



Town of Milton Planning Board

Capital Improvement Program
Establishing Fiscal Wellness

Capital Reserve Fund Recommendation Report
August 2, 2016

The Proposed Charge

- ▶ Take a big picture look at all Town funds (excluding Library, School District, and other educational funds)
 - ▶ Overall Goal: Put the Town in a better long-term financial position
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A Snapshot of these funds:

- ▶ Some underfunded
 - ▶ Some overfunded
 - ▶ A few should be discontinued
 - ▶ Overall Assessment: funds are greatly underfunded
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What do we do now?

1. Take inventory of what funds exist
 2. Calculate how much to contribute each year (ARC)
 3. Calculate how much should be in each fund (ceiling, floor, and target)
 4. Lay out guidelines for when a fund should be created and when one should be discontinued
 5. Identify which funds, if any, should be discontinued and what to do with their balances
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Section I: Types of Trust Funds

- ▶ Milton's trust funds fall into three basic categories:
 - Capital Reserve
 - Maintenance Reserve Expendable Trusts
 - Revolving Funds

Tiers of Funds

- ▶ **1st Tier:** funds for capital equipment purchases
 - Firefighting Equipment
 - Highway Equipment
 - Police Department Communications Equipment

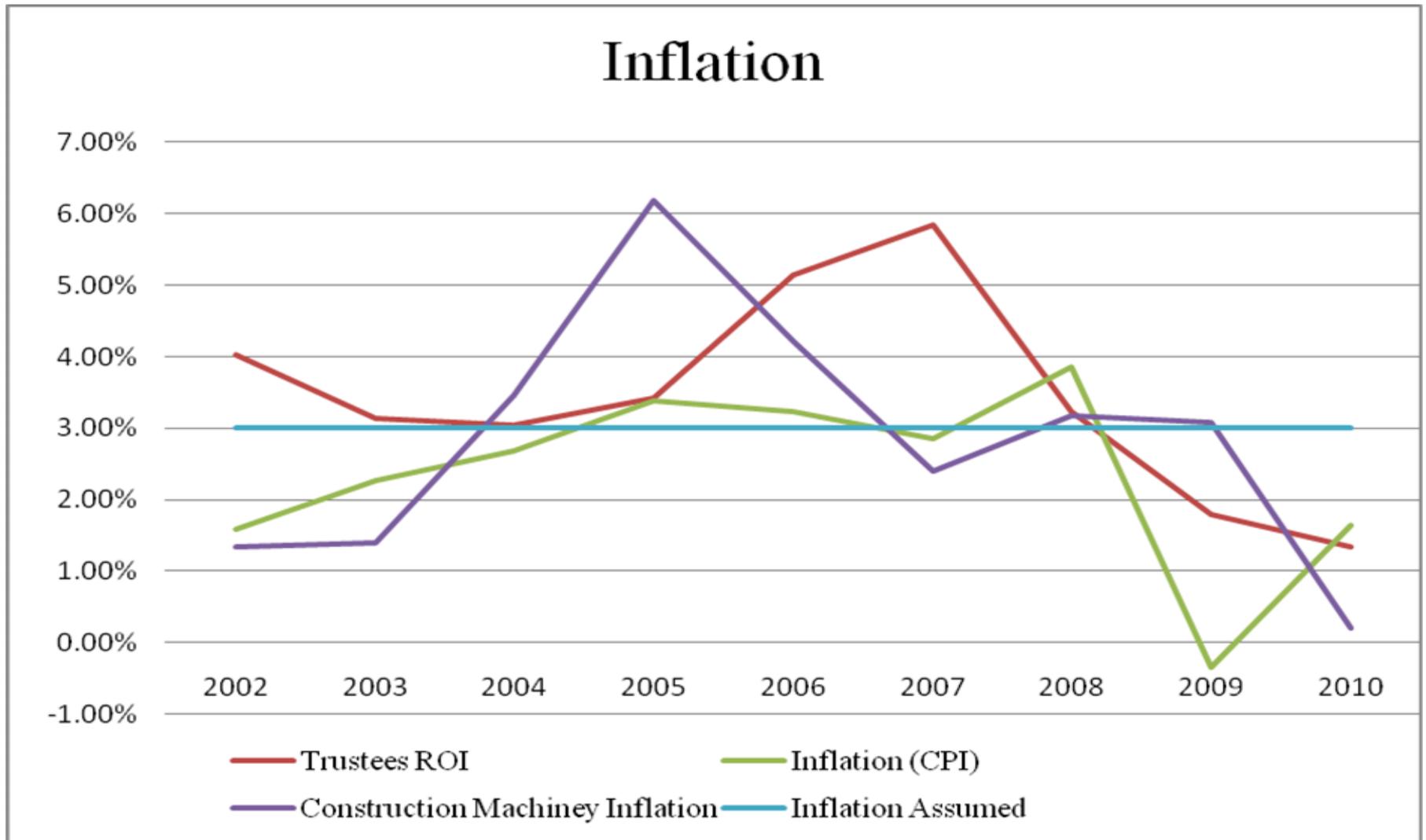
 - ▶ **2nd Tier:** funds related to maintenance and potential replacement of Town-owned buildings
 - Municipal Building Fund
 - Historical Society Fund
 - ????
 - Parks & Playgrounds Improvement Fund

 - ▶ **3rd Tier:** all other funds
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Section II: A Note on Costs and Inflation

