## A-2 Capital Planning (For CIC Review 06.15.22)

**PURPOSE**

Capital assets are fundamental to the functioning of any municipality. The presence and condition of such assets will naturally enable or restrict the ability of the community to operate and prosper. Capital planning, therefore, is essential to the near- and long-term success of the community. The purpose of this policy is to define an annual capital planning process to identify the need for the acquisition of new capital assets, the repair or replacement of existing assets, and the proposed financing of each.

**APPLICABILITY**

This policy applies to all town departments, boards, and committees that maintain an inventory of capital assets; to the Capital Improvement Committee (CIC) with responsibility for creating an annual Capital Improvement Plan; to the Finance Committee with responsibility to review and take positions on capital projects proposed for funding and for integrating CIC recommendations into the recommended annual budget; to the Town Administrator or his/her designee in providing support to the CIC in developing the annual Capital Improvement Plan; and, the Selectboard in its role to review and take positions on capital projects proposed for funding. Further, it is relevant to the Gill-Montague Regional School District, which operates in Town-owned buildings that are under its care.

Regarding the CIC, in 1978, the Town of Montague, through an amendment to Town By-Laws, established the CIC to conduct long-term capital planning. Specifically, its charge was “to conduct an annual review of the capital improvements program of the Town as well as proposals for the construction of municipal buildings and acquisition of property, to make recommendations to the Town Meeting regarding the above, and to prepare an annual report”.

**DEFINITIONS**

Annual Budget: comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Available Funds: balances available for expenditure established through previous appropriations (e.g., stabilization funds or overlay surplus) or from a Fund’s positive operating results at fiscal year-end (e.g. free cash or retained earnings).

Capital Asset: Any municipally-owned facility, road, bridge, sidewalk, utility infrastructure, property, park, installed feature, vehicle, or equipment valued at or above $25,000.

Capital Improvement Plan: a 6-year plan prepared annually as part of the annual budget process which is comprised of the Capital Budget proposed for consideration for funding in the upcoming fiscal year (year 1 of the Plan), and years 2-6 including capital projects identified as candidates for funding in future fiscal years.

Capital Project: a major, non-recurring expenditure that generally meets the following criteria:

* Massachusetts General Law permits the Town to issue bonds to finance the expenditure;
* Project cost is $25,000 or greater;
* Proposed project or asset to be acquired has a useful life of 5 years or more including:
  + New public buildings, or additions to existing buildings, including land acquisition costs and equipment needed to furnish the new building or addition for the first time;
  + Alterations, renovations, or improvements to existing buildings;
  + Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking;
  + Major equipment acquisition, replacement or refurbishment, including but not limited to vehicles, furnishings, and information technology systems’ hardware and software or other items that combined in purpose together make it a Capital Project;
  + New construction or major improvements to Town’s physical infrastructure, including streets, sidewalks, stormwater drains, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a Capital Project;
  + Feasibility studies, engineering design services, or consultant services which support and are a part of a future Capital Project.

Prior Year General Operating Revenue (PYGOR): a formulation used in the annual budget process for a variety of purposes in developing the proposed General Fund operating budget for the upcoming fiscal year. It is a function of General Fund revenues of the prior fiscal year and defined as follows:

* Property tax of the prior fiscal year as billed (Page 1, Item Id. - Tax Rate Recapitulation Sheet of the prior fiscal year) less:
* Excluded Debt (Form DE-1 - Tax Rate Recapitulation Sheet of the prior fiscal year)
* Allowance for Abatements and Exemptions (Page 2, Item II.d - Tax Rate Recapitulation Sheet of the prior fiscal year)

**Plus**

* Total Prior Year actual General Fund revenue less:
* prior year property tax revenue collected (real and personal property taxes and revenue from tax liens and tax possessions)
* local receipts deemed non-recurring or designated for a particular purpose

**POLICY**

The following shall be the policy of the Town:

* To maintain its physical assets by providing funding in the annual operating budget to protect its capital investments and minimize future maintenance and replacement costs.
* To pursue a program of preventive maintenance as a cost-effective approach to protecting its capital investments and maximizing the useful life of its capital assets capital including the procurement of outside services where Town staff capacity or expertise appears insufficient to perform such preventative maintenance.

