Developing a Capital Planning Policy

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Why is Long-Term Capital Planning Important?

- Helps coordinate the financing and timing of major municipal improvements.
- Provides your community with a rational plan for preserving and replacing capital assets.
- Important factor considered by <u>Bond Rating Agencies.</u>

Capital Financing & Timing

- Short-Term vs. Long-Term Capital needs
  - Capital Budget/ 5-Year CIP
  - Ability to see major needs on the horizon
- Helps coordinate competing project needs from multiple Departments.
  - Major project in one Department may limit resources available for other needs.
  - Ex. Fire Dept. Aerial Ladder Truck $1.0M =1/3rd of Town's total capital budget

Capital Financing & Timing

- Scheduling – Avoids several large scale projects falling unexpectedly into one fiscal year.
- Smooth out impact of debt service costs on operating budget and property taxes.

Bond Rating Consideration

Standard & Poor's Financial Management Assessment (FMA) Rating - 1 of 7 factors

"Has the municipality created a Long-Term Capital Improvement Program?"

Strong – 5-year rolling CIP with funding identified for all years and is linked to the operating budget & LT revenue & financing strategies.

Standard – 5-Year CIP is done, but is generally limited to projects funded from the current budget plus a 4-year wish list; some funding for out-year projects identified, but not all.

Vulnerable – No 5-year CIP exists; capital planning done as needs arise.

Source: Standard and Poor's Rating Services

Developing Your Policy – Key Items

- Define what should be replaced through Capital vs. Operating Budget
- How?
- Establish a minimum project/ asset cost
  - $ 5,000 (Bedford)
  - $25,000 (Chelmsford)
- Establish a minimum useful life for the asset
  - 5 Years

Developing Your Policy – Capital vs. Operating Budget

Why?

- Preserve limited Capital funding resources for facility improvements and purchase/ replacement of durable equipment.
- Use operating funds to replace assets with lower costs and shorter useful lives.
  - Ex. Police patrol vehicles, computer/ IT network equipment (where feasible).

Developing Your Policy – Capital Funding Sources

- Borrowing – LT General Obligation Bond Issue
- Free Cash
- Enterprise Funds – Water, Sewer, Stormwater
- Special Revenue/ Other
  - Community Preservation Fund (CPF)
  - MSBA
  - Sewer Betterments
  - Grants
  - Chapter 90 Reimbursements

Developing Your Policy – Long-Term Borrowing Considerations

- Non-Excluded and Excluded Debt Service
  - Each community's needs, ability to pay, and willingness to approve debt exclusions differs.
- Non-Excluded Debt paid within levy limit.
  - Develop an annual borrowing target for capital.
  - What annual debt service level can your operating budget support?
  - Is your borrowing target consistent with your multi-year financial forecast?

Capital Planning Policy – Who will be Responsible for Developing the CIP?

- Town/City Manager, Finance Director, Treasurer
- Capital Planning Committee
- Best Practice – <u>Involve All Stakeholders</u>
  - Department Managers
  - Citizens
  - Elected Officials

Capital Planning Policy – Who will be Responsible for Developing the CIP?

- Consider forming a Capital Planning Committee

Committee Composition Example - Chelmsford

- Citizens (2)
- Chief Executive Officer
- Finance Director/ Treasurer
- Town Accountant/ Auditor
- Finance Committee Liaison
- Board of Selectmen Liaison
- Board of Library Trustees Liaison
- School Committee Liaison

Capital Planning Committee - Advantages

- Committee assists CEO/CFO with the development and recommendations for Capital Budget & CIP.
- Includes input from a broader spectrum of voices and viewpoints.
- Committee members can help prioritize capital needs with limited financial resources.
- Allows for closer scrutiny of projects before they are discussed at Town Meeting.

Capital Planning – Year Round

- Capital Planning is most effective when it is a year-round process.
- 5-Year CIP Requires Continuous Updating.
- The CIP is a “Rolling” process.
  - Unfunded projects are deferred until the subsequent FY for further evaluation.
  - Projects in the “outer” years move up after each year concludes.
  - Plan is subject to change – Revaluate…Some projects may need to be accelerated/delayed.

Capital Planning Policies

Questions?