

1. General

The Housing Choice Capital grant programs are restricted for local capital projects. The Executive Office for Administration and Finance of the Commonwealth (ANF) is the state agency with authority and responsibility for determining what constitutes a “capital expenditure” and, therefore, an authorized use of the capital funds to be used for the Choice Program. Therefore, DHCD is issuing this guidance to aid Municipalities in understanding what may constitute a capital expenditure, and to refer Municipalities to ANF and Department of Revenue (DOR) resources for further guidance. It is not DHCD’s intention to substitute DHCD’s judgment for that of ANF or DOR, and Municipalities with further questions should consult those agencies directly.

2. Terminology¹

- a. A “**capital expenditure**” is an expenditure made in acquiring, adding to or bettering a “fixed” or “capital” asset. For accounting purposes, capital expenditures are not charged against current revenue. They are added to capital account or “capitalized” and then may be depreciated, amortized, or recovered when the underlying asset is sold. This concept should be distinguished from an expenditure or cost which, for accounting purposes, is charged against current revenue (referred to as an “expense”).
- b. The terms “**capital asset**” and “**fixed asset**” are used interchangeably. According to the Municipal Finance Glossary published by DOR’s Division of Local Services (DLS),² the term “**Capital Assets**” includes all tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extended beyond a single financial reporting period. DLS’ Municipal Finance Glossary gives examples of capital assets including land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment, noting that communities typically define capital assets in terms of a minimum useful life and a minimum initial cost.
- c. This concept of communities “defining” capital assets is important, as Massachusetts gives Municipalities flexibility to develop their own definitions of capital assets as part of their capital improvements program. DLS guidance for Municipalities on developing a capital improvements program³ describes the process by which a Municipality should develop the

¹ Many of the terms used in this Capital Expenditures section are derived from the Budget Glossary published by ANF and available at <http://www.mass.gov/anf/budget-taxes-and-procurement/state-budget/budget-process/budget-glossary.html#gC>.

² Municipal Finance Glossary, available at <https://www.mass.gov/files/documents/2017/09/08/Municipal%20Finance%20Glossary.pdf>.

³ Division of Local Services, Massachusetts Department of Revenue, *Capital Improvement Planning Guide: Developing a Comprehensive Community Program*, August, 2016, available at <http://www.mass.gov/dor/docs/dls/tab/cipguidefinal.pdf>. This guide superseded earlier guidance Municipal Data Management and Technical Assistance Bureau, Division of Local Services, Department of Revenue, *Developing a Capital Improvements Program: A Manual for Massachusetts Communities*, March, 1997.

key components of a capital improvements program: a **capital budget** and a **capital program**. As described in DLS' *Capital Improvement Planning Manual*,⁴ local policymakers define the criteria by which an expenditure is determined to be a capital expenditure or an expense in a departmental operating budget:

“For instance, a policy might state that to qualify as a capital expenditure, a proposed purchase or project must have a useful life of five years or more and must exceed \$25,000 in cost. Both thresholds must be satisfied; otherwise the purchase or project is not a capital item and should be funded as an expense in the departmental operating budget. Local policy may also dictate that any capital expenditure less than \$50,000 should be financed through cash and that requesting departments must clearly state all impacts to the operating budget in their project descriptions.”

- d. Another way of thinking about capital expenditures is that they are typically expenditures that can materially add to the useful life of property and remain in use for an indefinite period of time.⁵ Based on Internal Revenue Service and DLS guidance, capital expenditures may include, but are not limited to:
- i. Acquisition costs - land, buildings and other capital assets;
 - ii. New building construction or capital improvements to existing infrastructure;
 - iii. Infrastructure such as roads, sidewalks and curbs, bridges, tunnels, electrical lines, water lines, and sewer lines;
 - iv. The cost of acquiring long-term easements over real property;
 - v. Acquisition costs of vehicles, machinery, and heavy equipment, or major building fixtures;
 - vi. The cost of acquiring, creating, or making major renovations to parks and recreational fields;
 - vii. Research and feasibility studies, engineering or design work required for a capital project; and
 - viii. Certain computer equipment and technology.
- e. Expenditures not associated with tangible property or those expenditures associated with tangible property that does not have a minimum useful life span are not capital expenditures. Examples of costs that are **not** capital expenditures include, but are not limited to:
- i. Operating expenses including rent, salaries, insurance, and utilities;
 - ii. Maintenance expenses;
 - iii. Small purchases with a short life span including most office equipment, purchases associated with meetings and events, and all perishable items; and

⁴ *Capital Improvement Planning Manual Forms and Instructions*, August 2016, available at <http://www.mass.gov/dor/docs/dls/tab/cipmanualfinal.pdf>.

⁵ *Id.*

iv. Ongoing debt service payments.

3. Expenditures In Connection with Privately Owned Project Serving a Public Purpose.

Some Municipalities may wish to make funds available as loans or grants to private parties to further a legitimate public purpose. For example, a Municipality might make a loan of funds to a developer to fund capital expenditures relating to an affordable housing development. While each determination will be fact-specific, a key factor will be whether the Municipality holds a long-term recorded use restriction limiting the use of the property in a manner that furthers a public purpose. For example, M.G.L. c. 184, § 31 specifically authorizes use restrictions, either in perpetuity or for a specified number of years, for several identified purposes, including conservation, historic preservation, agriculture, watershed restriction and affordable housing.

4. Consistency with Capital Improvements Plan.

For a Municipality with a Capital Improvements Plan, factors relevant to the determination as to whether a particular cost constitutes a “capital expenditure” that may be funded from Housing Choice Grants will include whether the expenditure is associated with tangible property that has a minimum useful life span consistent with the Municipality’s Capital Improvements Plan, and whether the amount of the expenditure exceeds the threshold established under the Municipality’s Capital Improvements Plan.

5. Consultation with Division of Local Services.

This guidance is intended to offer Municipalities a general sense of the types of expenditures that will qualify as “capital expenditures” that may be funded from Housing Choice Grants. Municipal officials with questions regarding specific proposed expenditures should consult DLS. For contact information and additional DLS guidance, see <https://www.mass.gov/orgs/division-of-local-services>.