## **Capital Planning Sample Policy**

**PURPOSE**

To effectively maintain the Town’s infrastructure and protect the value of its capital assets, this policy outlines guidance for planning, reviewing, and coordinating capital improvements. Adherence to this policy will help the Town meet its capital needs despite limited resources.

**APPLICABILITY AND SCOPE**

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| Applies to: | * Select Board, Finance Committee, Town Administrator, and Finance Director budget decision-making roles
* Town Administrator, Finance Director, and Town Accountant job duties
* Director of Facilities & Capital Planning and Permanent Building Committee
* All department heads in planning for and requesting capital projects
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| Scope: | * All current and proposed capital projects for assets owned by the Town
* Included are projects for which the Town may seek Community Preservation Act (CPA) financing. However, this policy does not govern the procedures and decision making of the CPA Committee, which has sole budget-making authority for CPA funds.
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**POLICY**

The Town will maintain its physical assets by providing funding in the operating budget to protect its capital investments and minimize future maintenance and replacement costs. To provide and preserve the infrastructure needed for achieving the highest levels of public services and quality of life possible within available financial resources, the Town will maintain an annually updated, five-year plan for capital improvements. The Town will emphasize preventive maintenance as a cost-effective approach to capital reinvestment and replace exhausted goods, as necessary.

The Town Administrator is charged with overseeing a comprehensive capital improvement program, which involves maintaining a capital asset inventory, prioritizing projects, analyzing funding, and creating a long-term financial plan achievable within the Town’s budget limitations.

**POLICY SUMMARY**

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| **Capital Process Component** | **Policy Guidance** |
| Capital Project definition | * Costs $25,000 or more, and
* Has (or extends) useful life of five (5) years
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| Annual Capital Budget | * Developed by Director of Facilities & Capital Planning based on departmental submissions
* Finalized by Town Administrator for proposal to Select Board
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| Multiyear Capital Improvement Plan (CIP) | * First year is the capital budget proposed for the next fiscal year
* Four subsequent years of capital project projections
* Updated and maintained by the Director of Facilities & Capital Planning
* Finalized by Town Administrator for acceptance vote by Select Board and recommendation from Finance Committee
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| Capital Inventory | * Assembled and updated annually
* Responsibility of the Director of Facilities & Capital Planning, Finance Director, and Town Accountant
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| Prioritization criteria | In descending order:1. Eliminates public health or safety hazard
2. Required by state or federal laws or regulations
3. Supports adopted plans, goals, objectives, and policies
4. Stabilizes or reduces operating costs
5. Makes better use of a facility or replaces a clearly obsolete one
6. Maintains or improves productivity or existing standards of service
7. Uses outside financing sources, such as grants
8. Directly benefits Town's economic base by increasing property values
9. Provides new programs having social, cultural, historic, economic, or aesthetic value
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| **Capital Financing** | **Policy Guidance** |
| Funding targets | * Overall capital spending: 4-7% of the general fund budget
	+ Non-debt, “cash capital” spending: 2-3% of GF budget
	+ Annual capital debt service: 2-4% of GF budget
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| Debt usage | * Short-term debt: Useful life < 10 years
* Long-term debt: Useful life > 10 years and cost > $100,000
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| Cash capital | * Appropriate funding sources: levy, free cash, capital asset and sewer stabilization funds, revolving funds, overlay surplus, certain receipts reserved funds, grants
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1. Definition of a Capital Improvement

A capital improvement is a tangible asset or project estimated to cost over $25,000 and to have or to extend five or more years of useful life. These include:

* Real property acquisitions, construction, and long-life capital equipment
* Improvements to physical infrastructure, including streets, sidewalks, stormwater drains, and wastewater treatment systems
* Renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
* Planning, feasibility studies, and designs for potential capital projects
* Items obtained under long-term capital leases
* Bulk purchases of similar items, like software, furniture, or radios with an expected useful life of three or more years that, when aggregated, have total costs exceeding $25,000
1. Capital Asset Inventory

To support a systematic acquisition and replacement schedule, the Town Accountant, assisted by the Director of Facilities & Capital Planning and Finance Director will annually update and maintain a detailed inventory of all capital assets, which shall include dates built, acquired or last improved, original costs, current conditions, expected and remaining useful lifespans, depreciated values, extent of use, and any scheduled replacement or expansion dates.