* To endeavor to provide and preserve the infrastructure and equipment needed for achieving the highest levels of public services and quality of life possible by annually developing a six-year Capital Improvement Plan to ensure adequate investment in the Town’s capital assets.
* The following shall be considered in the identification of financing of capital:
* Town Budgeted General Operating Revenues, Enterprise Fund revenues, Available Funds, (e.g., Special Purpose Stabilization Funds, Free Cash, Retained Earnings and Overlay Surplus), and grant funds from the federal and state governments.
* Long-term debt shall be considered an appropriate funding source for capital requests whose costs cannot be accommodated within the annual operating budget without adversely affecting the financing of services.
  + The target for spending from General Fund operating revenue in the annual Capital Budget – to finance debt service on projects proposed for funding with debt and those proposed for funding with cash (pay-as-you-go projects) - shall be equal to a minimum of 6 to 8% of the Prior Year’s General Fund operating revenue (PYGOR). The 6% to 8% shall be comprised of the following:
* 2% of the Prior Year’s General Fund operating revenue shall be targeted for building improvements, new asset purchase, and equipment repair or replacement on a pay-as-you-go basis.
* 4% to 6% of PYGOR shall be targeted to fund debt service on non-excluded debt-financed projects.
  + If in any year funds needed for the Capital Budget recommended to Town Meeting are below the minimum target of 6% of the Prior Year’s General Fund Operating Revenue, the difference in revenue allocated for this purpose shall be appropriated into a capital stabilization fund to offset the costs of future capital projects. For the purpose of this policy, the value of excluded debt may be considered when considering the minimum target of 6% of PYGOR.
* The term for which debt is issued shall comply with the limits in Massachusetts General Law. Notwithstanding these limits, debt maturities should be equal to or less than the useful life of the asset being financed.
* To the extent practicable, assets with short useful lives that are replaced regularly, e.g., police cruisers, shall be funded in the operating budget.

**PROCEDURES**

* The CIC shall have responsibility for coordinating the development of the annual Capital Improvement Plan, to be delivered on a timeline that supports the Annual Budget Process. The CIC shall create the form on which capital project requests are submitted. On or about October 1st, the CIC shall develop and transmit to the Town Administrator, Selectboard, and Finance Committee a calendar identifying dates in the development of the plan including:
* a schedule for the submission of capital project requests by Town departments and the GMRSD for years 1 through 6 of the Capital Improvement Plan (CIP).
* a scheduling period within which departments requesting capital projects will appear before the CIC to respond to the Committee’s questions about project proposals, and to provide information and answer questions regarding the cost estimates and scope for any projects proposed for the Capital Budget (Year 1 of the CIP).
* a date (typically on or about January 15) by which the Town Administrator will submit to the CIC a finalized set of capital projects to comprise the Capital Improvement Plan. Projects proposed for the Capital Budget shall comply with the requirements of the CIC capital project request form.
* a joint meeting of the Finance Committee and CIC (typically on or about March 15), at which the CIC and Town Administrator or his designee will present and discuss the recommended Capital Improvement Plan.
* The Capital Improvement Plan shall include:
* projects recommended for funding in the upcoming fiscal year (the Capital Budget)
* identify prospective sources of funding for projects in the Capital Budget (see the Town’s Financial Reserves and Debt Management Policies)
* Current debt service and projected annual debt service based on projects in the Capital Budget identified as candidates for debt financing.
* A list of requested projects by department with estimated costs and indication of departmental priority for years 2 through 6 of the Capital Improvement Plan
* Only projects that have gone through the annual capital planning process will be considered for funding unless required by an emergency, which may be determined based on hazard to public safety, potential damage to people or property, regulatory requirement, grant availability, or other factors. Emergency requests will be submitted to the Town Administrator or her or his designee, in a form prescribed by the Town Administrator, for review and consideration. If the Town Administrator deems the request constitutes an emergency, he/she shall transmit the request, including a recommendation of the source of funding, to the CIC, the Finance Committee and the Selectboard for consideration.
* In prioritizing each capital request, the CIC shall determine how the project addresses the following criteria:
* Defined Criteria/Rationale Used in Assessing Special Article Requests
* Public Safety: Does the capital improvement rectify a safety concern or otherwise prevent a potential public safety issue?
* example: Installing the new front porch/egress stairs at the senior center. The old porch egress had stairs with risers that were inches higher than what is allowed by building code, resulting in the potential of a dangerous fall.
* Cost Avoidance: Will the capital improvement save the town financially?
* example: Replacing the controls at Denton Street sewer pump station. New controls included in the upgrade enhance its reliability and allow the station to be monitored remotely resulting in reduced alarms and need to send crew out to check on the system.
* Service Interruption: Does the capital improvement prevent an interruption in services?
* example: Replacing the building management system and components at TFHS. Without upgrading and replacing the hardware and software the school would be vulnerable to losing its ability to operate the equipment necessary to control classroom temperatures. Failure of the system would result in school closure.
* Other- Any other reason identified as relevant by the CIC. This may include considerations such as regulatory requirements or orders, environmental sustainability, community and social equity concerns, concerns related to accessibility, availability of matching grants, program efficiency or improvements, etcetera.
* Generally speaking, in consultation with the Town Administrator, within twelve months after the completion of a capital project or acquisition financed through a special article, the Town Accountant shall close out the project so any unexpended balance financed with cash or bond proceeds can be re-deployed for other purposes pursuant to Massachusetts General Law or regulation.

**REFERENCES**

M.G.L. c. 41, § 106B M.G.L. c. 44, §§ 7-8

M.G.L. c. 44, § 20 M.G.L. c. 44, § 33B

Section 6 of Article II of the By-Laws of the Town of Montague creating the Capital Improvement Committee

Division of Local Services Best Practice: Presenting and Funding Major Capital Projects

**Adopted by:**

**Date Adopted**: