

Debt Management

Setting Parameters with a Debt Management Policy



**Vermont League
of Cities & Towns**



Why do Governments Issue Debt?

Capital Purchases or Construction

- Issuing debt allows a government to acquire assets as needed rather than wait until enough cash has been saved
- Debt spreads the cost of a capital asset to those who benefit from it, both now and in the future (intergenerational equity)

Why do Governments Issue Debt?

Cash Flow Considerations

- Short term borrowing in anticipation of known future inflows
 - Tax Anticipation, Grant Anticipation, or Bond Anticipation notes
 - Typically one year or less
- Enables governments to smooth out cash flows
- Critical component in reimbursable grants where the government does not have sufficient cash reserves to cover the time between paying invoices and receiving grant funds

Why Develop a Debt Policy?

- Establish criteria for debt issuance to maintain acceptable levels of debt obligations
- Ensure fiscal prudence and financial sustainability
- Indicate the government is committed to sound financial management
- Can contribute to a higher rating on debt (if applicable)
- Allows for continuity and consistency in approach even when elected officials change

Common Policy Components

Purpose of Policy

Conditions for Debt Issuance

Restrictions on Debt Issuance

Financial Limitations

Structuring Practices

Debt Issuance Process

Debt Management Process

Special Situations

Conditions for Debt Issuance

- Acceptable purposes and conditions for use of debt
 - Favorable market conditions
 - Establish debt limits
- Permissible debt instruments
- Intergenerational equity
 - Distribute the cost of an asset over its useful life so the people receiving the benefit are also paying for it
- Project characteristics support debt
 - One time investment
 - High priority item
- Long-term forecasts show ability to pay

Restrictions on Debt Issuance

- Prohibition on using long-term debt to fund operations
- Prohibition on issuing debt longer than the asset's useful life
- Limits on the size of issuance
- Statutory and self-imposed limitations
- Prohibition on certain types of debt
- Requirements for pay as you go financing

Financial Limitations

- **General Debt**
 - Debt paid with general revenue
 - Common benchmarks:
 - Annual debt as percentage of expenditures
 - Debt per capita
 - Debt compared to grand list
- **Revenue Debt**
 - Debt paid with dedicated revenue stream
 - Common benchmarks:
 - Debt service coverage

Structuring Practices

- Maturity guidelines
 - Prohibit the term of debt from exceeds the asset's life
 - Define absolute maximum terms by type of debt
- Debt service schedule
 - How repayment schedules should be structured
 - Level principal payments
 - Level overall payments
 - Balloon payments
- Debt service funds
 - Will the government use debt service funds

Debt Issuance and Management Processes

Detail the process for issuing debt

- Approval of issuance
- Determine the method of sale
- Selection and use of professional service providers
- The role of credit ratings

Detail ongoing debt management

- Authority and limits on investing proceeds
- Compliance practices
- Refunding bonds or consolidating debt

Special Situations

- Interfund Borrowing
- Variable Rate Debt
- Short-Term Debt
- Leases
- Tax Increment Financing Debt
- Overlapping Debt

Additional Resources

Model Policies

- [VLCT Model Debt Policy](#)
- [GFOA Debt Policy Template](#)

GFOA Publications

- [Financial Policies](#), by Shayne Kavanagh
- [Elected Official's Guide to Debt Issuance](#), by J.B. Kurish and Patricia Tighe



Contact Information

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Vermont
Bond Bank



DEBT CAPACITY: HOW MUCH DEBT SHOULD WE GET?

Presentation to the Vermont Capital Planning Forum

April 6th, 2022

What Kind of Debt



Long Term Debt (LTD)

- Debt capacity revolves around LTD

Short Term Debt

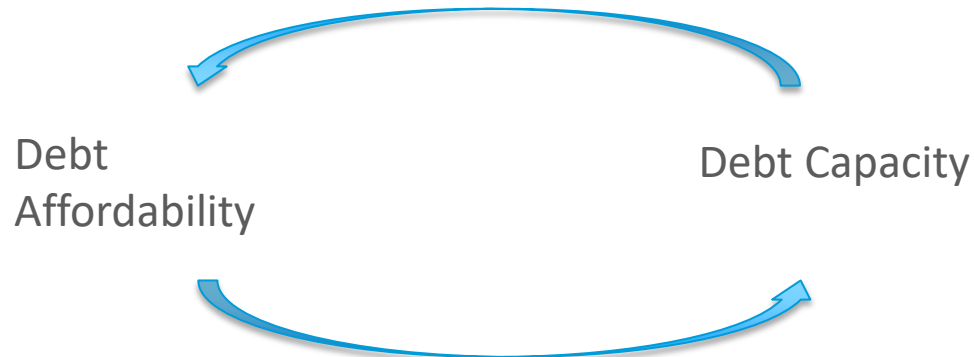
Debt Capacity

Debt capacity measures a government's ability to take on debt. It's a way that leaders and stakeholders can determine the affordability and risk of potential debt— and ensure decisions are made in the best interest of both present and future stakeholders. -- GFOA

What amount of debt service can be incurred while maintaining an affordable tax burden or other municipal fee structure?

What amount of debt is appropriate before crowding out other important areas of community spending?

What amount of debt will lenders provide and at what cost?



Types of Debt

Revenue Bond / Note Structures

- Lien on specific stream of revenue and assets
- No other recourse

General Obligation Bond / Note

- Unsecured pledge of “full faith and credit” of communities taxing authority

Appropriation

- Payments on related debt subject to budget and appropriation

Lien on Utility Enterprise

- Typically comes with financial covenants related to rates needed to achieve debt service coverage
- Typical to use a trustee to ensure debt holders have security interest in system revenues

Lien on Sales Tax Revenue

- Used in communities to receive better rating or avoid statutory limitations on GO debt

Self-Supporting

- Fully liquidating from user fees or other revenue source
- Sometime referred to a “double barreled” debt

Not Self-Supporting

- Typically used for governmental activities projects without related stream of revenue

Leases / Installment

- Typical method for equipment
- Perceived as having more risk given its subject to appropriation

Debt Capacity Considerations

Tax or User Rates

**Tiebout Hypothesis
(Choose with your Feet)**

Equitable Investment / Reinvestment

Cost / Benefit of Investment

**Intergeneration Equity
(Pay as you use)**

**Comparative Advantage of
Debt vs Pay as you go**

Statutory

**Benchmarking and/or
Market Acceptance**

Vermont Statutory Debt Limits

24 V.S.A. § 1762

10 times the grant list



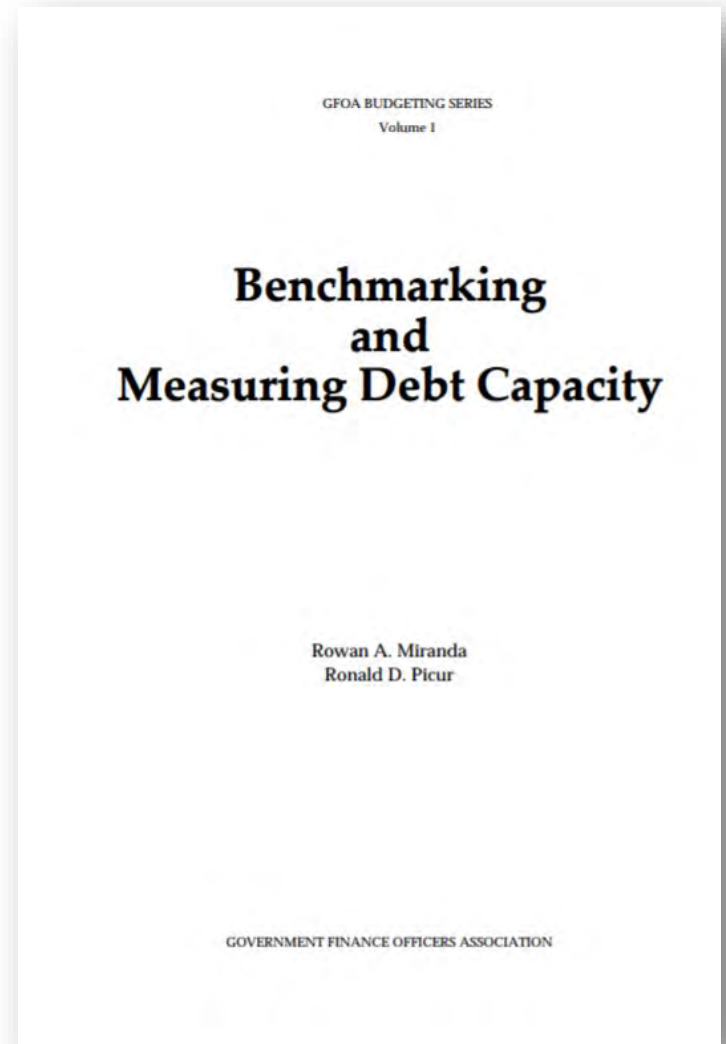
Example

| | |
|------------------------------|---------------|
| 2021 Median Grant List Value | \$1,831,053 |
| Market Value | \$183,105,300 |
| Statutory Debt Limit | \$18,310,530 |
| Debt to Full Value | 10.00% |

Generally equates to non-investment grade ratio

Benchmarking

- Most used method to establish debt capacity given competing goals
- Codified in debt policy
- Does not preclude capital spending in excess of debt capacity limits; just amount financed by debt
- Lenders also use benchmarking for credit evaluation (affordability)
- Governmental activities typically benchmarked separately from self-supporting or revenue bond debt
- Medians published by rating agencies but lack Vermont context...



Shortcomings of Debt Benchmarking

Medians may or may not represent an appropriate peer group

Medians may reflect unique circumstances or characteristics of Bond Bank borrowers

Medians provide starting point for affordability analysis but are silent on community values

Medians do not help prioritize or inform the type of projects that are financed with debt

Vermont Bond Bank Financial Medians



- Relies on Bond Bank's annual portfolio monitoring including both Pooled Loan Program and SRF Activities
- Published annually going forward
- Vermont specific benchmarking tool with comparison to investment grade Moody's medians

Governmental Activities Ratios & Definitions

| Category | Definition | Bond Bank Median | Moody's Median* |
|--|---|------------------|-----------------|
| Unassigned GF Balance as % of Revenue | Unassigned general fund balance divided by total general fund revenues | 10.40% | 11.7% |
| Cash as % of Revenue | Cash and investments for the general fund, divided by total general fund revenues | 65.86% | 18.6% |
| Total Long-Term Debt | Bonded debt and similar obligations reported for Governmental Activities only (i.e. no enterprise or business type activities); debt associated with pending loan applications included | \$929,550 | --- |
| Debt Service as % of Operating Expenses | Debt service expenditures (principal and interest) for all operating funds combined divided by operating expenditures (including expenditure of debt service funds); debt service associated with pending loan applications included | 8.08% | 10.8% |
| Debt Service as % of Revenue | Debt service expenditures (principal and interest) for all operating funds (including debt service funds) combined divided by operating revenues including expenditure of debt service funds; debt service associated with pending loan applications included | 7.45% | --- |
| Long Term Debt to Revenue | Long-term debt (including current portion and capital leases) divided operating revenues (expressed as a percent) | 34.98% | 82.5% |
| 10 Year Debt Payoff | Amount of principal that will be amortized in next ten years divided by total long-term debt (debt associated with pending loan applications not included) | 80.53% | 64.5% |
| Long Term Debt to Full Value (Grand List) | Long term debt outstanding (including capital leases) divided by full value (actual value of Grand List) for the most recent year available (expressed as a percent) | 0.22% | 5.5% |
| Government Activity LTD per Capita | Total long-term debt (including capital leases) divided by population for the most recent year available | \$371 | --- |
| Capital Asset Depreciation | Ratio of Accumulated Depreciation to Gross Depreciable Assets (excluding land and construction in progress). A ratio above 65% indicates reinvestment in capital assets is lagging behind depreciation, signaling the likelihood (necessity) of future debt issuance. | --- | 65% ** |

Adopted from Moody's Investor Services definitions

*Median is representative of Moody's rated municipalities in the BBB category (i.e. minimum investment grade)

**Source: Moody's Investors Service *US K-12 Public School Districts: Proposed Methodology*

School District Ratios & Definitions

| Category | Definition | Bond Bank Median | Moody's Median* |
|---|---|------------------|-----------------|
| Unassigned / assigned GF Balance as % of Revenue | Combined unassigned and assigned general fund balance divided by total general fund revenues | 1.48% | 11.7% |
| Cash as % of Revenue | Cash and investments for the general fund, divided by total general fund revenues | 12.97% | 18.6% |
| Total Long-Term Debt | Bonded debt and similar obligations reported for Governmental Activities only (i.e. no enterprise or business type activities); debt associated with pending loan applications included | \$2,280,500 | --- |
| Debt Service as % of Operating Expenses | Debt service expenditures (principal and interest) for all operating funds combined divided by operating expenditures (including expenditure of debt service funds); debt service associated with pending loan applications included | 1.95% | 10.8% |
| Debt Service as % of Revenue | Debt service expenditures (principal and interest) for all operating funds (including debt service funds) combined divided by operating revenues including expenditure of debt service funds; debt service associated with pending loan applications included | 1.90% | --- |
| 10 Year Debt Payoff | Amount of principal that will be amortized in next ten years divided by total long-term debt (debt associated with pending loan applications not included) | 90.90% | 82.50% |
| Long Term Debt to Revenue | Long-term debt (including current portion and capital leases) divided operating revenues (expressed as a percent) | 13.06% | 5.5% |
| Capital Asset Depreciation | Ratio of Accumulated Depreciation to Gross Depreciable Assets (excluding land and construction in progress). A ratio above 65% indicates reinvestment in capital assets is lagging behind depreciation, signaling the likelihood (necessity) of future debt issuance. | --- | 65% ** |

Adopted from Moody's Investor Services definitions

*Median is representative of Moody's rated municipalities in the BBB category (i.e. minimum investment grade)

**Source: Moody's Investors Service *US K-12 Public School Districts: Proposed Methodology*

Water & Sewer Enterprise Ratios & Definitions

| Category | Definition | Bond Bank Median | Moody's Median* |
|--|---|------------------|-----------------|
| Reserves to Operations & Maintenance Expenses | Unrestricted reserves divided by Total Operating & Maintenance Expenses; unrestricted net position used as proxy for available financial resources at Bond Bank discretion when amount of reserves is not otherwise available; capital reserves included if not limited for use in specific project | 56.9% | 104.3% |
| Days Cash on Hand | Days of cash on hand is calculated by dividing unrestricted cash and cash equivalents by the system's average daily cost of operations, excluding depreciation (annual operating expenses, excluding depreciation, divided by 365) | 194 | 380.7 |
| Total Long-Term Debt | Bonded debt and similar obligations reported for individual funds; debt associated with pending loan applications included at Bond Bank discretion on pro forma basis | \$1,235,572 | --- |
| Maximum Annual Debt Service Coverage(x) | Gross Revenues minus Total Operating & Maintenance Expenses (O&M) divided by maximum annual debt service; debt service associated with pending loan applications included at Bond Bank discretion on pro forma basis | 1.32x | 1.8x |
| Debt Ratio | Total debt divided by Net Working Capital and Net Fixed Assets | 37.7% | 36.1% |
| Debt Service as % of Operating Expenses | Debt service expenditures (principal and interest) divided by operating expenditures | 24.5% | 35.2% |
| Debt Service as % of Revenue | Debt service expenditures (principal and interest) divided by all operating revenues | 24.8% | 19.5% |
| Long Term Debt to Revenue | Long-term debt (including current portion and capital leases) divided operating revenues (expressed as a percent); debt associated with pending loan applications included at Bond Bank discretion on pro forma basis | 214.5% | --- |
| Operating Ratio | Operating Ratio is the ratio of operating expenses to operating revenues | 69.1% | 62.3% |
| Capital Asset Depreciation | Ratio of Accumulated Depreciation to Gross Depreciable Assets (excluding land and construction in progress). A ratio above 65% indicates reinvestment in capital assets is lagging behind depreciation, signaling the likelihood (necessity) of future debt issuance. | --- | 65% ** |

Adopted from Moody's Investor Services definitions

*Moody's Median is representative of systems in the A/BBB categories on a combined basis

**Source: Moody's Investors Service *US K-12 Public School Districts: Proposed Methodology*

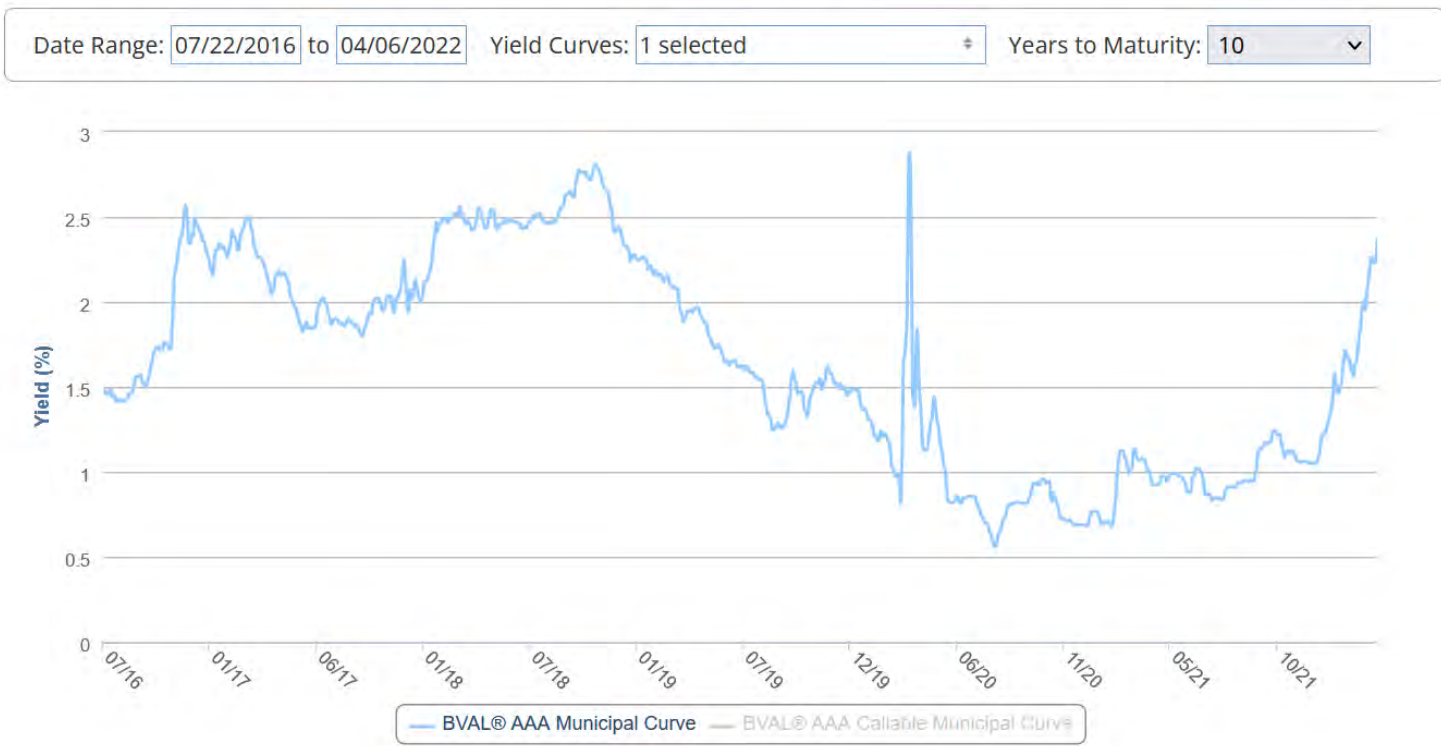
Interplay of Market Conditions

Example – Enterprise System Debt Capacity Following Financing of \$300 thousand

| | | July 19, 2018 – 3.45% for 20 Years | February 24, 2022 – 2.03% for 20 Years |
|----------------------------|----------------------|---------------------------------------|---|
| Operating Revenues | | \$885,588 | \$885,588 |
| Expenses | | (788,759) | (788,759) |
| Non Operating Revenues | | 12,890 | 12,890 |
| Depreciation Addback | | 26,294 | 26,294 |
| Interest Addback | | 5,983 | 5,983 |
| Net Operating Income | <i>a</i> | 141,996 | 141,996 |
| Existing Debt Service | <i>b</i> | (69,755) | (69,755) |
| Proposed Loan Debt Service | <i>c</i> | (21,013) | (18,400) |
| Net Income | | 51,228 | 53,841 |
| Current Coverage | $d = a / - (b+c)$ | 1.56x | 1.61x |
| Benchmark | <i>e</i> | 1.25x | 1.25x |
| Cushion | $f = (a/e)+(b+c)$ | 22,829 | 25,442 |
| Additional Capacity | $g = pv(rate,20,-f)$ | 325,926 | 414,805 |

Historical View of Interest Rates

Historical Yield Data



Bloomberg

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Historical View of Inflation

50 years of US inflation vs interest rates

US monthly inflation (year-on-year % change) vs Fed funds interest rates since 1970



Subscribe to our global politics newsletter Signal at gzeromedia.com

Sources: US Bureau of Labor Statistics, Federal Reserve

GZERO

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Loan Search



Filter between options

Principal

Net Debt Service

Maturity Date

2022-05

2022-11

2023-05

Montpelier City
2008-2
ID #244

[View Summary](#)
[Export Schedule](#)

| Net Debt Service |
|------------------|
| 110,859 |
| 240,149 |
| 106,656 |

Montpelier City
2010-4
ID #325

[View Summary](#)
[Export Schedule](#)

| Net Debt Service |
|------------------|
| 16,291 |
| 101,291 |
| 15,013 |

Montpelier City
2012-1
ID #474

[View Summary](#)
[Export Schedule](#)

| Net Debt Service |
|------------------|
| 127,149 |
| 341,439 |
| 121,668 |

[Reset](#)

[Export All](#)

Aggregate

127,149

341,439

121,668



Vermont
Bond Bank

State Revolving Loan Funds “SRF”

Vermont DEC

Loans

For Clean Water and Drinking Water Infrastructure

- Planning
- Design
- Construction

Planning Loan Rates/Terms

- 0% Interest, 2% Annual Admin Fee,
 - Clean Water: 5-15 Years –typically 5 for planning
 - Drinking Water: 5-years

Planning Incentives & Benefits

Loan Forgiveness “Subsidy”

Determined annually as part of “Intended Use Plans”

- Project categories, amounts

This year:

- Clean Water: Up to 50% of planning loan forgiven, \$100K max
- Drinking Water: Up to \$50K for Asset Management Plans

SFY 23:

- Increase in overall funds as result of “Bipartisan Infrastructure Law”
- Expect to continue to incentivize planning

Benefits:

- Implementing Asset Management Plan Projects increase “priority points” under the Project Priority List

Contacts: Water Infrastructure Finance Program

Clean Water Project Developer

- Tom Brown Tom.Brown@vermont.gov
- 802.622.4205

Drinking Water Project Developer

- Amy Galford Amy.Galford@vermont.gov
- 802-585-4904

WIFP Program Manager

- Padraic Monks
Padraic.Monks@vermont.gov
- 802.490.6169



Vision & Capacity Building

Rural Community Development Initiative Grants
Community Facility Technical Assistance Grants
Solid Waste Management Grants

Asset Management

SEARCH Grants

Predevelopment Planning Grants

CF Technical Assistant Grants



Prioritization

Q: How does funding impact project scope, cost and timing?

A: Variables include

- availability of loan or grant funding
- interest rates
- funding cycles
- funding stacks
- and more...





Infrastructure Funding

Water & Environmental Programs - WEP

- Water
- Wastewater
- Stormwater
- Solid waste

Community Facility Loans and Grants - CF

- Food Networks
- Climate Change Resiliency
- Healthcare/Early & Elder Care
- Streetscaping
- And more...

VERMONT ECONOMIC DEVELOPMENT AUTHORITY



State Infrastructure Bank (SIB)

est 1997

Capital Planning Forum April 2022

WHAT IS THE STATE INFRASTRUCTURE BANK (SIB)

- Created by the VT Legislature in 1997 to lend Federal Highway funds received
- Initial funding of \$1.5 million plus \$375,000 from the state
- VEDA appointed administrator – AOT responsible for program design, project eligibility, and approval of loans recommended by VEDA
- Limited funds today of \$1.3 million - Recycled funds have allowed VEDA to make \$6.3 million in loans to-date (17 projects)
- Program is not highly used but has financed unexpected repairs needed for roads, bridges, and rail infrastructure as well as some new-to-market projects

PROJECT ELIGIBILITY

- **Project Eligibility determined by Agency of Transportation**
 - **Who is eligible:** Municipalities, Regional Development Corps, other state instrumentalities, as well as private entities working w/ same on eligible project(s)
 - **What is eligible:** Transportation Infrastructure:
 - **Roads, Bridges, Rail, EV Charging, and buildings / facilities supporting transportation**
 - **Must meet Code of Federal Regulations (CFR) Title 23 or Title 49**

BENEFITS TO USING SIB

- **1% fixed financing for municipalities (2% commitment fee)**
- **Application and Funding open year-round**
- **Eligibility determination is quick**
- **Efficient Loan Approval & Closing**
- **Loan payback is flexible to meet needs and match project**

PROCESS

- **Work w/ Vermont AOT to determine project eligibility**
- **Kick off conf call (Applicant / AOT / VEDA)**
- **Application completion**
- **VEDA underwrites applicant's ability to repay and recommends approval to SIB Board**
- **SIB Board approves loan**
- **VEDA prepares loan and security documents**
- **Loan Closing – virtual closing / paperless process**
- **Ground Breaking**

CONTACTS

VEDA Contacts

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Chief Lending Officer & SIB Coordinator

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Vermont Agency of Transportation Contacts

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Vermont Capital Planning Forum

April 8, 2022

Transportation Funding Options for Municipalities

JOE SEGALE, PE/PTP

POLICY, PLANNING AND RESEARCH BUREAU DIRECTOR, VERMONT
AGENCY OF TRANSPORTATION

Presentation

Planning and Technical Assistance

Highway and Bridge Projects

Stormwater

Bicycle, Pedestrian, Park and Rides

Electric Vehicle Charging Infrastructure

Infrastructure Investment and Jobs Act

AOT Project Selection and Prioritization Process



Planning and Technical Assistance

Regional Planning Commissions - Transportation Planning Initiative

Better Connections Grants

Systemic Local Roads Safety Program

Go! Vermont Transportation Committee Grants

Highways & Bridges



| Description | Purpose/Use | Funding Source | Local Match | Max Available | Access to the funds |
|--------------------------------|---|-----------------|---------------------------------|----------------|--|
| State Aid for Town Highways | Construction, maintenance, sidewalks and | State | None | Not Applicable | Annual appropriation based on miles of Class 1, 2, and 3 Town Highways |
| Class 2 Town Highway Grants | Resurface & Reconstruction | State | 10% - 20% | \$200,000 | Grant. Apply to AOT Districts |
| Town Highway Structures Grants | Bridges < 20 ft, culverts & retaining walls | State | 20% - 30% | \$200,000 | Grant. Apply to AOT Districts |
| Town Highway Bridge Program | Bridges > 20 ft, rehabilitation, reconstruction | State & Federal | 10% - Replacement 5% - Rehab | No max | RPC Prioritization AOT Managed Project |



Stormwater

| Description | Purpose/Use | Funding Source | Local Match | Max Available | Access to the funds |
|---|---|-------------------------------------|-------------|--|--|
| Grants in Aid | Implement BMPs per MRGP | State | 20% | Not applicable | Formula funds based on miles of hydrologically connected town highways, and number of participating municipalities |
| Better Roads | Cat A - Erosion Inventories Cat B – Roadway drainage Cat C – Streambank, lakeshore, slopes Cat D – Structures and Culverts | Cat A- Fed Cat B,C,D - State | 20% | Cat A -\$8,000 Cat B - \$20,000 Cat C -\$40,000 Cat D -\$60,000 | Competitive Grant |
| Municipal Highway & Stormwater Mitigation | Planning, inventories, construction projects | Federal | 20% | No Max | Competitive Grant |

Bicycle, Pedestrian, Park & Rides



| Description | Use | Funding Source | Local Match | Max Available | Access to the funds |
|-------------------------------------|---|----------------|-------------|------------------|--|
| Bicycle and Pedestrian Large | Scoping, Construction | Federal | 20% | \$300k typical | Competitive Grant |
| Bicycle and Pedestrian Small | Simpler, smaller projects Construction Only | State | 50% | No max specified | Competitive Grant |
| Transportation Alternatives Program | Bicycle, pedestrian, historic preservation, stormwater, habitat connectivity | Federal | 20% | No max | Competitive Grant |
| Downtown Transportation Fund | Investment in public space infrastructure in State Designated Downtowns and Village Centers | State | 20% | \$200,000 | Competitive Grant Administered Agency of Commerce and Community Development |
| Municipal Park and Ride Grants | Preliminary engineering and Construction | State | 20% | No max specified | Competitive Grant |

Federally Designated Alternative Fuel Corridors

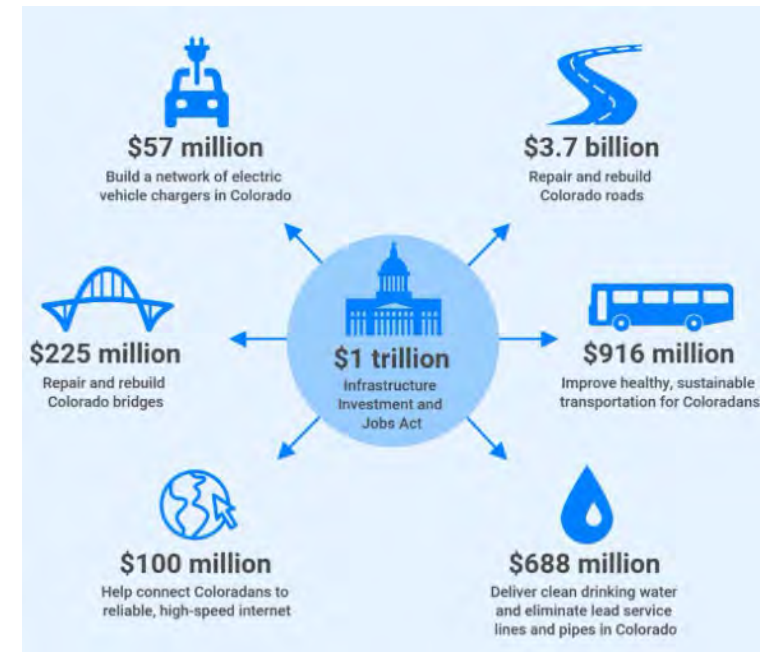


Electric Vehicle Charging Infrastructure

- \$10 Million State Program pending Legislative Approval
 - Will be administered by ACCD – DHCD
 - Level I and II public charging stations for multifamily dwellings, workplaces and community attractions
- IIJA National Electric Vehicle Infrastructure Program (\$21 Million for VT, next Five Years)
 - Must build out the Federally Designated Alt Fuel Corridors first
 - Then funding may be used on any public road or in other publicly accessible locations.
 - Must prepare State EV Infrastructure Deployment Plan by August 2022
- Federal Discretionary Grant Program (Guidance Pending)
 - Corridor Grant Program
 - Community Program

Infrastructure Investment and Jobs Act Transportation

- Increases VT's overall formula funding by \$570.5 million (53%) compared to the FAST Act, including:
 - \$324.3 million increase (30%) in core highway formula funds used to maintain highways and bridges across the state, and support for bike and ped, and park & ride projects
 - New \$32.8 million Carbon Reduction formula program
 - New \$37.3 million PROTECT Resilience formula program
 - New \$225 million General Fund Bridge Program
 - New \$21.5 million for the National Electric Vehicle Infrastructure (NEVI) Formula Program



IIJA Competitive Grant Programs

26 competitive grant programs (including 20 new ones)

- Worth approximately \$100 billion.
- Focus on highway and bridge projects (including downtown revitalization), resilience, carbon reduction, healthy streets (including bike and ped), active transportation, and safe streets.

Almost all grant programs are available to local governments

Since these are new programs, we need to wait for the Federal Highway Administration (FHWA) to issue guidance on how these programs will be implemented, including non-federal match requirements and the Executive's policy priorities which we anticipate will focus on:



Equity



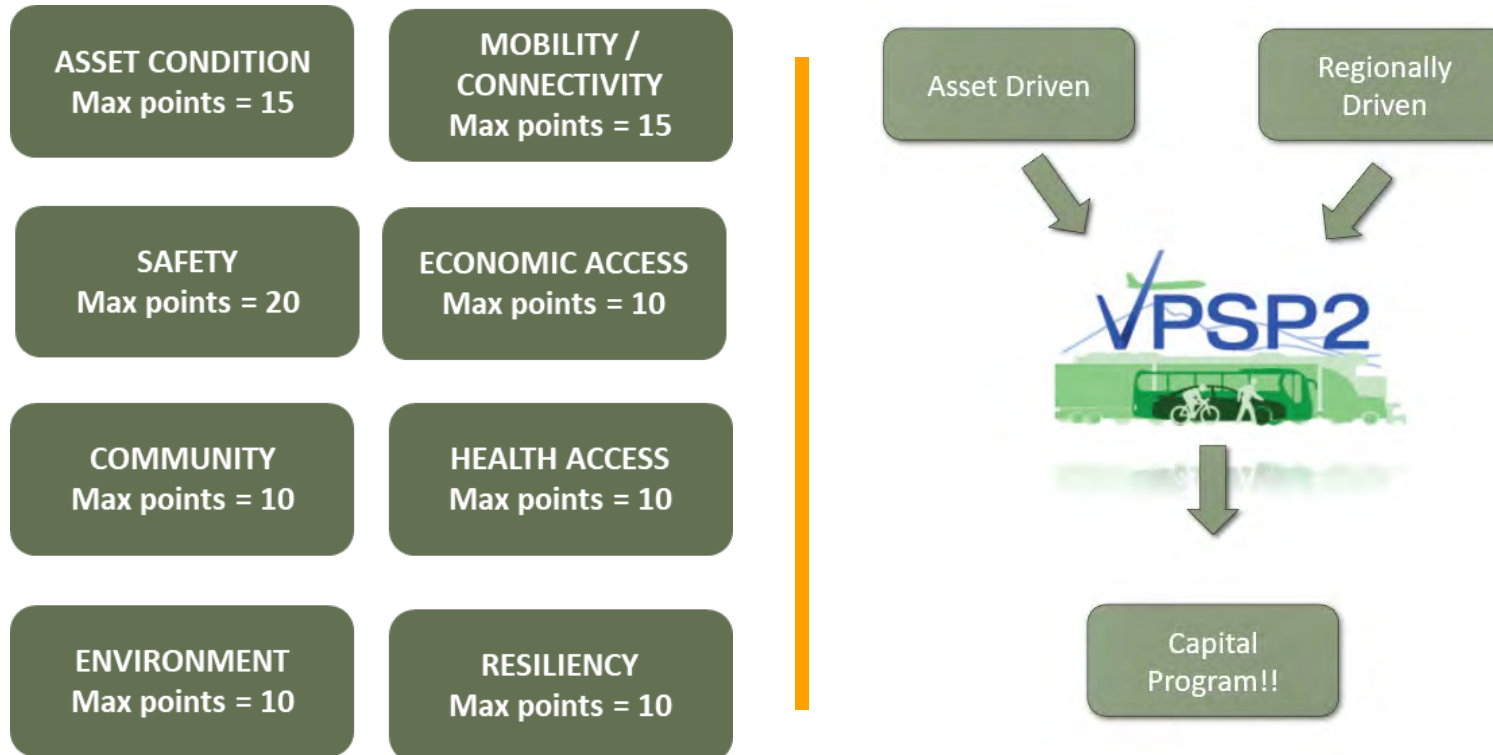
Preserve Existing Assets



Carbon Reduction

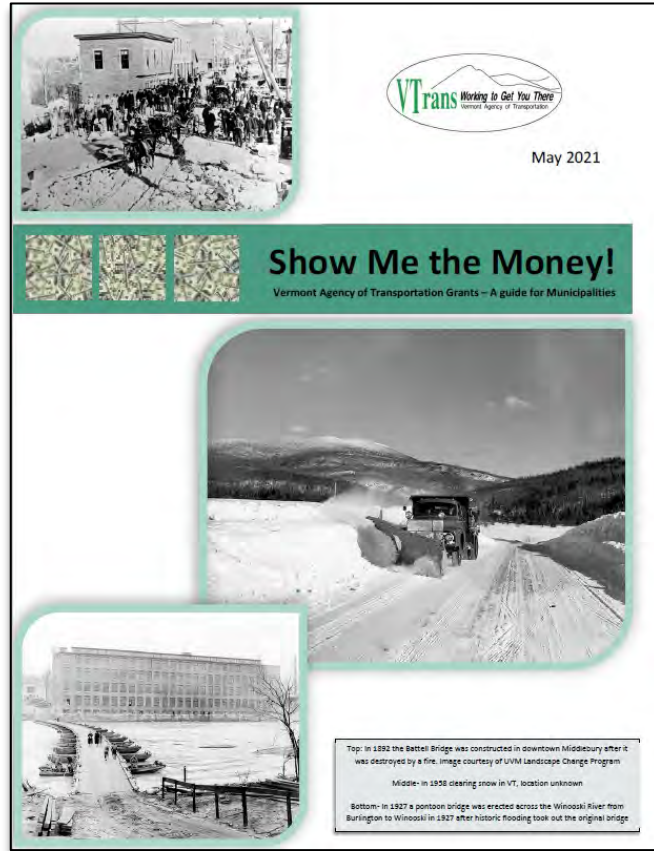


Resilience

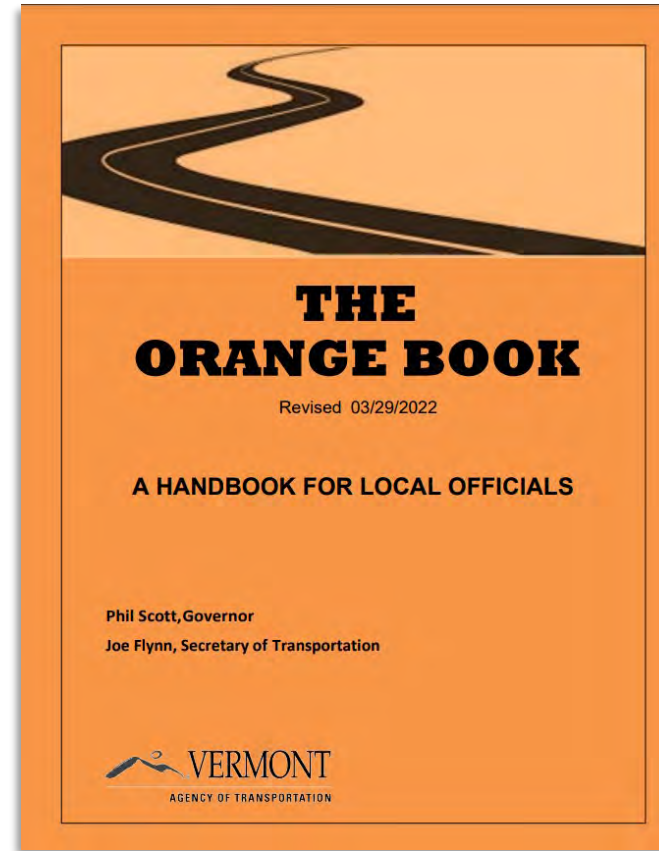


VTrans Project Selection and Prioritization Process

Resources



Handout



https://vtrans.vermont.gov/sites/aot/files/documents/TheOrangeBook_0.pdf

More Information

| Program | Source | Link |
|---|--|--|
| <ul style="list-style-type: none"> Better Connection Grants | AOT Website | https://vtrans.vermont.gov/planning/projects-programs/better-connections |
| <ul style="list-style-type: none"> State Aid for Town Highways Class 2 TH Grants TH Structures Grants TH Bridge Program | AOT Handbook for Local Officials (aka The Orange Book) | https://vtrans.vermont.gov/sites/aot/files/documents/TheOrangeBook_0.pdf |
| <ul style="list-style-type: none"> Grants in Aid Better Backroads Municipal Highway & Stormwater Mitigation Bicycle and Pedestrian Grants Park and Ride Grants | AOT Municipal Assistance Bureau | https://vtrans.vermont.gov/highway/local-projects |
| <ul style="list-style-type: none"> Downtown Transportation Program | Department of Housing and Community Development | |
| <ul style="list-style-type: none"> Electric Vehicle Charging | AOT Climate Change Website IIJA NEVI Guidance | https://vtrans.vermont.gov/planning/climate-change https://www.fhwa.dot.gov/environment/alternative_fuel_corridors/nominations/90d_nevi_formula_program_guidance.pdf |
| <ul style="list-style-type: none"> Infrastructure Investment and Jobs Act (Bipartisan Infrastructure Law) | Federal Highway Administration Website | https://www.fhwa.dot.gov/bipartisan-infrastructure-law/ |

Capital Planning and Budgeting

How to get started... and keep going



Agenda and Objectives



Definitions



Capital Planning – Step by Step



Maintaining Momentum



Related Policies



Additional Resources



Definitions

Definitions



- **Capital Asset** includes land, buildings, improvements to land or buildings, vehicles, machinery, equipment, works of art, infrastructure and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Dollar thresholds for inclusion vary from entity to entity.
- **Capital Project** is a grouping of closely related activities that together acquire or construct capital asset(s). For larger entities, a **capital project** may have specific criteria different from **capital asset** detailing useful life and dollar threshold for inclusion. For smaller entities, a **capital project** may be a summary of like items for practical decision-making purposes.
 - Example: all highway vehicles are included in one project even though they are each a capital asset on their own

Definitions



- **Capital Plan** is a long-term planning tool describing the capital investments the government intends to make over a multi-year period.
 - Also referred to as a Capital Improvement Plan, Capital Improvement Program, Capital Program, or CIP
- **Capital Budget** is derived from the **Capital Plan**, covers one year, details the capital projects for the year with their estimated costs and proposed method of financing

Definitions

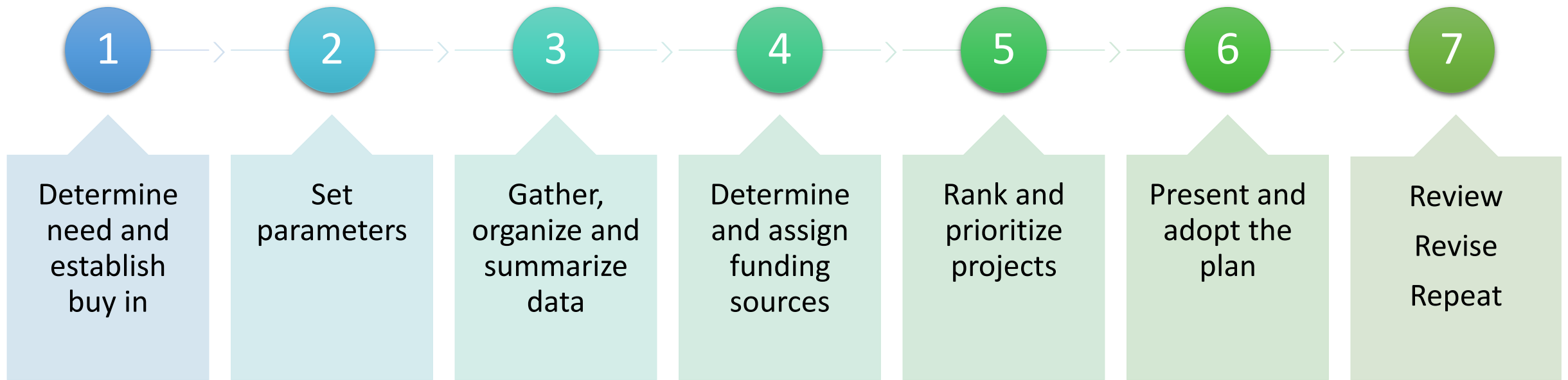


- **Capital Projects Funds** are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets (GASB Statement No. 54). The **capital projects fund** is a good place to record and track the **capital budget**.



Capital Planning: Step by Step

Capital Planning Process



Determine
Need and
Establish
Buy In

Selectboard Approval

- Budgets as policy
- Required policy work
- Documented priority status
- Keeps process visible

Internal Support

- Communicate benefits
- Set clear expectations

Set Parameters

Capital Planning Policy

- Define scope
 - Timeframe of the Plan
 - Definition of Capital Project
- Identify participants and responsibilities
- Requirement for ranking criteria
- Funding strategies

Set Parameters

Beyond the Capital Planning Policy

- Determine which data characteristics will be captured in the process
- Project ranking and prioritization criteria
- Process to submit projects
- Other related policies
- Annual timeline

Exhibit A: CIP Development Process

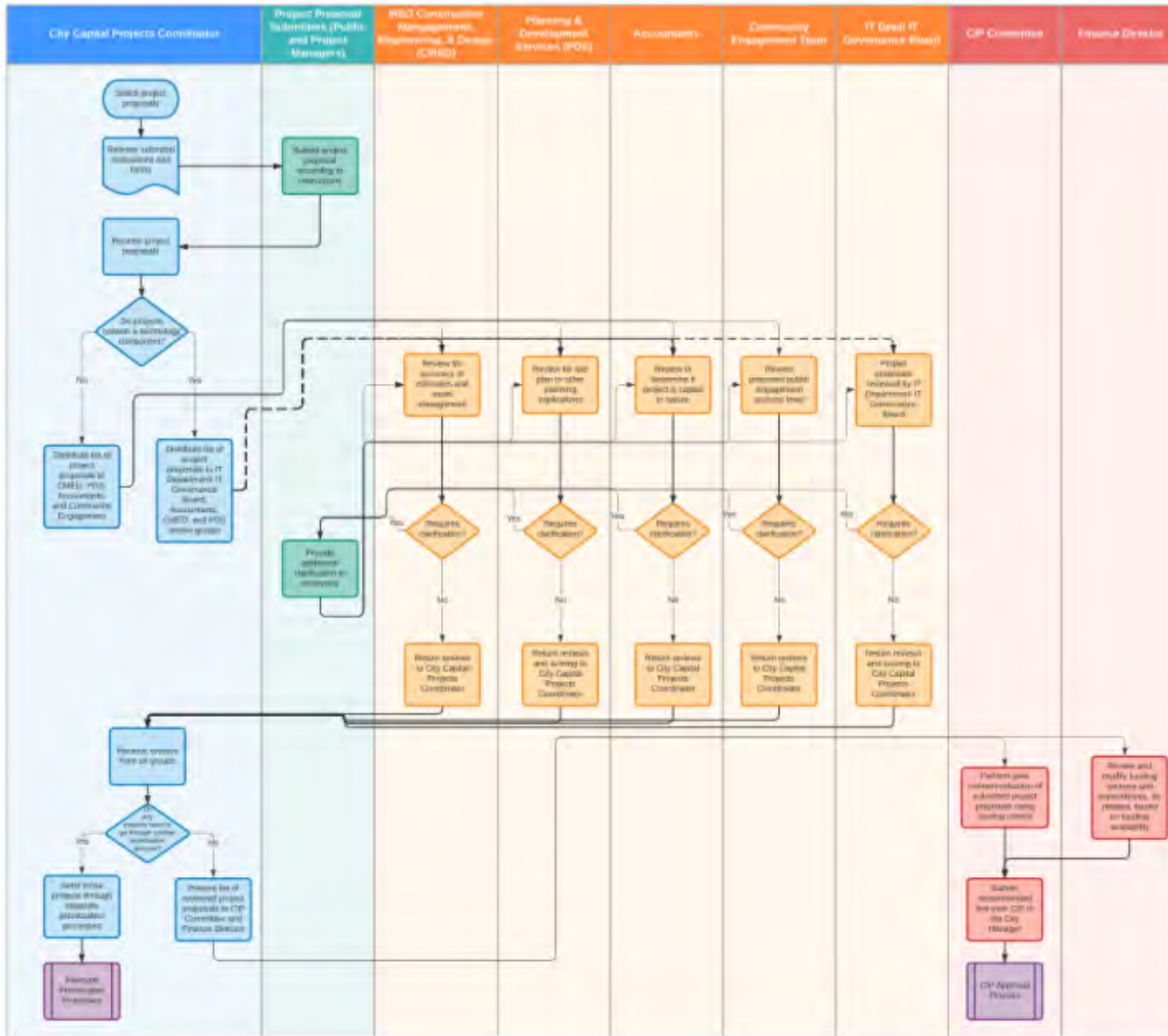
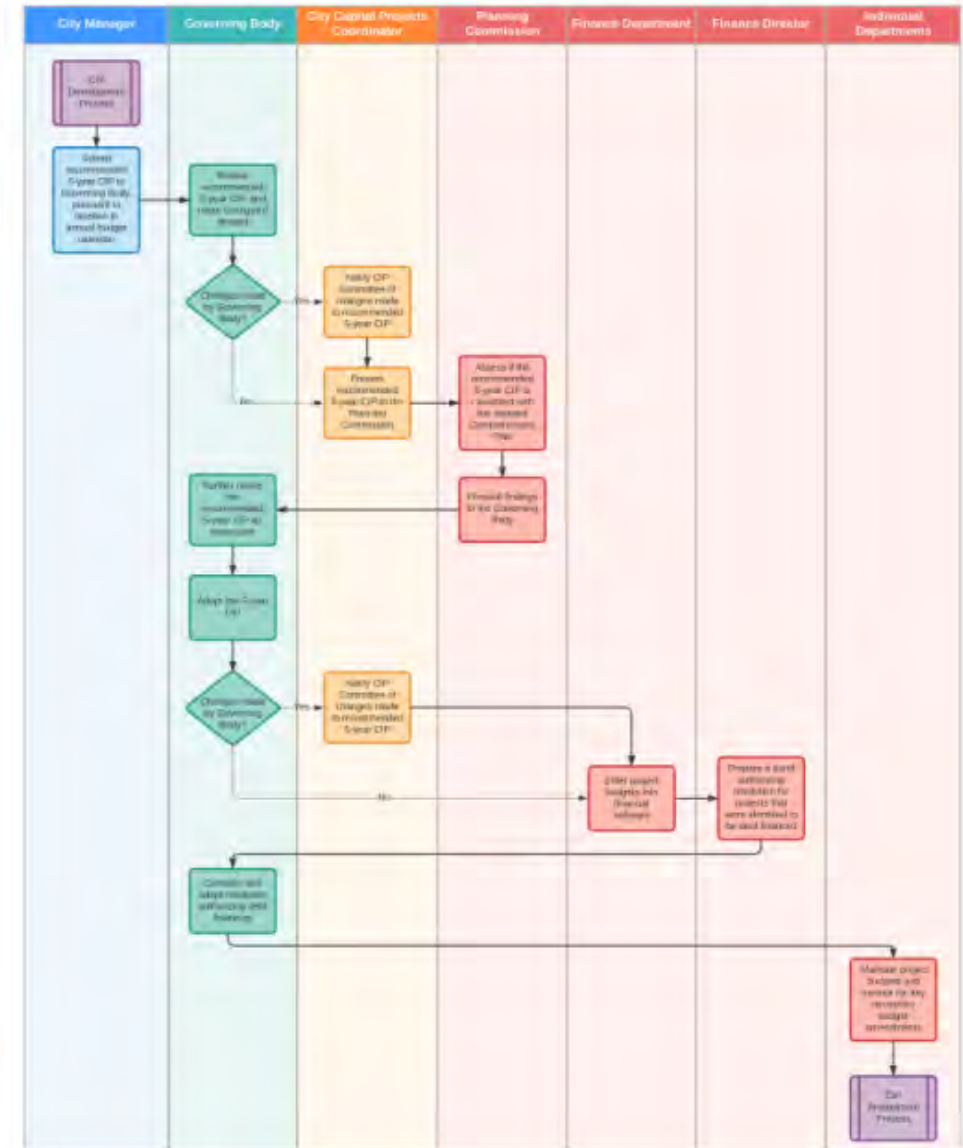


Exhibit B: CIP Approval Process



Source: City of Lawrence, Kansas
[Capital Improvement Plan Policy](#)

Gather, Organize, and Summarize Data

Gather Data

1. Existing assets and projects
 - Audit data; insurance data
 - Input from department heads
 - Physical inventory
2. New projects
 - Input from department heads
 - Input from elected officials
 - Town plan documents
3. Third party data
 - Existing engineering studies
 - Road and Sidewalk condition reports

Gather, Organize, and Summarize Data

Organize Data

- Use excel or a database to enter the data collected

Summarize Data

- Create project sheets
- Group like items to create projects
- Basis for the CIP document
- Project sheets become implementation guides and the starting point for next year

Identify and Assign Funding Sources

Allocation of Current Resources

- Capital reserves
- One-time resources
- Establishing dedicated revenue streams

Debt Financing

- Leases
- Short term debt
- Long term debt

State or Federal Grants

Impact Fees

Rank and Prioritize Projects

Create a predetermined clear, objective set of criteria to evaluate all projects

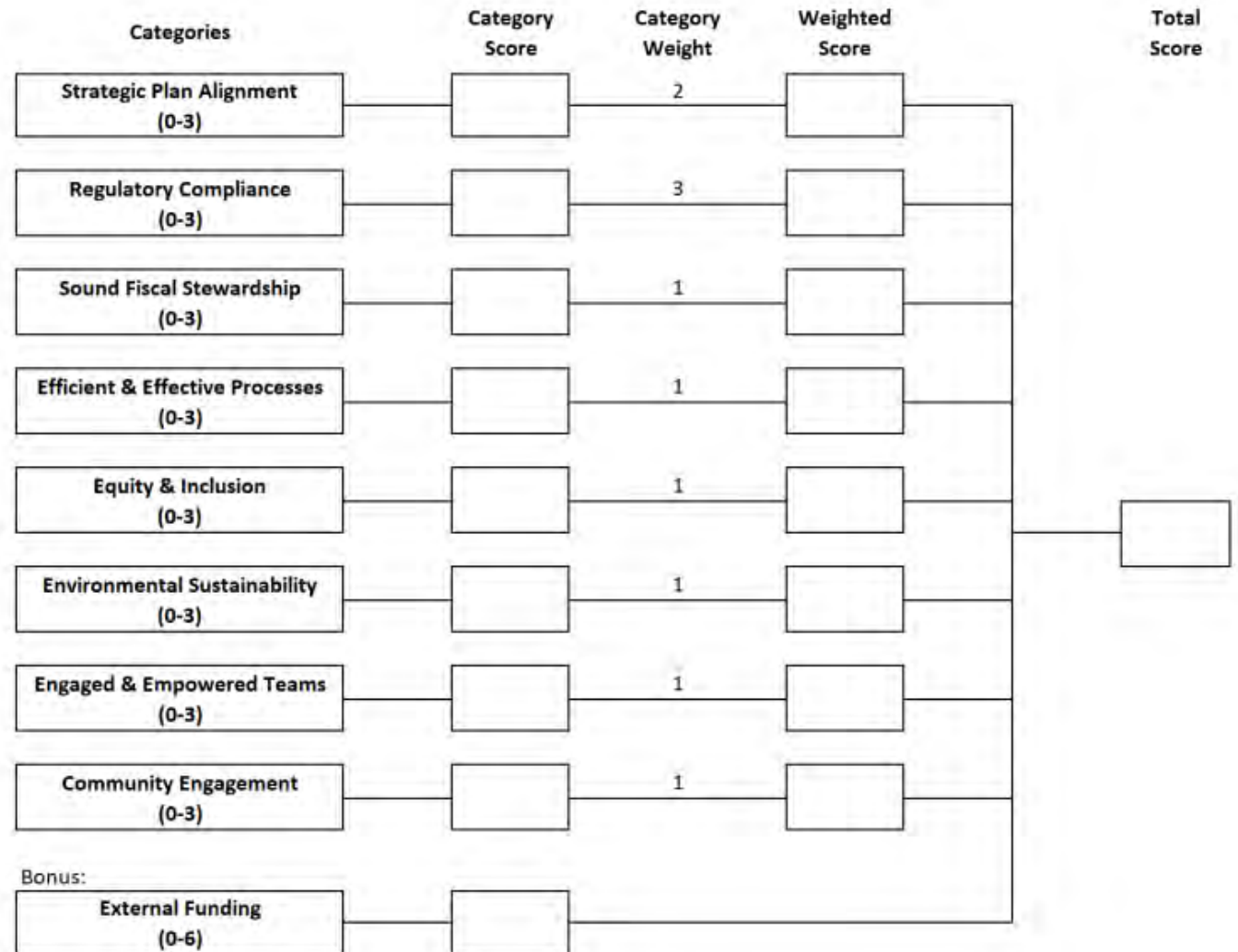
Promote procedural justice in the allocation of limited resources

Ensure existing assets are maintained before embarking on new initiatives

Rank and Prioritize Projects

~

Example Rubric

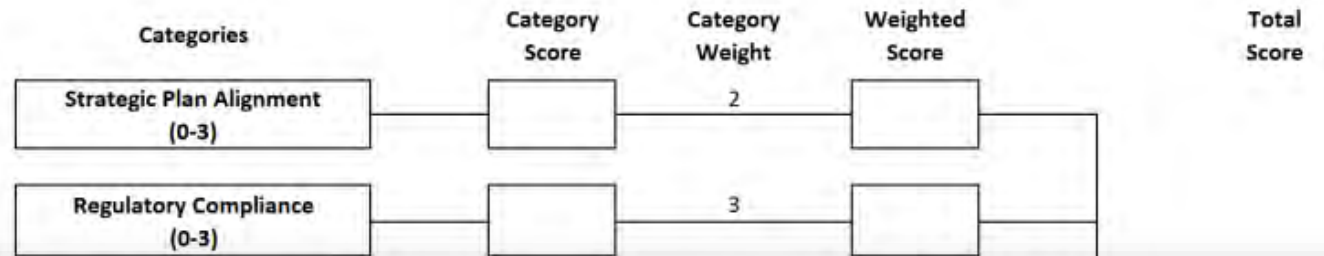


Source: City of Lawrence, Kansas – [CIP Prioritization Summary](#)

Rank and Prioritize Projects

~

Example Rubric



CIP Ranking Criteria

- Strategic Plan Outcome Alignment** – The strategic plan and other plans such as Plan 2040, various master plans, departmental strategic plans, and asset management plans are prepared to provide the City of Lawrence with a valuable aid for continuing efforts to meet and exceed goals set forth by City departments, advisory boards and commissions, and the community at-large. Plans include those documents that have been prepared internally to assure consistent adherence to industry best practices, as well as those documents that have been created with the assistance of outside consultants. The score will be based on answers to the following question:
 - How many progress indicator(s)/strategy(ies) outlined in the strategic plan does this project align with?

Scoring Scale

| 0 | 1 | 2 | 3 |
|--|---|--|--|
| The project does not align with any progress indicators or strategies outlined in the strategic plan | The project aligns with one (1) progress indicator or strategy outlined in the strategic plan | The project aligns with two (2) progress indicators or strategies outlined in the strategic plan | The project aligns with three (3) progress indicators or strategies outlined in the strategic plan |

(0-6)

Source: City of Lawrence, Kansas – [CIP Prioritization Summary](#)

Rank and Prioritize Projects



Example Rubric

| Categories | Category Score | Category Weight | Weighted Score | Total Score |
|---|--|---|---|--|
| <p>2. Regulatory Compliance – This includes compliance with regulatory mandates such as Environmental Protection Agency (EPA) directives, the Americans with Disabilities Act, the Manual on Uniform Traffic Control Devices and other County, State and Federal laws. This also includes compliance with self-imposed City ordinances, such as achieving 100% renewable energy within municipal operations. The score will be based on answers to the following questions:</p> <ul style="list-style-type: none"> a. Does the proposed project address a current regulatory mandate? If yes, which one(s)? <ul style="list-style-type: none"> i. If the project addresses Americans with Disabilities Act compliance, does it implement the 2010 ADA Standards for Accessible Design for newly constructed or altered State and Local Government facilities? b. Will the proposed project proactively address a foreseeable (within the next 5 years) regulatory mandate? If yes, which one(s)? c. Does the proposed project have a lasting impact on promoting regulatory compliance over the long term (more than 10 years)? | | | | |
| Scoring Scale | | | | |
| | 0 | 1 | 2 | 3 |
| | The project does not address a regulatory compliance issue | The project provides a short-term fix for an existing regulatory compliance issue or for one anticipated in the near future | The project provides a moderate-term fix for an existing regulatory compliance issue (maximum score for self-mandated projects) | The project resolves a pressing or long-term regulatory compliance issue and at least half of the project budget is tied to meeting a regulatory compliance standard |
| | | | | |

Source: City of Lawrence, Kansas – [CIP Prioritization Summary](#)

Rank and Prioritize Projects

~

Example Rubric

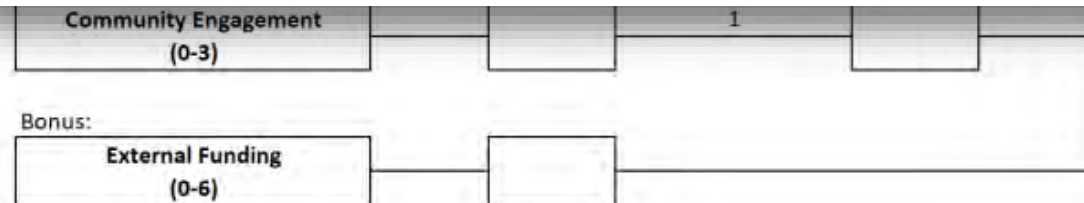


Bonus Section

- External Funding** – Capital improvement projects may be funded through sources other than City funds. Grants through various agencies, public private partnerships, and donations can all be sources of external funding for a project. The percentage of total cost funded by an outside source will determine the score in this category.

Scoring Scale

| 0 | 1 | 2 | 3 | 4 | 5 | 6 |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| 0% to 14% External Funding | 15% to 28% External Funding | 29% to 43% External Funding | 44% to 57% External Funding | 58% to 71% External Funding | 72% to 85% External Funding | 86% to 100% External Funding |



Source: City of Lawrence, Kansas – [CIP Prioritization Summary](#)

Present and Adopt Plan

Create a final CIP document incorporating:

- Narrative
- Summary data
- Project sheets

Final step in the process is adoption:

- Present to Selectboard
- Incorporate feedback as needed
- Hold public hearing
- Selectboard to adopt the CIP

Review
Revise
Repeat

Budgeting is a living process that requires ongoing evaluation and improvement

While the experience is still fresh, consider:

- Was the process timely?
- Did stakeholders have adequate time to participate?
- Was there data missing?
- Are there policy points that need clarification?

“Continuous improvement is better than delayed perfection.”

- Mark Twain



Maintaining
Momentum

Maintaining Momentum



- Schedule the post-adoption debrief as part of initial timeline
- Review what went well and what needs improvement
- Make any final updates based on final adoption
- Roll forward documents for next year
- Make identified template edits
- Set timeline for next cycle
- Communicate



Related Policies

Related Policies



- Capital Planning Policy
 - Establish definitions and parameters for process
 - Memorialize prioritization strategy
 - [GFOA Capital Planning Policy Template](#)
- Debt Management Policies
 - When debt could be issued
 - Allowable debt instruments and limits
 - [GFOA Debt Management Policy Template](#)



Additional
Resources

Additional Resources



- [VLCT Model Financial Policies](#)
- [GFOA's Rethinking Budgeting: Fairness](#)
- [Capital Planning and GFOA Financial Foundations Framework](#)
- [Financial Foundations Framework](#)
- [GFOA Best Practices & Resources](#)
- [GFOA Educational Offerings](#)
- [GFOA Budget Award Winners](#)
- [GFOA Financial Policy Challenge](#)



Questions?

Contact Information:

Sarah Macy, CPFO

Government Finance Specialist, VLCT

smacy@vlct.org

(802) 262-1946



Vermont League
of Cities & Towns

Town of Woodstock
Capital Budget Committee

Woodstock Capital Budget Committee

- Prior process had been more informal
 - Information on future needs kept by individuals and departments
 - Historical capital purchase information was hard to find
 - No central process for accounting staff to track capital assets
- Capital Improvement Budget & Plan
 - Narrative provides historical context and descriptions of projects
 - Excel workbook offers detailed purchase projections and financing options
- Capital Budget Committee - Goals
 - Ensure municipal assets benefit Town over long-term with predictable steady tax burden and intergenerational equity
 - Ensure capital asset inventory, needs, priorities are transparent
 - Work with municipal staff and project teams to identify and prioritize capital needs
 - Evaluate project financing options
 - Annually recommend budget & plan to Selectboard for approval
 - It's always a work in process!

Capital Budget Committee work '21-'22

- Developed comprehensive list of capital assets
- Worked with department heads to develop prioritized replacement schedule, future needs, estimated costs, and financing options
- Designed structure of plan narrative with historical town financial data for context
- Developed planning and budgeting tool in order to more easily keep CIP up to date in perpetuity
- Identified longer term projects and studies
- Recommended '23 capital budget & plan to Selectboard

Capital Budget Committee work '22-'23

- Update plan with information from approved budget
- Update master asset list with additions and removals
- Update historical data in plan narrative
- Review prioritized purchases & projects with municipal staff
- Review existing debt and revised future debt service obligations
- Evaluate project financing options
- Develop '24 capital budget and plan for subsequent years for selectboard adoption



Colchester
VERMONT



Multi-Year Capital Planning and Funding

April 2022

Presentation for the Vermont Municipal Bond Bank
Capital Planning Forum



Colchester
VERMONT

Outline

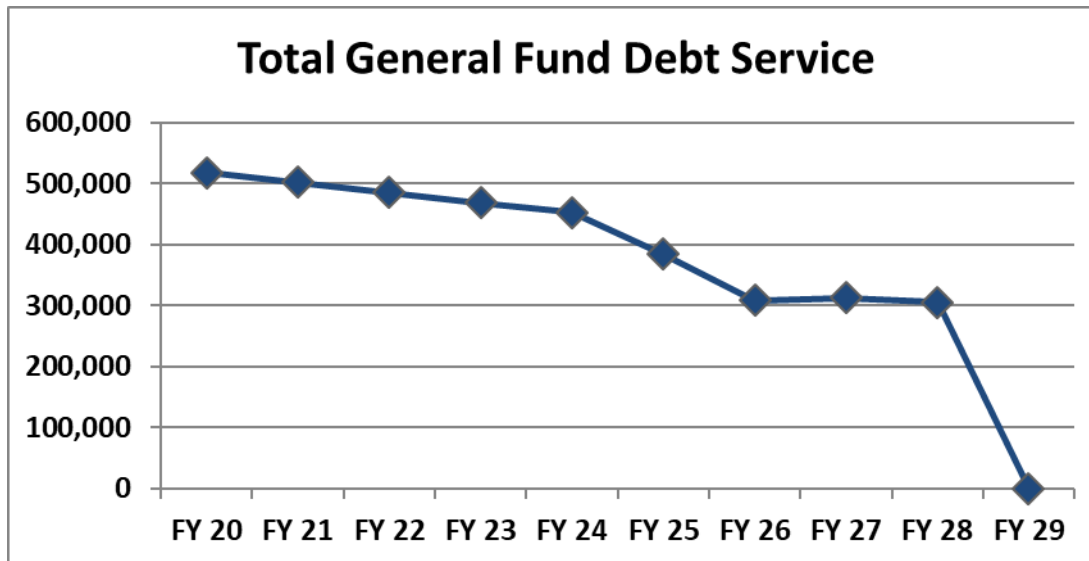
- Debt Financing
- Multi-Year Capital Plans
- Capital Planning and Approval
- Financial Aspects





- **General Fund Debt Financing**

- \$409,000 annually or \$2.3M in total GF debt.
- Debt Funds Town Hall, police bldg. rehab, DPW bldg., land near lake, drainage project, & efficient streetlights
- Voter approved
- Debt is paid with Local Option Tax revenues





Benefits of Multi-year Capital Funding Approvals

- Provides consistent funding for capital needs
- Reduces pressure to defer capital in favor of operating expenses
- Avoids need for bonds, loans and interest cost
- Pay as you go, vs. debt payments
- Avoids spikes in taxes
- Allows for grant planning





Debt vs. Multi-Year Capital Plans

“Pay As You Go” Capital Plans

- Multi-year voter authorizations
- Approved by voters on Town Meeting Day



| Local Funding Programs | Initial Year Authorized | Authorization Term Ends | Tax Rate Per/\$100 | Estimated FY23 Authorization |
|---|-------------------------|-------------------------|--------------------|------------------------------|
| Capital Vehicles, Equipment & Facilities Plan | 2014 | 2032 | \$0.0183 | 411,158 |
| Capital Transportation Plan | 2010 | 2027 | \$0.023 | \$516,756 |
| Park Capital Plan | 2011 | 2027 | \$0.005 | \$112,338 |
| Public Safety Capital Plan | 2016 | 2026 | \$0.0014 | \$30,750 |
| Technology Plan | 2015 | 2025 | \$0.0016 | \$35,000 |
| Communications Plan | 2015 | 2025 | \$0.0011 | \$25,500 |
| Bridge Fund | 2009 | 2014 | \$0 | \$0 |
| Fire Department Capital Plan | TBD | TBD | TBD | TBD |



Capital Parks Plan

What have we used it for?

- Bayside Park Dinghy Dock
- Airport Park Maintenance Building
- Village Park Trail
- Park Signs
- Airport Park Pickleball Courts
- Causeway Connector Path Resurfacing
- GreenPlay Bayside Master Planning
- Park Pavilion Roof Replacements
- Fort Ethan Allen Gazebo Repair
- All Playground Surfacing Replacement
- Park Tree Management
- FEMA Match Causeway 2018
- Bayside Activity Center Roof Replacement

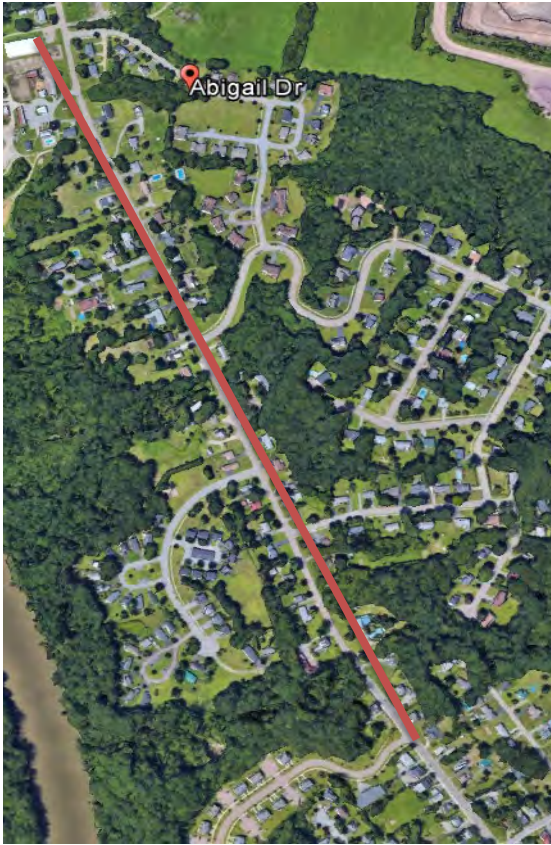




Capital Transportation Plan

What will we use it for if re-authorized?

Design of sidewalks on sections of Malletts Bay Avenue and East Lakeshore Drive. Construction will be dependent upon the availability of grant funds.



Malletts Bay Avenue



East Lakeshore Drive







Capital Transportation Plan

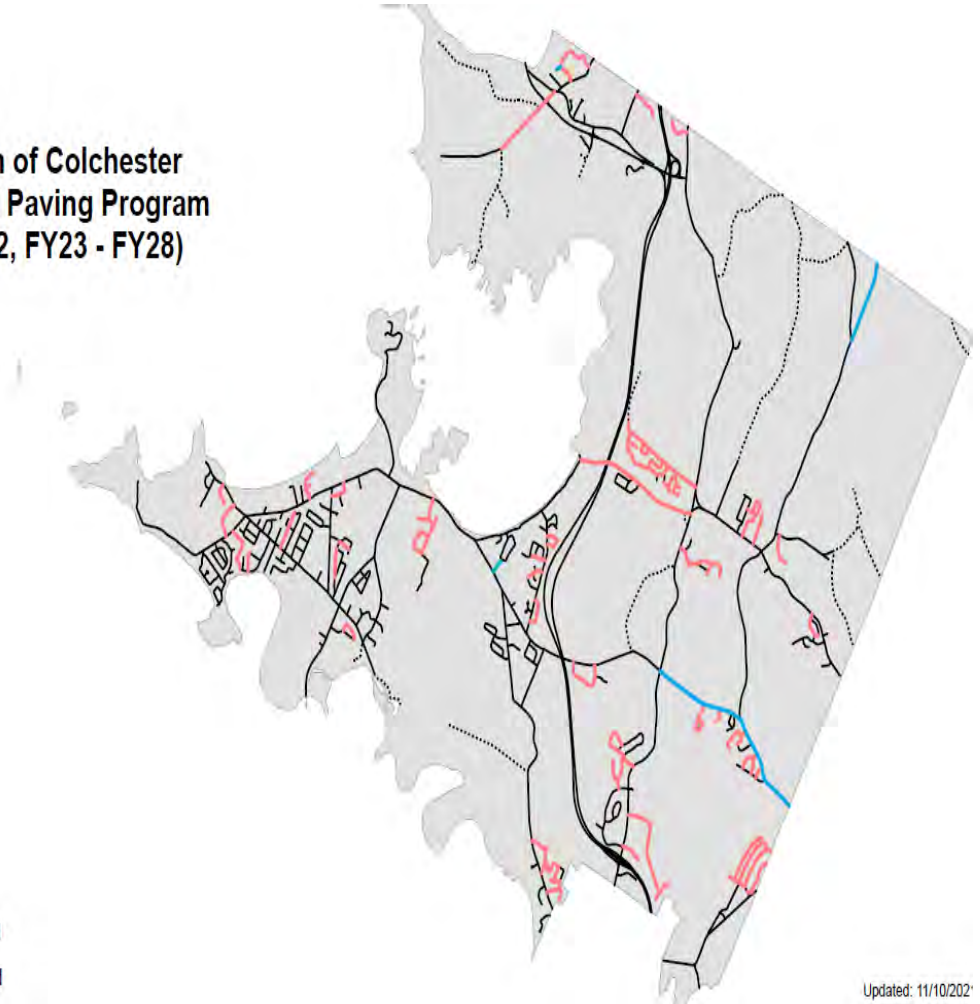
What will we use it for if re-authorized?

Paving of 62 roadways
totaling approximately 21
miles

Town of Colchester
Capital Paving Program
(FY22, FY23 - FY28)

Legend

-  FY22
-  FY23 - FY28
-  Paved Public Road
-  Gravel Public Road



Updated: 11/10/2021



Capital Funding and Approval Ballot Questions

ARTICLE for continuing a plan

“Shall the Town of Colchester reauthorize the Selectboard to maintain a reserve fund accumulating annually through the continuation of a tax rate of in the amount of \$0.0325 (three and one quarter cents) per one hundred dollars of assessed property value, for a period of six years, for the purpose of financing the Capital Transportation Program?”

ARTICLE for new plan

“Shall the Town of Colchester authorize the Selectboard to maintain a reserve fund accumulating annually in the amount of Eighteen Thousand, Seven Hundred and Fifty Dollars (\$18,750) for a period of five for the purpose of financing the Public Safety Capital Plan? ”

ARTICLE for budget

“Shall the voters of the Town of Colchester approve total general fund expenditures of Twelve Million, One Hundred Fifty-Five Thou-sand, Two Hundred Fifty-Nine Dollars (\$12,155,259), of which Ten Million, Thirty-Five Thousand, Eight Hundred and Thirty-Four dollars (\$10,035,834) shall be raised by taxes and Two Million, One- Hundred Nineteen Thousand and Four Hundred Twenty-Five dollars (\$2,119,425) by non-tax revenues for the Fiscal Year July 1, 2016 through June 30, 2017?”



Capital Planning and Approval “Capital Budget Program”

- Multi-year planning tool to identify and plan capital needs
- Identify priorities and assign available resources
- Achieves conformance to Vermont State Statutes, including the authorization to collect impact fees
- Includes
 - Vehicle and Equipment Acquisitions
 - Facility Repairs and Improvements
 - Transportation Improvements
 - Stormwater Improvements
 - Park Improvements
 - Information Technology and Communications Improvements
 - Public Safety Equipment Improvements
 - Studies and Plans related thereto



Capital Planning and Approval “Capital Budget Program”

Required by 24 V.S.A., Chapter 117, Section 4430 and 4443

Ours Includes:

- Executive Summary of Expenditures and Financial Summary
- Legal authority, program description, definition, adoption and amendments
- Prior Year Expenditures
- Program Revenues
- FY23-28 Capital Budget Program Summary by Fund Project Candidate List

Process

- Selectboard reviews plan and may revise
- Selectboard warns public hearing
- Submit to Town Clerk and Planning Commission 15 days prior to public hearing
- Planning Commission may submit a report prior to public hearing
- Selectboard may adopt after holding public hearing

Outcome

- Projects but not funding is authorized and partners are informed

A Year in Review

- Completion of Causeway Connector Path Resurfacing
- Sign Replacements in Town Parks
- Completion of West Lakeshore Drive Bike Path
- New Ambulance for Colchester Rescue
- Design of Roundabout at Bayside Intersection



Preview of Expected FY23 Projects

- Bayside Park Beach Access Stairs
- Fort Ethan Allen Perimeter Trail Resurfacing
- Airport Park Pickleball Ball Court Shelter and Access
- Paving on Severance Rd, Farnsworth Rd, Fastnet Circle and Old Sawmill Rd
- Continued design of roundabout for Bayside Intersection





Capital Planning and Approval “Capital Budget Program”

Memo To: Colchester Fire Districts 1, 2 and 3
Champlain Water District
Vermont Gas
Colchester School District

From: Aaron Frank, Colchester Town Manager

Date: January 28, 2021

Re: Colchester FY 2022-27 Capital Budget Program

This correspondence is a letter of transmittal of a draft of the Town of Colchester's Capital Budget Program for Fiscal Years 2022-27 per Title 24, Chapter 117, Sections 4430, 4440 and 4443; and Section 602 of the Town of Colchester's Charter. The Selectboard has reviewed a draft of this document at their meeting of January 26, 2021 and warned a public hearing on March 23, 2021 at 6:35 p.m. The public call-in number will be

The FY 2022-27 CBP is an important tool for the future planning, construction and provision of infrastructure improvements in support of the community. Colchester plays host to other districts and utilities and we ask for your cooperation in reviewing our plans and coordinating the timing of improvements that may be contemplated. This coordination will serve not only to avoid situations where new pavement might be torn up and a new utility improvement being put in after a major improvement, but can also assist all of us in minimizing rate spikes for our tax payers.

We value your consideration and input on this draft document and would appreciate comments either before or at the March 23rd public hearing so as to inform the Selectboard of any suggested changes prior to their finalization of the draft budget, program and plan.



Capital Funding and Approval

| TOWN OF COLCHESTER | | |
|---|-----------------------|-----------------------|
| TAX WARRANT | | |
| | | |
| | | |
| | FISCAL YEAR 22 | |
| | Expenditures | Municipal Rate |
| MUNICIPAL BUDGET | | |
| Town General Operating Budget | \$13,482,862 | |
| Reduction in Fund Balance | (\$441,000) | |
| Transfer from Other Funds | (\$281,307) | |
| Other Revenues | (\$1,451,529) | |
| Total Non Tax Revenues | (\$2,173,836) | |
| Net General Operating | \$11,309,026 | \$0.5089 |
| Debt Service | \$485,105 | \$0.0218 |
| Local Option Tax Revenue | (\$485,105) | -\$0.0218 |
| Capital Transportation Plan | \$511,172 | \$0.0230 |
| Capital Equipment and Facilities | \$406,715 | \$0.0183 |
| Approved Articles: | | |
| Technology | \$35,000 | \$0.0016 |
| Communications Plan | \$25,500 | \$0.0012 |
| Public Safety Plan | \$30,750 | \$0.0014 |
| Park Capital Plan | \$111,124 | \$0.0050 |
| | | |
| Net Municipal Liability | \$12,429,287 | \$0.5593 |
| | | |
| | | |
| Grand List Est. Adjusted for Appeals | \$22,224,870 | |



Colchester
VERMONT

Financial Aspects

| Plan | Fund Type |
|----------------------------------|---------------------|
| Debt Service | Non-Major Govt Fund |
| Capital Transportation Plan | Capital Project |
| Capital Equipment and Facilities | Reserve Fund |
| Technology & Phones | Reserve Fund |
| Communications Plan (Radio Eq.) | Reserve Fund |
| Park Capital Plan | Capital Project |
| Public Safety Equipment | Reserve Fund |

Plans

- Live for the life of voter authorization
- Have their own revenues, expenses, and balances
- They are not part of general fund fund balance
- Balances in funds would be considered committed or assigned



Colchester

VERMONT



Thank You!



Making Great Communities: A Vermont Overview

VT CAPITAL PLANNING FORUM

APRIL 7, 2022





Sharon Murray

FAICP

- Principal, Front Porch Community Planning & Design
- Bolton Selectboard
- Bolton Capital Planning Committee

Failure to plan for the future is proving to be both costly and inconvenient. . . .

Many of the improvements considered in a town plan are not self-supporting . . . there is no good reason why the municipal corporation should not hesitate to borrow in order to improve its position.

K.R.B. Flint
*Vermont Town Planning: A Program of
Civic Preparedness* (1919)





Evolving Planning Context

- **“Standard City Planning Enabling Act”** (Ch. 79)
- **HUD 701 Community Planning Grants** (1954-81)
- **VT Planning & Development Act** (1967) – Chapter 117, CB&P
- **Special Assessment Districts** (1969) – Targeted assessments
- **VT Growth Management Act** (1988) – “Act 200” goals, plan elements
- **TIF Districts** (1985) – Tax Increment Financing
- **Impact Fee Legislation** (1987) – In support of new development
- **Transportation Planning Initiative** (1993) – highways, bike/ped
- **State Designation Programs** (1997+) – Downtowns, Villages, Growth Centers, New Town Centers, Neighborhood Development Areas
“Smart Growth” principles, targeted capital investment

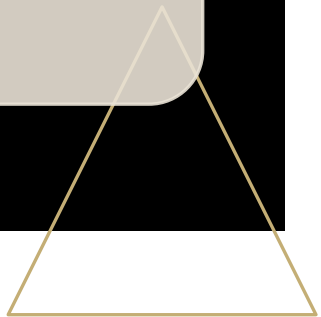


Capital Improvement Planning Purpose(s)

Plan Implementation Tool

- Achieve state planning, development goals
- Conform to and implement an adopted, comprehensive municipal plan (24 VSA Ch. 117)


Fiscal Management tool

- Inform, guide annual budgeting
 - Manage long-term municipal borrowing, indebtedness (24 VSA Ch. 53)
- 




State Planning Goal #1

To plan for development so as to maintain the historic settlement pattern of compact village and urban centers separated by rural countryside.




Public investments, including the construction or expansion of infrastructure, should reinforce the general character and planned growth patterns of the area.






State Planning Goal #12

To plan for, finance, and provide an efficient system of public facilities and services to meet future needs.



The rate of growth should not exceed the ability of the community and area to provide facilities and services.





Looking Forward: Plan “Elements”

Utilities & Facilities

Public land, facilities, utilities,
infrastructure

Priority needs, costs,
methods of financing

Educational Facilities

Public school system
facilities, uses

Transportation

Highways, bridges,
recreation paths, sidewalks,
public transit

Priority needs

Land Use

Planned pattern, type,
density of land subdivision
and development

Flood Resilience

Mitigation strategies, critical
infrastructure, municipal
investment

Implementation

Strategies, Actions
Responsibilities



Capital Budget & Program (24 VSA § 4430)

Capital Budget: List and description of capital projects to be undertaken during the coming fiscal year.

Capital Program: Plan of capital projects to be undertaken during each of the following five years.

“Ch. 117” Capital Budget & Program

Intended to conform to and implement the municipal plan

May be prepared by the Planning Commission

Must include a list of capital projects, in order of priority

Adopted, amended, or repealed by the Legislative Body – following public hearing *if* a utility and facility plan is in effect

Planning Commission hearing report; annual updates/recommendations to the Legislative Body (optional)



CB&P must include, for each capital project:

Description of the proposed project (type, useful life, priority of need)

Estimated total cost

Proposed method(s) of financing

Estimate of the effect, if any on municipal operating costs



Capital Project, Improvement, or Asset?

CAPITAL PROJECT (CH.117)

24 VSA § 4430 (Capital Budget, Program)

- Land or rights in land
- Any physical betterment or improvement, including associated furnishings, machinery, apparatus, or equipment when first constructed or acquired
- Any preliminary studies and surveys relating to any physical betterment or improvement
- Any combination of the above

CAPITAL IMPROVEMENT (CH. 53)

24 VSA § 1751 (Indebtedness)

- Acquisition of land for municipal purposes
- Building construction, extensions, additions, remodeling, improvements
- Furnishings, equipment, apparatus to be used for or in connection with an existing or new improvement
- Purchase or acquisition of other capital assets in connection with any existing or new improvement
- Renewable energy project

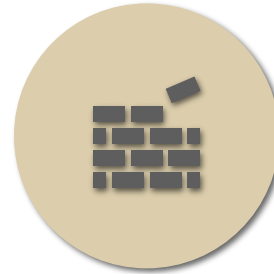
Capital Project/Improvement



Land



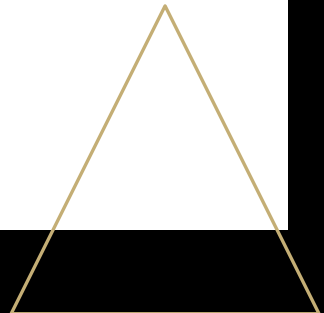
Infrastructure



Facilities



Equipment



Capital Financing Options

CAPITAL PROJECT (CH. 117)

24 VSA § 4430 (Capital Budget, Program)

- Direct appropriations
- Reserve funds (statutory, voter approved)
- Federal or state funding
- Impact Fees
- Issuance of debt obligations (type, period)

CAPITAL IMPROVEMENT (CH. 53)

24 VSA § 1751 (Indebtedness)

- Bonding, as approved by voters
- Other debt instruments, as approved by voters
- Alternative forms of financing –e.g., leases, lease-purchase agreements, installment sales agreements, as an annual operating expense
- Tax increment financing (statewide, local)



Benefits/Uses

Growth Management

Development phasing,
reserve capacity
allocations, permit caps

Impact Fees

Required to calculate, levy
impact fees on new
development

State Designation

Required for Downtown,
New Town Center,
Growth Center
designations

Act 250

“Fiscal Criteria”
Criterion 10 –
conformance with
municipal plan *or* capital
program

TIF District

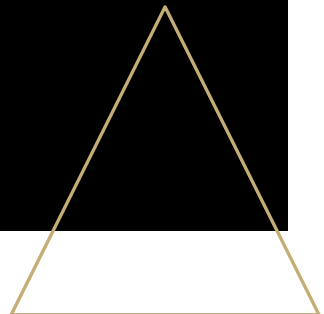
Required, Financial Plan

Fiscal Management

Annual Budgeting
Long-term Debt

Asset Management

Inventories, assessments,
scheduled maintenance,
replacement,
improvements



Planning Considerations

- Who's Responsible? – Staff, Planning Commission, Budget Committee, Legislative Body ...
- Intended Use?
- Official Map...
- Municipal Priorities?
 - Municipal Plan
 - Staff
 - Legislative Body
- Community Buy-In/
Engagement



Fiscal Considerations

- Tax Base, Borrowing Capacity
- “Useful Life” – Depreciation
- Lifecycle, operating, disposal costs
- Fiscal Policies – Fund Balance, Reserve Funds, Debt Service, Procurement, Asset Management, Capital Planning
- *Who pays v. who benefits?*
 - Current residents/taxpayers
 - Future residents/taxpayers
 - Public/private partnerships





Evolving Community Considerations

- Equity & Environmental Justice
- Housing – Land, infrastructure, rehab, weatherization
- Brownfield, Grayfield Redevelopment
- Broadband Deployment
- Renewable Energy Development – solar, EV charging
- Clean Water Initiative – roads, stormwater management
- Community Health – complete streets, civic space
- Community Resilience – hazard mitigation
- Land Conservation –working lands, biodiversity, climate



Planned Community
Investments...



Works in Progress...

Great Communities!





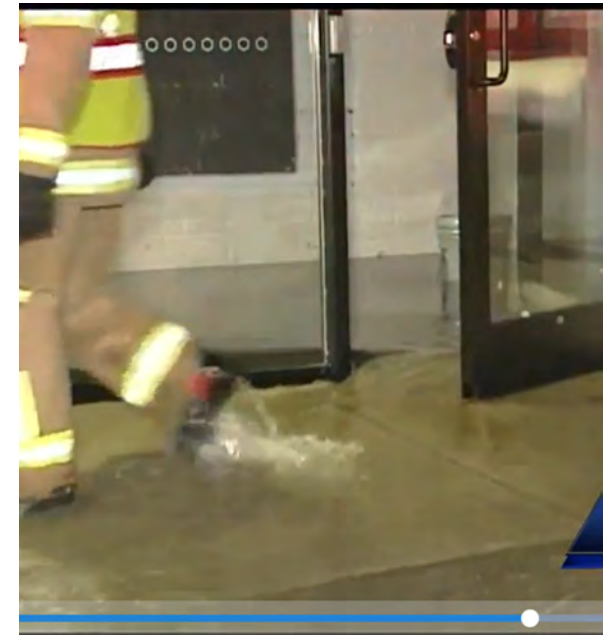
Capital Planning





Why is the Capital Plan so important to a community





Start from somewhere...wherever you are

Embrace Opportunities to Communicate & Educate
(especially when stuff breaks)



Connect, Engage, Listen:
What do you want your community to look like?