1. Evaluation of Capital Projects

The Director of Facilities & Capital Planning, under the direction of the Town Administrator and will review capital project requests submitted by department heads as part of the annual budget process. At the end of its work, the Town Administrator will present the analysis, recommendations, and proposed funding sources to the Select Board and Finance Committee at separate meetings prior to the annual town meeting. The Town Administrator will provide a copy of the recommendations to the Finance Committee for incorporation in the report published each year in advance of town meeting.

When evaluating and deciding on project proposals, the Director of Facilities & Capital Planning and Town Administrator will prioritize them using the criteria below:

1. Eliminates a hazard to public health and safety
2. Required by state or federal laws or regulations
3. Supports adopted plans, goals, objectives, and policies
4. Stabilizes or reduces operating costs
5. Makes better use of a facility or replaces a clearly obsolete one
6. Maintains or improves productivity or existing standards of service
7. Uses outside financing sources, such as grants
8. Directly benefits the Town's economic base by increasing property values
9. Provides new programs having social, cultural, historic, economic, or aesthetic value
10. Multiyear Capital Improvement Plan

The Town Administrator will annually update and propose to the Finance Committee and Select Board a five-year capital improvement plan (CIP), including the upcoming fiscal year’s capital budget and a four-year projection of needs and expenditures that details their estimated costs, descriptions, and anticipated funding sources.

1. Capital Financing

Annually, the Town will strive to appropriate two to three percent of the annual general fund budget, net of debt, to capital investment allocations, through funding derived from a combination of property taxes, free cash, and capital stabilization funds. This cash capital funding target is a complement to the debt service maintenance goal defined in the Debt Management policy.

The CIP shall be prepared and financed in accordance with the following principles:

* Available funds (e.g., free cash, capital stabilization funds, retained earnings, and community preservation funds) will provide funding sources for capital projects as much as practical.
* Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.
* The Finance Director will proactively work with the CPA Committee on strategies to finance projects that may be eligible for funding under the CPA statute.
* Before any long-term, bonded capital project is recommended, the project’s annual operating costs and debt service costs shall be identified.
* Short-term debt may be used to finance purchases with useful lifespans of less than 10 years.
* Capital or debt exclusions will be considered to accomplish major capital projects, such as new construction or major renovations to existing facilities.
* Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental expenses.
* To the extent feasible, all capital projects associated with the water, sewer, and trash enterprise funds will be financed from user fees or retained earnings.
* In accordance with the Debt Management policy, the Town will restrict long-term debt funding to projects with lifespans greater than 10 years and costs exceeding $100,000.

**REFERENCES**

[M.G.L. c. 44, § 53J](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53j)

[M.G.L. c. 80, § 13](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIII/Chapter80/Section13)

Policies on Debt Management, Forecasting, and Financial Reserves

Division of Local Services (DLS) Best Practice: [*Presenting and Funding Major Capital Projects*](https://www.mass.gov/doc/presenting-and-funding-major-capital-projects/download)

DLS Financial Management Guidance: [*Capital Improvement Planning Manual*](https://www.mass.gov/files/documents/2017/09/08/Capital%20Planning%20Manual%20Forms%20and%20Instructions_0.pdf)*,* [*Capital Improvement Planning Guide*](https://www.mass.gov/doc/captital-improvement-planning-guide/download), and [Betterments & Special Assessments – Assessment and Collection Procedures](https://www.mass.gov/doc/betterments-and-special-assessments-assessment-and-collection-procedures/download)

**EFFECTIVE DATE**

This policy was adopted on [date].