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## CAPITAL PLANNING

### PURPOSE

To effectively maintain the Town's infrastructure and protect the value of its capital assets, this policy outlines guidance for planning, reviewing, and coordinating capital improvements. Adherence to this policy will help the Town meet its capital needs despite limited resources.

### APPLICABILITY

This policy establishes a framework for long-term capital improvements, sets guidelines and expectations for all Town departments in planning for and requesting capital projects, and outlines consensus budgetary goals for the Board of Selectmen, Town Manager, and Finance and Advisory Committee.

### POLICY

The Town will maintain its physical assets by providing funding in the operating budget to protect its capital investments and minimize future maintenance and replacement costs. To provide and preserve the infrastructure needed for achieving the highest levels of public services and quality of life possible within available financial resources, the Town will maintain an annually updated, five-year plan for capital improvements. The Town will emphasize preventive maintenance as a cost-effective approach to capital reinvestment and replace exhausted goods as necessary.

The Town Manager is charged to oversee Hamilton's capital improvement program. This involves identifying and prioritizing projects, analyzing funding, and creating a long-term financial plan achievable within the Town's budget limitations.

#### A. Definition of a Capital Improvement

A capital improvement is a tangible asset or project estimated to cost over \$25,000 and to have, or to extend, five or more years of useful life. For budgeting purposes, any asset or project with a useful life of five or more years representing 25% or more of a department's operating budget will be considered a capital improvement regardless of its cost. These include:

- Real property acquisitions, construction, and long-life capital equipment
- Major improvements to physical infrastructure, including streets, sidewalks, stormwater drains, and water distribution systems
- Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
- Planning, feasibility studies, and designs for potential capital projects
- Items obtained under a long-term capital lease
- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years that, when aggregated, have total costs exceeding the capital threshold

#### B. Inventory

To support a systematic acquisition and replacement schedule, the Town Manager will work with the Finance Director and Department Heads to annually update and maintain a detailed inventory of all capital assets, which shall include dates built, acquired or last improved, original cost, current

condition, expected and remaining useful lifespans, depreciated value, extent of use, and any scheduled replacement or expansion dates.

### C. Evaluation of Capital Projects

As part of the annual budget process, the Town Manager will solicit capital project requests from department heads. The Town Manager will then evaluate and prioritize the requests using the criteria below:

1. Eliminates a hazard to public health and safety
2. Required by state or federal laws or regulations
3. Uses outside financing sources, such as grants
4. Supports adopted plans, goals, objectives, and policies
5. Stabilizes or reduces operating costs
6. Makes better use of a facility or replaces a clearly obsolete one
7. Maintains or improves productivity or existing standards of service
8. Directly benefits the Town's economic base by increasing property values
9. Provides new programs having social, cultural, historic, environmental, economic, or aesthetic value
10. Increases operational or personnel costs

### D. Multiyear Capital Plan

The Town Manager will annually update and propose to the Finance and Advisory Committee and Board of Selectmen a five-year capital improvement plan, including the upcoming fiscal year's capital budget and a four-year projection of capital needs and expenditures that details their estimated costs, descriptions, and anticipated funding sources.

Throughout the year, the Finance Director will monitor active capital projects to ensure they remain properly funded, and will report any capital plan amendments to the Town Manager and Board of Selectmen.

### E. Capital Financing

Long-term debt is an appropriate funding source for certain types of projects, while short-term debt and current revenues should be used for assets with short useful lifespans. The Town will strive to maintain three percent of the general fund operating budget, net of debt, on capital investment allocations with any excess going into the capital stabilization fund. Funding shall be derived from a combination of property taxes and the general and capital stabilization funds.

The capital improvement plan shall be prepared and financed in accordance with the following policies:

- Special revenue sources (e.g., grants, trust funds) shall be evaluated as funding options whenever practical.
- The annual operating costs of each proposed capital project, as well its debt service costs, shall be identified before any long-term, bonded capital project is recommended.

- Short-term debt may be used to fully finance purchases with useful lifespans of less than 10 years.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.
- Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.
- To the fullest extent feasible, all capital projects associated with the Town's water enterprise fund shall be financed from user fees.

#### F. Capital Project Closeouts

The Town will endeavor to close out all capital projects within six months of completion or discontinuation. As they are closed out, the Finance Director will work with the Treasurer/Collector to recommend one of the following:

- For bonded projects with residual balances less than \$50,000, the Board of Selectmen approve applying the balances to debt service.
- For bonded projects with residual balances in excess of \$50,000, appropriating the balances for other capital projects for which the Town may borrow for an equal or greater term as the original loan was issued.
- For projects funded with available revenue (tax levy or reserves) having residual balances, reallocating the balances for other capital projects or closing the balances to the appropriate fund surplus.

#### **REFERENCES**

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 33B](#)

Division of Local Services (DLS) Best Practice: [Presenting and Funding Major Capital Projects](#)

DLS Financial Management Guidance: [Capital Improvement Planning Manual](#) and [Capital Improvement Planning Guide – Developing a Comprehensive Community Program](#)

#### **EFFECTIVE DATE**

This policy was adopted on [date].