

ARTICLE XXV
CAPITAL PLANNING

Section 1. The Town Manager shall establish and appoint a committee to be known as the Capital Improvement Planning Committee, composed of three members appointed by the Town Manager, three members appointed by the Selectmen, and one member appointed by the Finance Committee. The Finance Director shall be an ex officio member without the right to vote. The Committee shall choose its own officers annually. The term of office shall be three years not more than three of which shall expire within the same year. Members of Town boards and committees, as well as Town employees, shall be precluded from membership.

Section 2. The Committee shall study proposed capital projects and improvements involving major tangible assets and projects which 1) have a useful life of at least five years; and 2) have a single year cost of \$10,000 or a multi-year cost of \$100,000 or more. All officers, boards and committees, including the Selectmen and Sudbury Public School Committee, shall by October 1 of each year, give to the Committee, on forms prepared by it, information concerning all anticipated projects requiring Town Meeting action for the next six years. The Committee shall consider the relative need, impact, timing, and cost of these expenditures and the effect each will have on the financial position of the Town. The Committee shall inventory the fixed assets of the Town with the assistance of Town staff, prioritize the capital requests submitted by Town boards and departments, and develop a financing strategy for implementation.

Section 3. The Committee shall prepare an annual report recommending a Capital Improvement Budget for the next fiscal year, and a Capital Improvement Program for the following five years. The report shall be submitted to the Finance Committee for its consideration. The Committee shall submit the capital budget to the Annual Town Meeting for adoption by the Town.

Section 4. Such Capital Improvement Budget, after its adoption, shall permit the expenditure on projects included therein of sums from departmental budgets for surveys, architectural or engineering advice, options or appraisals; but no such expenditure shall be incurred on projects which have not been so approved by the Town through the appropriation of sums in the current year or in prior years, or for preliminary planning for projects to be undertaken more than five years in the future.

Section 5. The Committee's report shall be published and made available in a manner consistent with the distribution of the Town Meeting report. The Committee shall deposit its original report with the Town Clerk.

Section 6. The actions of the Town under Article 14 of the September 14, 1986 Town Meeting are rescinded.

11 CAPITAL IMPROVEMENT PLANNING (CIP) AND BUDGETING

Introduction

Planning for and financing the replacement of a town's infrastructure is an enormous task. Evaluating assets and their expected useful lives, projecting replacement costs, examining financing options, determining bonding levels, estimating user fees and tax levies and evaluating the impact on property owners are all important steps in the process. This section of the handbook presents information for finance committee members on what capital planning and budgeting is, how it should be done, who should do it, and the role of the finance committee in these activities.

M.G.L. Ch. 41, s 106 B calls for an annual review of a municipality's capital items - and recommendations in either a budget or annual report as to their need and status. The law is silent on committee responsibility. As indicated in previous sections, a finance committee's role is community specific. In many towns, both large and small, the preparation and maintenance of a capital expenditures plan has become a function of the finance committee. In some towns, a separate capital planning committee is responsible for the annual capital budget and capital plan.

Capital Projects, Capital Budgets and Capital Improvement Programs

A capital project differs from an operating expense. This handbook defines capital projects as major, non-recurring expenditures, for one of the following purposes:

- *acquisition of land for a public purpose;*
- *construction of a new facility or extension/expansion or major rehabilitation of an existing one. Examples of such town facilities include public buildings, water and sewer lines, roads and playing fields; purchase of vehicles or major equipment items; and*

- *any planning, feasibility, engineering or design study related to a capital project or to a capital improvement program consisting of individual projects.*

Most towns establish a policy for the dollar value and useful life of a capital project to further distinguish between capital expenditures and operating expenses. There is no formula for setting these criteria. Some larger towns and cities treat as capital budget requests purchases that cost \$25,000 or more and have a useful life of five or more years. Departments include all other expenses in their operating budget requests. Smaller towns may use a lower number, e.g. \$10,000, for the threshold cost for a capital item. Some communities also focus on the useful life of an asset, using as little as three years or as much as seven years as a criterion.

Other considerations might influence a town's policies regarding capital versus operating expenses. Such considerations may include the town's total budget or the budget of the department requesting a capital project, or the frequency with which a department requests the capital item. For example, a police cruiser may be a capital item in some towns, but in other towns cruisers are replaced so frequently that they are considered operating costs. Whatever criteria a town chooses, it is important to be consistent from one year to the next and to apply the criteria uniformly to all requests.

The capital budget is the amount of funds appropriated by town meeting in a single fiscal year for all capital requests - capital projects, vehicle and equipment purchases, etc.

The capital improvement program or plan, often referred to as the CIP, is a plan for future capital expenditures. It identifies each capital project, its anticipated start and completion dates, the amount to be spent each year and the method of financing the plan. Generally, the CIP covers five

years into the future, but some communities choose to extend the plan to seven or even 10 years forward. Regardless of how many years forward a CIP extends, any capital budget should reflect the first year of the CIP. The capital budget is also year two of last year's CIP, brought current to reflect decisions made last year and current fiscal realities.

Why a Capital Planning Program?

An orderly capital improvement program has many benefits for a town. These benefits include:

- *focusing attention on town objectives and financial capacity;*
- *coordinating the proper scheduling of individual projects in relationship to each other;*
- *facilitating understanding of the relationships between capital needs and operating budgets;*
- *enhancing the community's credit rating, controlling its tax rate, and avoiding sudden changes in its debt service requirements;*
- *helping to maintain a consistent minimum level of spending for capital projects.* In a tight fiscal year, many towns find it tempting to defer or eliminate capital spending as a way of resolving a projected operating budget deficit;
- *identifying the most appropriate means of financing capital projects.* Should purchases be funded by the tax levy or by borrowing? The CIP may increase the opportunities for seeking non-tax levy sources of funding, such as federal and state aid, private contributions, user fees, intergovernmental arrangements, etc.

The existence of a systematic capital planning process is an important consideration for the agencies that rate municipal debt. Both Moody's and Standard & Poor's rating agencies evaluate the extent to which a town is anticipating and planning for its capital needs.

Who prepares the CIP and capital budget?

Towns vary vastly in their structures, traditions and resources, so responsibilities for preparation of a CIP vary as well. There is no right or wrong approach, but experience has shown that some approaches work better than others.

First, if at all possible, responsibility for preparation of the CIP should not rest solely with the finance committee. Preparation of the CIP is a formidable task. The finance committee should receive the report of the committee or staff who prepare the CIP, and should collaborate with the CIP committee as necessary. Four approaches to developing a CIP are most common:

Moderator-appointed citizen committee

Similar to the finance committee, this committee is created by bylaw, and the moderator appoints its members. M.G.L. Ch. 41 s 106B, authorizes such committees, and specifies that two members of the finance committee be on the CIP Committee.

Board of Selectmen-Appointed Committee (permanent or ad hoc)

This approach suggests that the overall responsibility for presentation of a capital improvement budget should be with the board of selectmen. The board appoints a CIP committee which reports to the board of selectmen, often with a recommended capital budget each year and a capital improvement plan. The board may adopt or modify this committee's recommendations in developing the budget it presents to the finance committee and town meeting.

CIP committee appointed by the selectmen should include, as a minimum, one member of the board of selectmen, one member of the finance committee, one member of the planning board and the superintendent of schools or his or her designee. Other possible members include the town treasurer, town accountant and the town engineer. This committee determines their own officers, calendar, process and forms to be used. The committee is responsible for the eight steps in developing a CIP described below.

Town Staff Prepare CIP

In some communities, the town manager, town administrator or finance director is assigned responsibility for the preparation of the CIP. He or she is often assisted by other town staff, such as the treasurer, town accountant, planning director, town engineer, etc.

Planning Board or Department Prepares the CIP

This approach seems to be a historic model. The planning board prepared the CIP because no one else did. This model is on the decline.

In some towns, multiple committees exist - for example, a moderator-appointed committee of citizens makes a report to town meeting and the finance committee, while the staff makes a report to the board of selectmen. In this case, the citizen-based capital planning committee usually receives the capital budget report sent to the board of selectmen, studies it and gives its own analysis and recommendations.

The Capital Improvement Planning Process

Regardless of who is responsible for preparing the CIP in a community, the steps are similar:

1. prepare an inventory of existing facilities;
2. determine the status of previously approved projects;
3. develop project requests;
4. develop project evaluation criteria;
5. evaluate project requests;
6. establish project priorities;
7. assess financial capacity; and
8. develop a CIP report with financing plan.

A brief description follows of each of these steps.

Prepare an Inventory of Existing Facilities

The first step is to inventory all existing town and school facilities and fixed assets, and assess of their condition. Basic inventory information consists primarily of a description of the asset: its location, age, condition, original cost, current

value, maintenance and operating costs, type and extent of use, depreciation, estimated replacement costs and any proposed date for rehabilitation or replacement. A real and personal property inventory system and fixed asset accounting records will simplify the accumulation of the relevant information. These fixed asset records are valuable for insurance purposes and internal control of property as well as for planning the CIP. Often the town's insurance carrier has a list of insured assets that can serve as a basis for the inventory. At a minimum, the inventory should include all buildings and equipment; it is desirable for the inventory to include utilities, community facilities, road and sewers as well.

Determine the Status of Previously Approved Projects

The status of projects already approved by town meeting is the next important piece of information required in developing the CIP. Identifying projects that are underway, or approved but not yet begun, will clarify whether additional funds are required or if unspent funds will be available from completed or discontinued projects.

Develop Project Requests

The CIP committee should send department heads and other appropriate officials and boards a timetable, standardized capital project request forms and instructions for completing requests. This package should include project evaluation criteria. (See section 11.44.) The request forms should ask for a description of any proposed capital project, its purpose and justification, who benefits, how needs are currently met, a detailed costs breakdown, proposed capital expenditures by year, relationship to other projects, effect on the operating budget (including maintenance costs) and recommended method of financing.

Department heads are not the only ones who should be asked to prepare and submit project requests. Citizen advisory committees and elected officials can also see the need for projects and can complete project requests as well.

Develop Project Evaluation Criteria

It is important to develop and agree on criteria for evaluating projects before beginning the actual ranking of the projects. Criteria may vary for different towns. The criteria that the town of Lexington uses for evaluating these requests are as follows:

Risks to public safety or health

Projects that would protect against a clear and immediate risk to public safety or public health.

Deteriorated facility

Projects that reconstruct or rehabilitate a facility to avoid or postpone replacing it with a new, more costly facility or piece of equipment.

Systematic replacement

Projects that would replace or upgrade a facility or piece of equipment as part of a systematic replacement program. This criterion assumes a replacement or upgrading at the current level of service; a replacement that significantly expands or increases the level of service would be evaluated under other criteria.

Improvement of operating efficiency

Projects that substantially and significantly improve the operating efficiency of a department, or an expenditure that has a very favorable return on investment with a promise of reducing existing or projected future increases in operating expenses.

Coordination

Projects that are necessary to ensure coordination with another CIP project (such as scheduling a sewer project to coincide with a street reconstruction project so that the street is not dug up a year or two after it is completed). A project may be necessary to comply with requirements imposed by others.

Equitable provision of services and facilities

Projects that would serve a special needs group or that makes equivalent facilities or services available to neighborhoods or population groups that are now "underserved" in comparison with townspeople generally.

Protection and conservation of resources

Projects that protect those natural resources that are at risk of being reduced in amount or quality, or that protect the investment in existing infrastructure against excessive demand or overload that threatens the capacity or useful life of a facility or piece of equipment.

Evaluate Project Requests

All project requests should then be evaluated by the CIP committee or staff. A standardized evaluation sheet should be prepared on each project, which should address questions such as:

Does the requested project contribute to the achievement of existing town goals, policies, plans and work programs?

What are the general benefits of the project?

Is the project acceptable to the public?

What is its total cost (both capital and annual operating expenses)? If funded by the tax levy or by borrowing, how would it affect the tax rate?

Does the project have its own funding source, such as user fees or an enterprise fund?

Are there legal requirements that must be met?

Are there any special circumstances worthy of note? The CIP committee records such notes in evaluating each request.

Establish Project Priorities.

Once all the project requests have been evaluated, they need to be ranked in order of priority. Few towns, if any, have the resources to fund all requests. Some recommend computing a numerical "score" for each project in an effort to be more objective about the relative importance of each project. Others feel that because the projects are usually so varied in terms of the service area(s) they cover and the public service goals they pursue, that requests are not comparable. Whether or not a numerical ranking system is used, all projects should be assigned an overall priority rating, such as the following:

Priority A

Urgent, high priority projects which should be

done if at all possible. A special effort should be made to find sufficient funding for all of the projects in this group.

Priority B

High priority projects which should be done as funding becomes available.

Priority C

Worthwhile projects to be considered if funding is available; may be deferred to a subsequent year.

Priority D

Low priority projects; desirable but not essential.

Assess Financial Capacity

Since municipalities work with limited resources, each capital request must compete for funding with other capital needs and with operating expenses. Unless the selectmen are prepared to seek an override of Proposition 2^{1/2}, the amount of money that can be raised from the tax levy must be considered "fixed." Towns must, therefore, give careful consideration to their capacity to finance the CIP. Some of the questions that should be asked to help assess this fiscal capacity include:

What percentage of each year's fiscal resources should be allocated to capital over operating purposes?

Of the amounts allocated to capital spending, how much should be for debt service and how much should be direct cash spending for capital?

What are the current and future debt service obligations for debt already issued? For debt already approved but not yet issued?

What are other non-tax levy revenue sources available to support capital spending? These include user fees, private contributions, federal and state aid, etc.

What are the long-term financial projections for revenues and expenditures?

What is the current policy of the town for using free cash and/or a stabilization fund for capital projects?

These questions should be considered early in the budget planning cycle, and are properly within the agenda of the finance committee as well as the board of selectmen. The finance committee should also establish its role in developing guidelines and recommendations for the CIP committee to use in conducting its analysis.

Sources of revenues that might be devoted to capital projects (e.g., any revenue from nonrecurring sources) could also be identified by the finance committee and/or board of selectmen. Larger towns with sizable capital needs should consider developing a separate debt policy to guide the CIP committee and town meeting in the prudent use of debt. Issuing debt for capital projects is addressed in greater detail in Chapter 12.

Develop a CIP Report with a Financing Plan.

The CIP report brings together a municipality's data-gathering, evaluation process and financing opportunities. Proposed projects have been evaluated and assigned into priority groups, and the CIP committee can then recommend including in the CIP projects which are of highest priority. The committee can also recommend funding in the capital budget for those projects the town appears to have the capacity to finance.

These recommendations should be incorporated into a CIP report. Depending on the structure and mission of the CIP committee, the report should be presented to the board of selectmen, finance committee, the town meeting, or the town manager. Key sections of the reports should include:

- a capital budget message and overview;
- summary recommendations;
- detailed recommendations and comments;
- a statement of the CIP committee mission, membership, and enabling bylaw;
- CIP policies and goals, including debt policies, fiscal capacity assessments, and capital definitions; and
- graphs and charts.

In some towns all project requests submitted for consideration are included in the CIP report. The evaluation criteria and priority rankings would indicate why specific project requests were not included in the CIP itself.

If the report is presented to the board of selectmen, they may hold hearings on the CIP, amend the CIP or the capital budget, then forward the capital budget and the CIP to the finance committee or separate capital expenditures committee. This committee reviews and recommends action not only on the capital budget, but does so in consideration of the overall capital program.

Institutionalizing the CIP

The CIP process and committee will have more credibility and greater impact on the town's capital and financial planning if its presence and mission is institutionalized. A town bylaw should set forth the capital planning process, including the appointing authority, responsibilities for any committee and a timetable for capital planning activities. The capital planning process should be incorporated in the town's budget calendar. Department heads, especially, will be better able to meet their CIP responsibilities if they are given advance information about dates set for project requests, project hearings, etc.

Standardized forms, distributed on time, i.e. consistent with the established calendar, will also help the process.

An important factor in the success of any capital improvement program is the support it receives from the participants - all participants, i.e. department heads, town administrator, selectmen and finance committee.

The finance committee will make its job easier in the long run by collaborating with the CIP committee (or staff) to accomplish the following:

- *make sure department heads are aware that capital requests go to the CIP committee, not the finance committee. The finance committee should not consider a capital item unless it has been submitted to the CIP committee first;*

- *reject any operating budget request that meets the definition of a capital project item, as defined in the town's criteria for capital expenses. These requests should be sent back to the department, with instructions to send it to the CIP committee; and*
- *focus on the long-range planning efforts of the town and emphasize the importance of the CIP process and committee in that effort.*

This chapter was prepared by Maureen Valente.