- ▶ From 2005 to 2013...
 - Inflation has averaged 2.35% annually (annual median of 2.68%)
 - Heavy equipment (such as construction) costs have increased 2.83% annually (annual median of 3.08%)
 - Return on Investment (ROI) for trust funds under the management of the Trustees of Trust Funds has been 3.34% annually (annual median of 3.14%) <this needs corroboration>
 - Assumption: funds will tend to grow moderately faster than inflation, although the net gain will be marginal

Costs and Inflation continued



Section III: Annual Recommended Contribution (ARC)

- ▶ ARCs are based on needs related to the fund
 - ▶ ARCs should be increased 2.5% each year to try to neutralize inflation
 - ▶ One year is based on the next– this plan needs to be followed every year to maximize effectiveness
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ARC continued

▶ 1st Tier Funds:

- Replacement cost / useful life = \$ reserved annually (ARC)
- EX: A fire engine with a replacement cost of \$425,000 and useful life of 25 years
- $ARC = \$425,000 / 25 = \$17,000$ per year
- Add these figures up for the entire fleet covered by the fund to determine the ARC– \$125,000 per year for a Firefighting Equipment Fund
- Challenge of implementing this policy now is ongoing need for current capital purchases

ARC continued

▶ 2nd Tier Funds:

- Calculations are based on building replacement costs
- For “modern” buildings:
 - Take the replacement cost of the buildings covered by the fund and reserve 3% annually
 - EX: Municipal Building fund covers buildings with a total replacement cost of \$9,662,150
 - $ARC = \$9,662,150 \times 3\% = \$290,000$
- For historic buildings:
 - Take the replacement cost of the buildings covered by the fund and reserve 5% each year

Section IV: Ceilings, Floors, and Targets

- ▶ **Ceiling**– recommended level that a fund should not be above at the start of the fiscal year.
 - ▶ What if the ARC will bring the fund above the ceiling?
 - ▶ **EXAMPLE:** If, the Municipal Building Fund has a balance of \$1,350,000 (ceiling of \$1,450,000) and an ARC of \$300,000, then \$100,000 should go into that fund and the rest of the ARC should be appropriated to funds with the greatest need
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Floors and Targets

- ▶ Floor– recommended level that fund should not be below to start a fiscal year
- ▶ Target– the ideal balance for the fund, the middle between the ceiling and the floor



Ceilings, Floors, and Targets

▶ 1st Tier Funds:

- Ceiling– 30% of the fleet's total replacement cost
- Floor– 20% of the fleet's total replacement cost
- Target– 25% of the fleet's total replacement cost

▶ EXAMPLE: Firefighting Equipment Fund

- Ceiling: $\$2,515,000 \times 30\% = \$755,000$
- Floor: $\$2,515,000 \times 20\% = \$503,000$
- Target: $\$2,515,000 \times 25\% = \$629,000$

Ceilings, Floors, and Targets

▶ 2nd Tier Funds:

- Ceiling– 15% of the total replacement costs
- Floor– 10% of the total replacement costs
- Target– 12.5% of the total replacement costs

▶ EXAMPLE: Municipal Building Fund

- Ceiling– $\$9,662,150 \times 15\% = \$1,450,000$
- Floor– $\$9,662,150 \times 10\% = \$966,000$
- Target– $\$9,662,150 \times 12.5\% = \$1,200,000$

Ceilings, Floors, and Targets

- ▶ 3rd Tier funds:
- ▶ For the majority of these funds no policy is recommended
- ▶ Exceptions:
 - Appraisal Fund
 - ???? Fund

Section V: Recommendations

1st Tier Funds

1. Firefighting Equipment Fund:

- ARC– \$125,000
- Ceiling– \$733,500
- Floor– \$489,000
- Target– \$611,250

2. Police Department Equipment Fund:

- From current, change name to the Police Department Equipment Fund with a new purpose of “For the purchase of capital equipment for the Police Department”
 - ARC– \$38,333
 - Ceiling– \$66,000
 - Floor– \$41,000
 - Target– \$54,000
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Recommendations

3. Highway Equipment Fund:

- Create new Fund with a new purpose of “For the purchase of public works equipment”
- ARC– \$140,000
- Ceiling– \$650,000
- Floor– \$420,000
- Target– \$535,000

2nd Tier Funds

4. Municipal Building Fund:

- ARC– \$250,000
 - Ceiling– \$1,400,000
 - Floor– \$926,000
 - Target– \$1,060,000
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Recommendations

5. Recreation Improvement Fund:

- ARC- \$2,700
- Ceiling- \$13,000
- Floor- \$8,750
- Target- \$11,000

Recommendations

3rd Tier Funds

6. Appraisal Trust Fund:

- ARC– \$ (total of the value of the contract / # of years)
- Ceiling– \$ (total value of the contract)
- Floor– \$0
- Target– \$ (value of the contract's final year)

7. Dry Hydrant Fund:

- ARC– \$0
 - Ceiling– \$ (3.5 x the cost of a dry hydrant)
 - Floor– \$ (1.5 x the cost of a dry hydrant)
 - Target– \$ (2.5 x the cost of a dry hydrant)
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Section VI: Bottom Line

- ▶ For the funds discussed, determine how much of the target level is currently reserved
 - ▶ Continued underfunding may have significant negative consequences, such as:
 - Noticeable tax increases
 - Reductions in the Town's capital equipment,
 - ▶ Following this “road map” may not always be easy, however in the long-term it will smooth tax dollar spending, eliminate spikes
 - ▶ Following this plan in 2018 is the first step towards establishing financial wellness
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