

## COMMITTEE ON NEWTON'S CAPITAL STRUCTURE

### Scope of Work

The Committee takes seriously the detailed finding of the Blue Ribbon Commission that Newton's public capital and infrastructure needs have been systematically underfunded. In brief, that earlier study found that deferred expenses for public infrastructure have left the city's buildings, roadways, parks and recreational facilities in need of substantial capital improvement. The backlog of public capital project expenses over the coming five years ranges from roughly \$160 to \$260 million. This includes expenses associated with addressing the needs found in an independent study by the Massachusetts School Building Authority (MSBA) that roughly a third of Newton's schools require moderate to major renovation.

In principle, the lack of adequate public capital can result from one of three possible causes or their combination. The first is that revenue in general is too low: that insufficient capital maintenance and improvement is part of a broader pattern in which operating expenses are insufficient as well. The second potential cause is inefficiency and waste: that both the level and allocation of revenues is sufficient to meet capital needs fully, but that some of the allocated expenditure is wasted so that it does not contribute to capital improvement. The third potential cause is a budgetary bias against capital expenditures: that the level of revenues is adequate overall, but that the budgetary process systematically favors current expenses over capital expenditures.

The Committee sees its initial goal as identifying the extent to which the third of the just mentioned factors underlies the City's capital renewal and development program. To this end, we seek to identify sources of capital underfunding, if any, and make suggestions of how to improve the City's capital budgeting and capital maintenance processes so that the efficient use of limited funds for capital investments can be assured.

Longer term, we will work to develop concrete and practical criteria for prioritizing capital projects in the existing backlog. This will require (a) defining the dimensions of the existing capital investment backlog for the municipal and school departments and (b) determining how far down the list of prioritized projects it is feasible to proceed given the expected cash flows, available debt capacity, and credit rating considerations.

As part of this effort, we will re-examine work done by the Blue Ribbon Commission related to the City's current debt burden and prudent use of its available debt capacity.

### Method

In addition to systematic interviewing and clinical investigations pertaining to the City's capital allocation practices, this committee intends to select and map (think engineering process drawings) several representative capital investment projects as a way of informing both the CAG and taxpayers about the City's current *modus operandi*. This aspect of our work can be considered to be mini-case-studies about Newton's capital allocation processes.

We will also work with (a) the Cost Structure Committee to identify possible sources of waste in capital projects and (b) the Revenue Structure Committee to identify full revenue requirements and possible revenue sources for financing Newton's infrastructure needs.

Finally, we have asked the Innovations Committee to work with us in identifying effective capital rationing and investment processes that have been adopted by (or created by) other cities across the country.