The foundation is the vehicle for the vision





Plan



Build funding momentum
with successes



Be realistic, and explain
financial realities

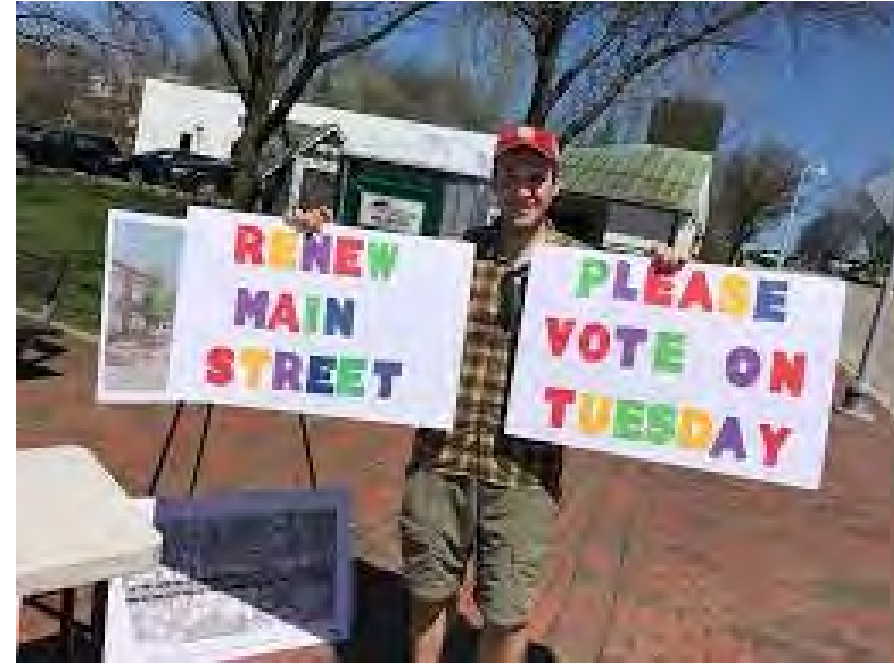


A plan's success is only as good as the narrative

The power of a clear narrative & goals



Turing plans into action takes consistency, tying initiatives together, and ensuring your plans work in concert together



Votes tell you more than yes or no





City of Winooski – Capital Plan Components

Capital Plan – Policies

Capital Improvement Policy
Debt Policy

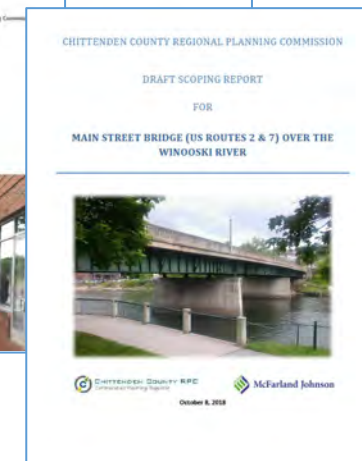
Examples;

- Capital asset definitions
- Ranking criteria
- Criteria for presenting this information to the public
- Debt limits

Existing Assets - full inventory with anticipated replacement year and expense forecast.



New Capital – driven by community planning effort – Masterplans, Scoping Studies, etc...



City of Winooski – Capital Plan Components



City of Winooski
FY23 GENERAL FUND CAPITAL PLAN

Department: Public Works

Project:
FY23 Annual Street Resurfacing

Location: See enclosed map

Description:
Annual street resurfacing program in order to provide an improved roadway surface for motorized and non-motorized traveling public. Work includes milling and replacement of the top 1.5 inches of pavement and crack sealing for pavement preservation

Financing Type: Capital expense
Total Estimate: \$124,866
Quote/Estimate Obtained? Y-internal

Financing:

| | |
|--------------------------|----------|
| Capital Reserve Usage: | \$36,112 |
| Grant Award Estimate: | \$0.00 |
| Total Budget Yr. Expense | \$88,754 |

Timeframe:
July 2022 – October 2022

Strategic Vision Area and Strategy:
Municipal Infrastructure

Supporting Documents:
- Current street condition map and targeted resurfacing

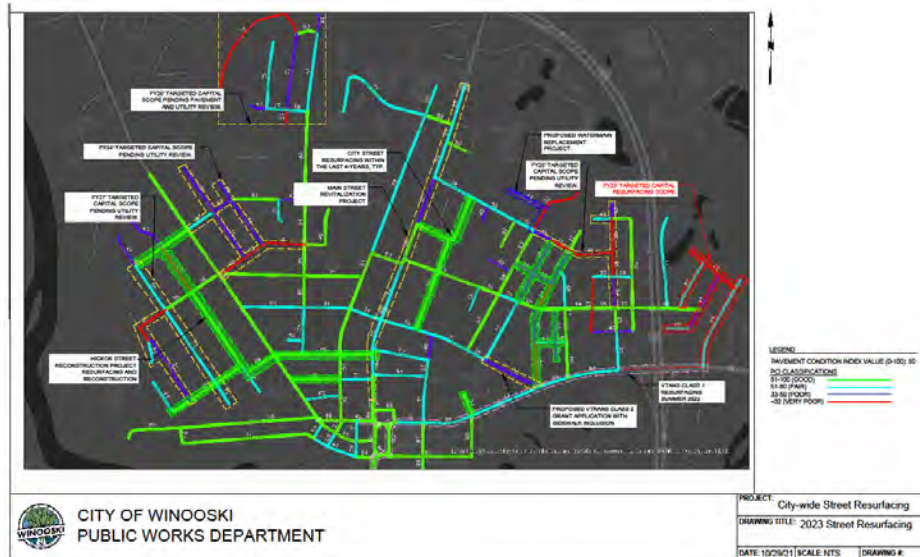


Capital Project Review

1. Is this replacement or repair of an existing City asset?
Yes
2. Describe the project/asset's relationship to Policy, Priorities and Strategies work plan?
NA
3. Describe how the project supports the City Masterplan goals or other City adopted planning documents?
Goal 4 – Maintain streets...for safety and convenience for all users at all times of the year.
4. Is the project required to meet a regulatory requirement?
No
5. Will the project mitigate a safety concern?
Yes, identified streets for resurfacing are in poor condition. Resurfacing these streets will provide a safer travel corridor for the motoring and non-motoring public.
6. Will the project improve or maintain service delivery?
Yes, resurfacing of the identified streets will provide improved service delivery. (ex. snow plowing, street sweeping, etc.)
7. Will the project improve the quality of the existing infrastructure? Yes
8. Additional Information:
NA

Example Capital Plan project summary page in budget book Includes;

- **Project summary** (description, cost, finance type, etc)
- **Ranking criteria based on City priorities, examples:**
 - Mitigates or eliminates a safety issue?
 - Improve the quality of existing infrastructure?
 - Fulfill the need of an underserved population or area of the City?





City of Winooski – Why is a Capital Plan critical to a Healthy Community

- **Small city big capital needs requires a detailed and community driven capital planning effort** (\$±8.2M General Fund ops budget, \$±1M General Fund Capital budget)
- **Transparent and clear capital planning process to promote community engagement**
- **Provides added support for grant funding opportunities that allow our community to continue to grow and transform.**



Office of the Vermont State Treasurer

Capital Expenditure Cash Fund, Bonds and Capital Projects Fund

Presentation to the
**House Committee on Corrections and
Institutions**

February 2, 2022



What is Pay-Go?

- Pay-Go is a very simple concept—paying for a portion of capital projects with cash as opposed to bonding.
- Pay-Go may include additional resources and/or utilizes existing funds set aside for this purpose.
 - The State uses excess dollars in the TIB revenues (after depositing required funds for the debt service reserve fund, for pay-go projects).
- In some cases, those funds are replenished by future revenues, although there are one-time examples.
 - Vermont did have one such example tied to the CDAAC process. A sizeable amount of the CDAAC \$34 million authorization for FY2001 was paid down through pay-go funding using surplus funds.

The Context: Revenues vs. Financing

- Bonding or financing is often mistakenly seen as a source of revenue.
- **Financing** involves the use of strategies, including bonding, that capture or leverage the value of a stream of revenue and then paying over time for the current use of those future revenues.
- **Funding** refers to the generation of revenue through various means such as taxes, fees, and licenses as well as identification of existing sources that may be redirected or the use of reserves/surplus funds.

Bonding and Pay-Go

- Bonding makes sense when:
 - Costs are saved through accelerated construction
 - inflation and preventative maintenance exceed the interest paid on the funds.
 - Quantifiable economic benefits exceed the cost of borrowing
 - A future identifiable and available revenue source exists to pay for the bonds
 - Intergenerational Equity
 - Pay-Go funds are not available

But.....

Pay-Go Cash Options Can Save The Taxpayer Money

- Reduce interest costs associated with bonds.
- Bond interest payments impose a real cost to the State.
- Even when the interest environment is favorable, bonding over a 20 year period is expensive.
- Estimated that G.O. debt interest costs are at least \$400,000 for each \$1 million of debt at current rates.
- Bonding involves moving a future stream of revenues to current use.
 - Bonding will result in there being less funds available for other future uses.

Recommendation: Create a Fund to Accumulate and Utilize Pay-Go Dollars

Capital Expenditure Cash Fund (CECF)

- Accumulates cash reserves for future capital needs
- Get projects off the ground
- Interest is accrued in the fund – invest a portion of the fund in the Trust Investment Account (TIA)
- Pay for expenditures that may not represent the optimal use of bonds

Bottom Line....

**Earn interest rather than paying
interest through bonds**

Eligible Expenses per Proposed Statute

- Costs associated with a proposed capital project that occur prior to the construction phase of that project, including but not limited to feasibility, planning, design, engineering and architectural costs.
- Projects with an anticipated lifespan less than 20 years.
- Other eligible capital projects or debt service expenditures as recommended by the Governor or appropriated by the General Assembly.

Same Capital Budget but Another Source
of Funds

Source of Funds

- One-time appropriations
- The value of future debt service payments (principal and interest) avoided from bonds that have been redeemed at a call date.
- A set amount each year appropriated though debt service with surplus going to Capital Expenditure Cash Fund.
- Others:
 - Grants and donations
 - Transfers from the General Fund
 - Unexpended balances from completed capital projects (cannot be bond proceeds)
 - Interest on investments
 - Year-end surpluses or from reserves

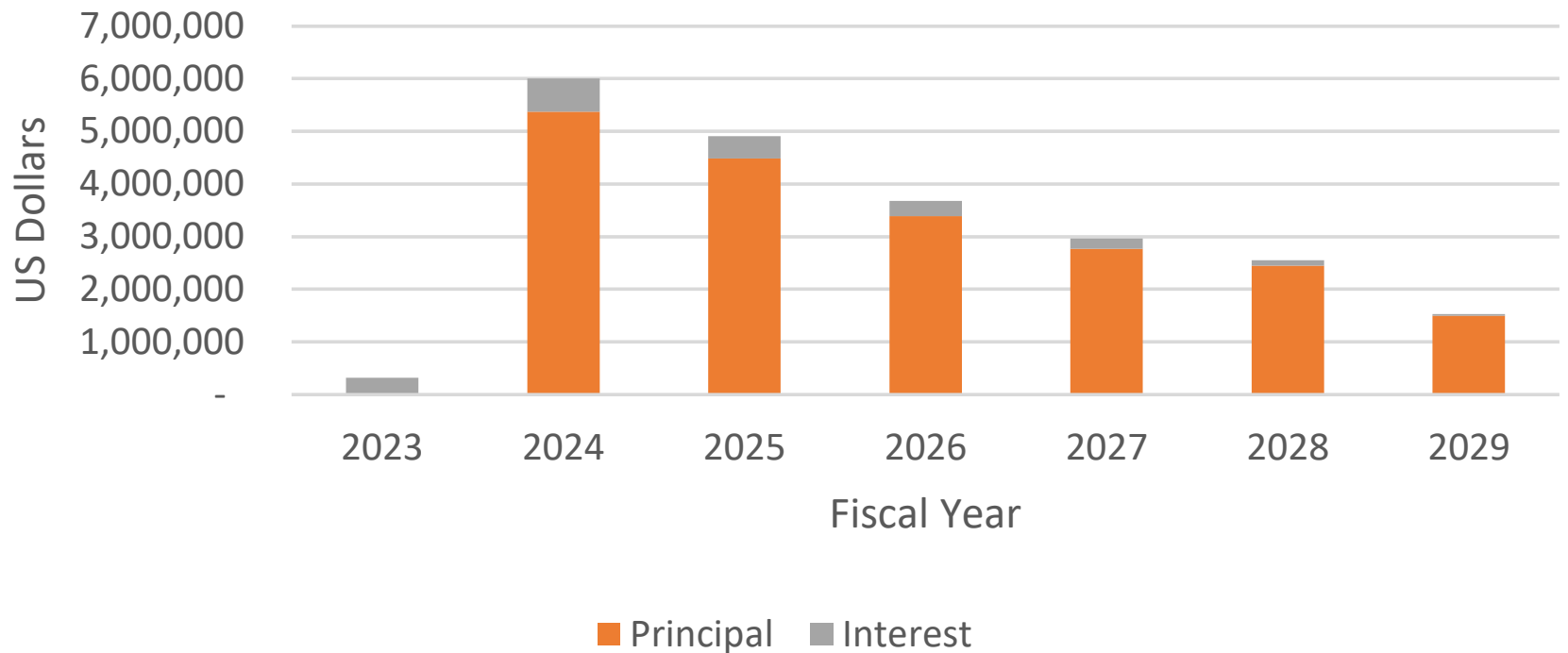
Set Amount Each Year Appropriated: Process

- Establish a baseline debt service appropriation as a percent of general fund budget.
- Appropriate that amount each year:
 - The amount that is not needed for debt service can be transferred to the CECF.
 - If the debt service appropriation is not sufficient in a given year, and once the fund is established, then CECF funds can be used to supplement the appropriation.
- Stabilizes base annual appropriation for debt service.
- More predictable appropriation, without fluctuations from year to year depending on timing of debt service payments.

