Department of Public Works Building Study Committee consisting of nine members.
- At that time, a proposal was not submitted for local approval.
- The Building Committee reconvened in the Spring of 2017.
- Weston & Sampson (W&S) was selected in the Fall of 2017 to conduct a feasibility study.
- The Building Committee has met monthly and worked with Jeff Alberti of W&S in developing various building scenarios.

# Project Funding Options

- **Option 1: Fund the project through a debt exclusion (Tax Increase):**
  - An action taken by a community through a referendum to raise the funds necessary to pay for a project from the property tax levy, but outside the limits of Proposition 2½.
  - Major Capital Projects funded through **debt exclusions** and School Building Authority reimbursement:
    - New Police Station                      **\$9,500,000.00**
    - New High School                      **\$103,000,000.00**
- **Option 2: Fund the project through:**
  - **Town Enterprise Accounts**
    - **Wastewater, Water and Sanitation**
  - **Existing 2½% Tax Levy (General Fund)**
- A debt exclusion vote on the April 6, 2019 ballot would delay the project and increase the cost of construction. The Town would also miss a construction season due to the delay. This would result in a larger tax increase for the taxpayers.
- My recommendation is **Option 2 (fund through existing 2 ½ levy)** as outlined on the following pages:

# Town Enterprise Funds

- Enterprise accounting allows for a separate accounting and financial reporting mechanism for municipal services for which a fee is charged.
- Enterprise Funds:
  - Sanitation
  - Wastewater
  - Water
- Retained earnings stay with the Enterprise fund and are certified by the Department of Revenue similar to free cash.

## Certified Retained Earnings

	<b>Sanitation</b>	<b>Wastewater</b>	<b>Water</b>
• 7/1/2018	<b>Town will receive certification from DOR in mid-September</b>		
• 7/1/2017	646,207.00	4,274,314.00	6,403,080.00
• 7/1/2016	407,167.00	3,745,692.00	4,670,734.00
• 7/1/2015	242,507.00	2,105,153.00	3,516,436.00

# Debt Service and Tax Levy

- **Debt authorization** requires approval by a two-thirds vote of town meeting to incur debt in accordance with procedures stated in MGL Chapter 44.
- **Debt service** is the repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.
- **Long-term debt (permanent debt)** is an outstanding balance at any given time, involving loans with a maturity date of 12 months or more.
- **Short-term debt** is an outstanding balance, at any given time, on amounts borrowed with a maturity date of 12 months or less.
- **Note** is a short term loan.
- **Property Tax Levy is:**
  - A statutory mechanism to fund local government operations
  - Administered by local government
  - Largest source of local government revenue

# Cost Analysis of Project

	Cost	Percent of Cost***	Debt Service 30 years @ 4%*
• Estimated Project Cost**	\$15,162,383.00		
• Total Water Costs	3,850,920.00	25.40%	308,239.00
• Total Wastewater Costs	1,033,225.00	6.80%	82,705.00
• Total Sanitation Costs	2,339,415.00	15.40%	187,255.00
• General Fund Costs	7,938,823.00	52.40%	635,808.00
	7,350,000.00****	52.40%	539,249.00
• Total	15,162,383.00		

- \* Declining Debt Payments from Year 2 to 30
- \*\* Cost for construction start in Fall of 2019
- \*\*\* Based on Feasibility Study Cost Allocation Analysis
- \*\*\*\* A transfer from free cash could lower GF debt payment

# How to fund the project within the Levy Limit

- Continued strong financial management
- Maintain AA stable bond rating
- Accumulate budget reserves
- In order to fund the **general fund** portion of the proposed new DPW facility (est. \$7.9M), the Town will:
  - Not **borrow** for capital projects in FY19, FY20 and FY21 unless for emergency purposes. In each of those years, the Town will fund capital items through **free cash**.
  - In FY19, the Town will expend from free cash, \$625,000.00 (approved by Capital Planning Committee) on general fund capital items.
  - In FY 20, I will recommend that the Town expend from free cash, \$850,000.00 on general fund capital items.
  - I will recommend that the Town pay down \$455,690.00 in GF debt at the October 2018 STM using Free Cash.
  - Level fund the GF debt budget in FY20 and FY21 based on FY19 debt appropriation.
  - Based on allocation of space for the Sanitation, Wastewater and Water Departments, debt payments will also be funded out of the enterprise accounts.
  - Expand commercial tax base.

# Conservative Fiscal Policy

- Over the past several fiscal years the Town paid down with free cash **\$1,159,190.00** in GF debt.
- I will recommend at the October 2018 STM that the Town pay down with free cash **\$455,690.00** in GF debt.
- The Town will have paid down a total of **\$1,614,880.00** in GF debt.
- Due to the fact that that Town will have paid down more than \$1.6M in GF debt, the Town will **NOW** have the capacity to fund the project within the existing levy limit and avoid a debt exclusion (tax increase) referendum vote.

## Benefits of Paying Down Debt

- Reduce overall interest costs
- Pay off short term notes
- Prevents capital projects/items from being included in the long term debt schedule
- Looked upon favorably by credit rating agencies
- Positive fiscal practice



# Long Term General Fund Debt Schedule

➤	FY19	Principal	1,551,391.00
		Interest	<u>266,412.47</u>
			<b>1,817,803.47</b>
➤	FY20	Principal	1,295,650.00
		Interest	<u>218,240.70</u>
			<b>1,513,890.70</b>
➤	FY21	Principal	1,228,763.00
		Interest	<u>177,902.70</u>
			<b>1,406,665.70</b>
➤	FY22	Principal	1,203,581.00
		Interest	<u>139,402.44</u>
			<b>1,342,983.44</b>
➤	FY23	Principal	1,040,179.00
		Interest	<u>102,612.92</u>
			<b>1,142,791.92</b>
➤	FY19 P&I		1,817,803.47
➤	FY23 P&I		<u>1,142,791.92</u>
➤	Reduction in P&I		<b>675,011.55</b>
➤	First Year GF debt payment is \$635,808.00 based on \$7,938,823.00 be paid in FY2023		

# Free Cash

- Free cash is defined as unrestricted and available funds for appropriation by Town Meeting.
  - Certified as of July 1 based on the June 30 balance sheet, which reflects results from the prior year.
  - Should be considered as non recurring revenue.
  - Free cash will be used for capital projects at the Annual and Special Town Meetings.
  - 7/1/2018 free cash will be certified in the fall of 2018.
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- 7/2/2018 Free Cash: **Town will receive certification from DOR in mid-September**
  - 7/1/2017 Free Cash: **\$2,974,887.00**
  - 7/1/2016 Free Cash: **3,149,219.00**
  - 7/1/2015 Free Cash: **2,176,651.00**

# Stabilization Fund

- A Stabilization “rainy day” Fund is a special reserve fund into which monies may be appropriated and reserved for a later appropriation.
- Stabilization Fund balances carry forward from one fiscal year to the next.
- Interest earned on investment of the balance in this fund remains with the fund.
- A two-thirds vote of town meeting is required to appropriate into or out of the fund, and to amend the purpose of the fund.
- At the 2016 ATM, Town Meeting transferred \$400,000.00 to Stabilization Fund.
- The current balance in the Stabilization Fund is **\$2,793,263.00** or **3.5%** of the FY19 General Fund Operating Budget.

# Contact

- The presentation will be posted on [middleborough.com](http://middleborough.com)
- For additional information contact:

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