

CAPITAL PLANNING

PURPOSE

Capital assets – roads and bridges, utility infrastructure, equipment, vehicles, parks, buildings, and technology – are critical components in supporting the delivery of municipal services and contributing to the quality of life in the town.

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 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 and his/her designee in providing support to the CIC in developing the annual Capital Improvement Plan; and, the Select Board in its role to review and take positions on capital projects proposed for funding.

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.

Capital Budget – year 1 of the annual six-year Capital Improvement Plan

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

- 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;
- Major alterations, renovations, or improvements to existing buildings that have a useful life of at least ten (10) years;
- 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 are ancillary to a future Capital Project.

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.
- 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 Plan including a proposed annual Capital Budget (Year 1 of the 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, special purpose funds of the Town, 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.
 - 2% of the Prior Year's General Fund operating revenue shall be targeted for building renewal and equipment replacement
 - 4% to 6% of the Prior Year's General Fund operating revenue shall be targeted to fund debt service on those projects funded through debt.

- If in any year funds for the capital program recommended to Town Meeting are below the minimum target of 6% of the Prior Year's General Fund Operating Revenue, the amount of unused revenue shall be appropriated into a capital stabilization fund to offset the costs of future capital projects.
- 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 plan. At the beginning of the annual capital planning process, the CIC shall develop and transmit to the Town Administrator, the Select Board and the Finance Committee a calendar identifying dates in the development of the annual capital plan including:
 - a January 15 deadline for the Town Administrator to submit to the CIC capital project requests for the ensuing six years from Town departments and the Gill-Montague and Franklin County regional school districts including a description, estimated project cost, the estimated annual operating cost upon project completion, and a preliminary proposed funding source for each project.
 - A joint meeting of the Finance Committee and CIC for the CIC to present and discuss the list of capital project requests received.
 - Dates for departments requesting capital projects to appear before the CIC to respond to the Committee's questions about project proposals
 - A joint meeting of the Finance Committee, the Select Board and the CIC for the CIC to present its six-year Capital Improvement Plan
- The Capital Improvement Plan shall include:
 - projects recommended for funding in the upcoming fiscal year (the Capital Budget)
 - Proposed 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 recommended to be funded with debt

Commented [RA1]: Steve,

Here is the language in the Town's existing policy:

If in any year funds for the capital program recommended to Town Meeting are below the minimum target of 6% of the Prior Year's General Fund Operating Revenue, a plan will also be presented to replenish funding of the capital program to the minimum within a reasonable time frame

I think my proposed language makes more sense. Let's discuss.

- A list of requested projects by department with estimated costs 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. In the event of such an occurrence, such requests will be submitted to the Town Administrator, 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 Select Board for consideration.
- In prioritizing each capital request, the CIC shall determine how the project addresses the following criteria:
 - Imminent threat to health and safety of citizens, employees or property (e.g. police cruisers and radios, repairs to unsafe buildings);
 - Maintenance and improvement of capital assets (e.g. major repairs of buildings, replacement of vehicles and equipment, park and play area renovations)
 - Requirements of state or federal law (e.g. asbestos cleanup program, removal of gas tanks, new NPDES treatment requirements);
 - Improvements of the infrastructure (e.g. streets and sidewalks, sewer programs);
 - Improvements/maintenance of productivity (e.g. equipment replacement, computer hardware/software);
 - Improvements of an overburdened situation (e.g. Town Hall renovations)
 - Newly identified need (e.g. recreation field);
 - Priority assigned by Department (Very High, High, Medium, Low); and
 - Consistency with and in furtherance of long-term planning objectives of the Town (e.g. Energy Efficiency, Historic Preservation)
- Within six 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:

