

## Town Charter

### 2-5 (d)

Capital Planning Committee – There shall be a capital planning committee which shall consist of seven members, chosen in the following manner: etc.----- . All articles which are contained in the warrant for a town meeting which relate to capital expenditures, as that term may be defined by by-law from time to time, shall be referred to the capital planning committee for its study, review and report. The capital planning committee shall prior to each town meeting and at a time fixed by by-law, report its recommendations on each article which has been referred to it, in such manner as may be determined by by-law. The capital planning committee shall be responsible for the development of a capital outlay program as provided in section 5-7.

### 4-2 Town Administrator

h. He shall prepare and submit in the manner provided in article 5, a proposed annual operating budget and a proposed capital outlay program.

k. He shall have full jurisdiction over the rental and use of all town facilities, except schools. He shall be responsible for the preparation of all plans for capital improvement work on any existing town facility, or new facility, except schools. He shall be responsible for the supervision of all capital improvement work on existing facilities, and new facilities, except school buildings.

m. He shall assure that a full and complete inventory of all property of the town, both real and personal, is kept, including all property under the jurisdiction of the school committee.

### 5-7 Capital Improvement Program

The town administrator shall submit a capital improvement program to the board of selectmen and finance committee at least thirty days before the date fixed for the submission of his proposed budget. (READ **15 NOVEMBER** since para. 5-3 affixes his budget submission NLT 15 DEC) It shall be based on material prepared by the capital planning committee as provided in section 2-5 (d). The capital improvement program shall include, (a) a clear, concise general summary of its contents; (b) a list of all capital expenditures to be made during the five fiscal years next ensuing, with supporting information as to the need for each expenditure; (c) cost estimates, methods of financing and recommended time scheduling; and (d) the estimated annual cost of operating and maintaining each facility and piece of major equipment involved. This information is to be annually revised with regard to each item still pending or in the process of being acquired, improved or constructed.

## Town by-laws

### DIVISION 1

### ARTICLE VI

### FINANCIAL AND ORGANIZATIONAL MATTERS

Section 2. Capital improvement is defined as the construction, renovation or improvement of all buildings and grounds the cost of which exceeds \$50,000; sewer or storm water construction

projects the cost of which exceeds \$50,000; **all new vehicles**; all non-vehicular equipment the cost of which exceeds \$25,000; and acquisition of real estate the cost of which exceeds \$25,000. ( Article 25 of October 27, 1998 Town Meeting which reconvenes

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## Ch 2 Budgeting

### Para 2-2 Good Budget Planning and Financial Management Practices

#### Implement a capital improvement program

This topic is also presented later in this publication (Chapter 4.2). With ongoing needs to acquire, build and/or replace capital assets and infrastructure, it is best to establish a plan that will operate within the community's resources. A capital plan should include the following.

- Define expenditures considered capital requests.
- Prepare an inventory of capital needs and update annually.
- Prioritize these capital needs using established criteria.
- Present a comprehensive capital budget and multi-year capital program annually
  - 1. Inform the public about community's capital needs
  - 2. Propose method of payment (current revenue, available reserves, debt or debt excluded from the limits of Proposition 2 ½
  - 3. Identify deferred maintenance due to financial constraints

For more information on this topic, please refer to the DLS publication [Developing a Capital Improvements Program; A Manual for Massachusetts Communities](#) available on our website [www.mass.gov/dls](http://www.mass.gov/dls), under Publications and Forms.

## Reserves and Capital Planning

### Debt Financing Options

Municipalities have several options when considering methods of debt financing. The following list briefly explains some of those options. Municipalities should seek qualified financial advice when exploring debt-financing options.

General Obligation Bonds are by far the most common type of long term financing used by cities, towns and districts in Massachusetts. Issuers of these bonds make a "full faith and credit pledge" that the bond holders will be repaid with interest according to the terms of the official statement.

State Qualified Bonds are used by municipalities with unique financial situations who cannot borrow money at affordable rates in the traditional capital markets. This program allows the State Treasurer to make principal and interest payments directly to a municipality's paying agent and then deduct that amount from the next installment of local aid.

State House Notes are notes certified by the Director of Accounts. State House notes are generally less costly and easier to issue than conventional issues for borrowings. Therefore, these notes are more commonly used for temporary loans and smaller long-term issues.

Serial Notes may be used for smaller capital projects that do not justify the cost of issuance associated with a bond sale. A serial issue is a series of notes issued on the same day that matures in consecutive years. Serial notes are usually issued for amounts up to \$1,000,000 with a term of 10 years or less.

Refunding Notes are similar to serial notes except that the notes are issued for a one year term and then “paid down” and renewed at the end of each year. The pay down of a Refunding note is functionally equivalent to making principal payments on a bond issue.

United States Department of Agriculture (USDA) Rural Development (Formerly Farmers Home Administration (FHA) loans are most commonly used in rural and developing communities to finance water and sewer systems, road construction and other projects. USDA, Rural Development loans may be financed over a longer term that makes them attractive to municipalities with limited resources.

Massachusetts Water Pollution Abatement Trust (MWPAT) is a special program administered by the State Treasurer’s Office. MWPAT offers interim and permanent financing for sewer projects mandated by the Federal Clean Water Act and water projects mandated by the Federal Safe Drinking Water Act. The Trust offers subsidized loans to help defray the cost of compliance with the act.

Other methods of financing such as revenue bonds, industrial development bonds, certificate of participation and lease financing are rarely used by Massachusetts municipality’s and should only be considered after receiving qualified financial advice.

Further information on reserve and debt policy can be obtained from [A Guide to Financial Management for Town Officials](#) available on our website at [www.mass.gov/dls](http://www.mass.gov/dls), under Publications and Forms.

#### 4.2 Key Elements of Budgeting for Capital Projects

Most municipalities face difficult decisions regarding capital acquisitions and improvements. Capital needs must be balanced against operating budgets and ability to pay. Well-developed capital improvement policy is an important way to protect municipal assets and fund improvements on an ongoing basis.

Because of the expense and long economic life of capital projects, it is important to use multi-year forecasting and plan years in advance. An effective method to address capital projects comprehensively is to develop a capital improvements program (CIP). Through such a program all the capital needs of a municipality are identified, prioritized and scheduled for acquisition or improvement.

A town can create a capital planning committee through the adoption of a bylaw (M.G.L. c. 41, 106B). In cities, the mayor (or city manager) is usually required by charter or ordinance to prepare a capital plan.

The committee should develop a multi-year capital plan and annual capital budget for all municipal departments. Those documents should: (1) prioritize the various proposed capital

projects; (2) estimate the project costs; and (3) list the proposed method of payment (current revenue, available reserves, debt or debt excluded from the limits of Proposition 2 ½ for each project.

Regardless of funding ability, annual presentation of capital budget to town meeting or city council has merit. It serves to inform citizens of the community's capital needs and makes them aware of essential projects that may be deferred due to financial constraints.

In addition to the capital plan, a community should develop a multi-year revenue and expenditure forecast. It should be used by policy makers to evaluate budget requests with multi-year impacts and to develop long-range financial plans.

To help you get started here are ten guidelines for instituting an effective capital improvement plan.

### Steps for Implementing a Capital Improvements Program

1. Adapt a bylaw/ordinance and appoint a committee – In order to establish a formal CIP, the municipality should consider adopting a bylaw/ordinance to create and empower a committee.
2. Prepare an inventory of all municipal and school properties and assets – The inventory should include all buildings and equipment as well as utilities, roads and sewers. Information should be provided on the year the facility was built or acquired, the date of last improvement, its condition, the extent of use, and the scheduled date for rebuilding or expansion if one exists.
3. Determine the status of previously approved projects – Identify the projects underway in the municipality, determine whether additional funds are required, and determine the amount of funds available from completed and discontinued projects.
4. Assess the municipality's financial capacity – With the assistance of the town accountant/city auditor, treasurer and chief administrative, financial officer, the committee should analyze the municipality's ability to afford major expenditures by examining recent and anticipated trends in revenues, expenditures and debt burden.
5. Solicit, compile and evaluate project requests – The committee should solicit project recommendations from each municipal department. The departmental recommendations should include a statement of the justification of the project.
6. Establish project priority – The committee should review each project recommendation using a consistent set of criteria. It should establish project priorities based on need, the community's goals and objective analysis.
7. Develop a financing plan – The committee should recommend a plan for financing each project. Both long term and short term financing options need to be considered.
8. Adopt a capital improvements program – The committee must submit the report including the capital budget to the board of selectmen. In a city the mayor submits the capital budget to the city council. The board of selectmen or city council may amend the CIP before the program is adopted at town/city council meeting.
9. Monitor approved projects – Periodic reports by the committee should indicate changes in the targeted completion dates, identify serious problems, and document the financial status of each project.
10. Update capital program – The committee should review and revise the entire program as necessary to reflect its recent determination of capital needs in the community, changes in

the municipality's social and environmental conditions, the development or revision of financial policies, and the community's financial resources.

By instituting a capital improvements program the municipality will be able to more effectively avoid financial hardship and fund needed capital improvement projects.

More information on developing a capital improvements program can be found in Developing a Capital Improvements Program; A Manual for Massachusetts Communities available on our website at [www.mass.gov/dls](http://www.mass.gov/dls), under Publications and Forms.