Current Proposal for Start-Up:

- Appropriate \$20 million to redeem bonds with call dates in FY23.
- Use any debt service payments avoided through the early redemption of State bonds or notes before maturity as pay-go funds to defray the costs of future capital expenditures.
- \$6.2 million General Fund transfer

Estimated Debt Service Reductions Resulting from calling \$20m in G.O. bonds



Source: Finance & Management, data from Treasurer's Office and Public Resources Advisory Group (PRAG)

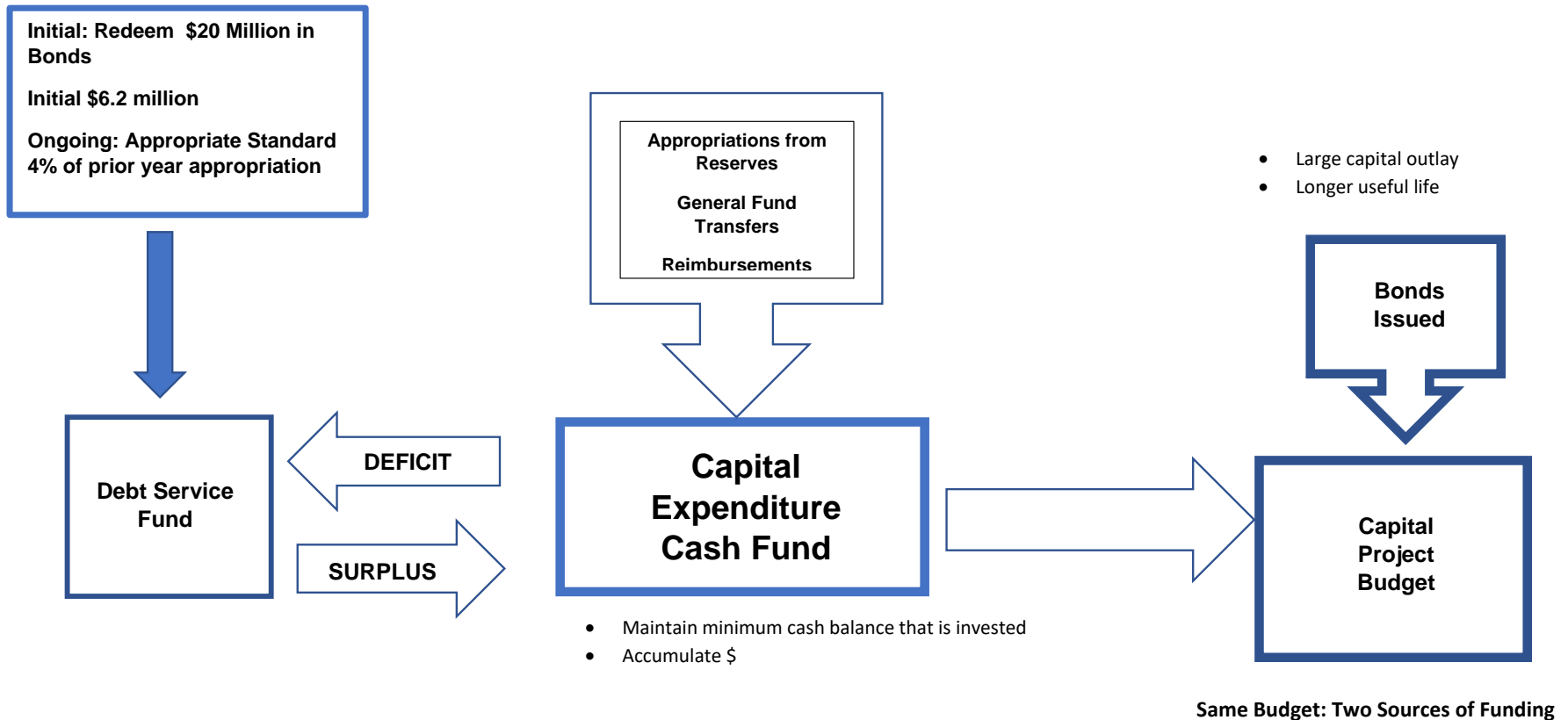
CECF Uses (dos and don'ts)

- Do use it for:
 - One-time projects and smaller dollar amounts
 - Construction feasibility studies
 - Capital projects as an alternative to debt
 - Treasury Recommendation: Establish a policy that Pay-Go is used as option of first choice, as funds are available.
 - Example (subject to revision): “whenever possible, capital costs should be financed by means other than borrowing and should utilize pay-as-you-go methods such as regular contributions from the General Fund and funds in the Capital Expenditure Cash Fund (CECF). down payments from operating funds”
- Don't use it for:
 - Operating expenses
 - It should not be in addition to the amounts recommended by CDAAC (the idea is to reduce reliance on debt, not to supplement it)

Exercise Discipline to Maintain Balance

- Maintain a balance for future use
- Earn interest on balance
- Need to establish withdrawal policy so that CECF funds are not depleted
- Possible Options:
 - Similar to Higher Education Trust Fund in Statute: Appropriations from the CECF do not exceed interest income on accumulated principal deposited into the fund
 - Or set a minimum balance in the fund and/or limit the percentage of CECF funds that may be appropriated in a given year.
 - Other options for consideration with the Administration and General Assembly

Model: Capital Expenditure Cash Fund, Bonds and Capital Projects Fund



Advantages:

- Lower interest costs associated with bonds
- Stabilizes annual appropriation for debt service – more predictable appropriation
- Reduces debt financing costs
- Accumulates cash reserves for capital needs
- Get projects off the ground
- Accumulates funds for future projects
- Interest is accrued in the fund
- **More Projects with Less Dollars**

National Trend: Increasing Use of Pay-Go Funds to Pay for Capital Projects

The National Association of State Budget Officers (NASBO) reported capital spending increased by 10.3% (reaching \$126.6 billion) in fiscal 2020 from the year prior, the highest level in 20 years.

Pay-Go has grown to 74% of state spending on capital expenditures in fiscal 2020. The distribution of those dollars by fiscal year is as follows:

| Total Capital Expenditures by Funding Source | | | | | | |
|---|--|---------------------------------------|---------------------------------------|--|--------------|--|
| Year | General Fund Cash Resources | Other State Cash Resources | Federal Cash Resources | Total Cash/Pay-As- You-Go | Bonds | |
| 2020 | 5.6% | 42.6% | 25.8% | 74.0% | 26.0% | |
| 2015 | 5.3% | 34.7% | 28.1% | 68.1% | 32.0% | |
| 2010 | 4.8% | 30.8% | 26.8% | 62.4% | 37.6% | |
| 2005 | 4.4% | 36.8% | 27.2% | 68.4% | 31.6% | |

Examples of State Initiatives

- In 2014, the National Association of Budget Officers (NASBO) completed a study, “Capital Budgeting in the States”. While somewhat dated, it contains data on Pay-Go financing. Findings include:
 - 22 States have either formal or informal Pay-Go policies
 - In many states, Pay-Go is the norm with little or no issuance of bonds (Alaska, Iowa, Missouri, Nebraska, and North Dakota). Some have statutory prohibitions (Nebraska) except in certain conditions.
 - West Virginia uses lottery receipts to fund the School Building Authority

Table 35: Financing Capital Projects

| State | State Maintains a Formal or Informal Pay-As-You-Go Policy for Financing Capital Projects | Additional Explanations on Formal or Informal Pay-As-You Go Policies and Bond Financing Capital Projects |
|----------------------|--|--|
| New Mexico | | General obligation bonds are limited by policy to 10 years, and only 10-year bonds are issued. Severance tax bonds are statutorily allowed to be issued for up to 10 years, but the Board also routinely issues short-term severance tax notes to use additional severance tax revenues to finance capital projects on a pay-as-you-go basis. |
| New York | | Based on availability of funds and type of project. |
| North Carolina | X | Historically, capital improvement projects have been funded with tax revenue over collections and/or state agency reversions. |
| North Dakota | X | Debt is incurred for capital projects only when current state general and special fund revenues are inadequate to meet the capital budget needs. |
| Ohio | | |
| Oklahoma | X | |
| Oregon | | As the primary landlord for state agencies, the Department of Administrative Services (DAS) traditionally funds certain types of capital projects on a pay-as-you-go basis using rent revenues. Such projects include major building envelope repairs, roof or carpet replacements, HVAC system upgrades, etc. |
| Pennsylvania | X | Only for projects financed by general revenues; included within the Governor's Executive Budget. |
| Rhode Island | X | Constitution establishes the Rhode Island Capital Plan Fund which is to be used for pay-as-you-go capital projects. Funding is derived from surplus funds in the Budget Reserve (rainy day) fund per prescribed formula. |
| South Carolina | X | For projects not funded with some sort of bond funds, the funding for the projects must be available to the agencies or institutions at the time the projects are approved. Projects cannot be approved for construction with the promise of funding at a future time. Therefore, when projects are submitted for approval by Joint Bond Review Committee and Budget and Control Board, the agency submitting it must already have the availability of the funds for expenditure before the construction budget is approved. |
| South Dakota | | |
| Tennessee | | |
| Texas | X | Article III, Section 49a, of the Texas Constitution sets out the "pay-as-you-go" limit. It requires that bills making appropriations be sent to the Comptroller of Public Accounts (CPA) for certification those appropriations are within available revenue. Capital projects must be within this "pay-as-you-go" limit as well when they are part of appropriations. |
| Utah | | |
| Vermont | X | Informal—situational. |
| Virginia | | |
| Washington | | |
| West Virginia | X | School Building Authority - \$22.0 million of Lottery appropriations are designated "Pay As You Go". |
| Wisconsin | | |
| Wyoming | | |
| District of Columbia | X | Certain identified dedicated revenue streams are moved through Paygo to capital projects during formulation. Further, we use available/unneeded operating budgets and transfer the budget through Paygo to capital projects. |
| Total | 22 | |

NASBO prepared a table identifying the 22 states having a policy (formal or informal) and a brief description of these.

Vermont listed as “informal”- possibly related to transportation funding.

North Carolina had a recent legislative effort to develop a Pay-Go model for school construction to lower the interest costs and move projects at a more rapid pace. At this time, additional research is needed to assess outcome of that effort.

Other State Initiatives

- **Maryland:** After funding of reserves and other statutory funds, funds are credited to a newly created Fiscal Responsibility Fund, which the Governor must use to provide Pay-Go appropriations for public school, community college, and four-year higher education projects.
- **Montana:** Recently, the state implemented new legislation that requires the governor to propose in his budget that 1% of the budget go towards a Capital Development Fund.
- **Louisiana:** The State Constitution sets out requirements for the use of non-recurring funds. After meeting certain statutory reserves requirements and deposit into pension funds, the balance is to be applied towards additional deposits to the Budget Stabilization Fund or unfunded accrued liability of the Louisiana retirement systems, retiring or defeasing bonds, funding capital outlay projects, or deposit into the Coastal Protection and Restoration Fund.
- **New Hampshire and Connecticut,** among others, authorize the creation of capital reserves that can be used to fund Pay-Go capital projects

Municipalities

- In the analysis, Treasurer's Office looked at the Pay-Go strategies of the following Connecticut municipalities:
 - West Hartford
 - Tolland
 - Simsbury
 - Cheshire
 - Glastonbury
 - Westbrook
 - Wallingford
- Pay-Go funds permit more flexibility in paying for capital budgets, serve as a source of pay-as-you-go funding, and provide dollars for emergency projects.



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Municipal Asset Management Capital Improvement Planning

Brad Harris - Finance and Accounting Consultant

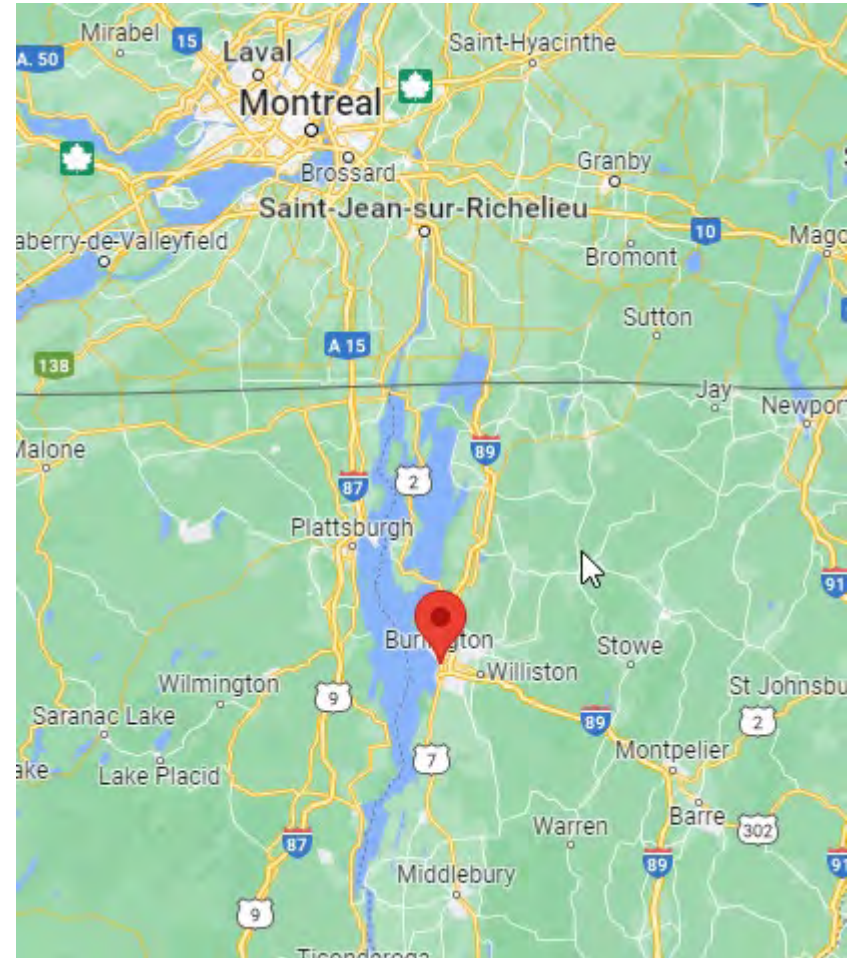


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Vermont – The Green Mountain State

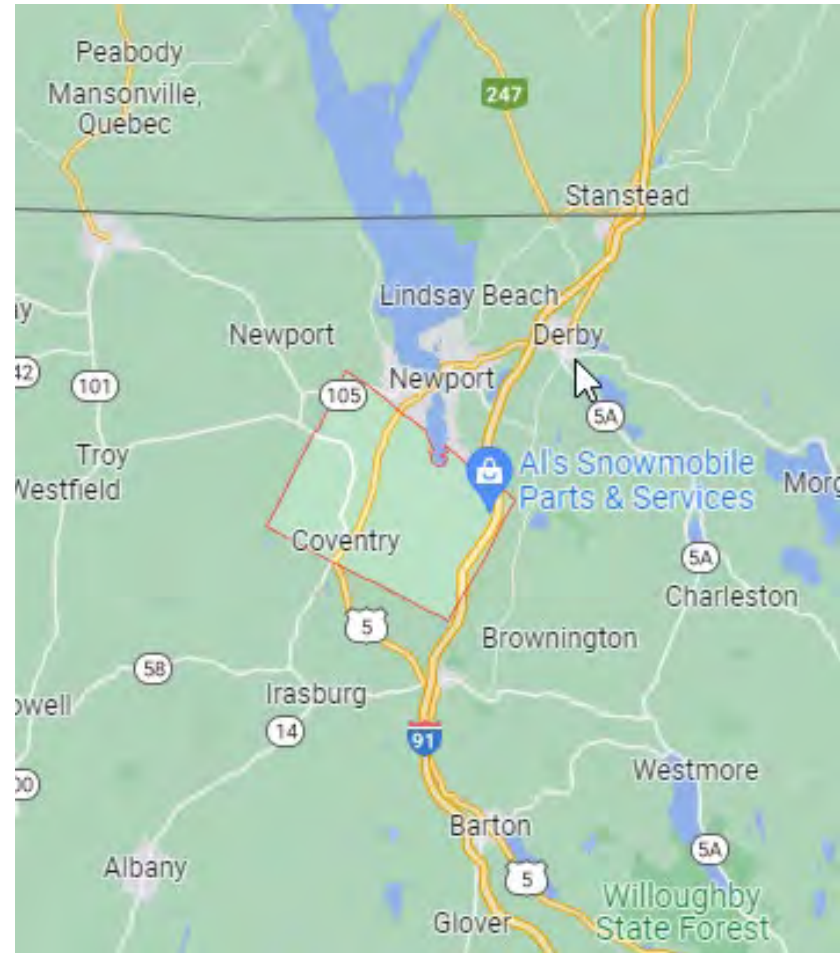


Burlington – 42,645



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Coventry - 22



Vermont = 626,989 population

AVG = 5,181/city



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Tennessee – The Volunteer State



Memphis = 633,104

AVG = 20,522/city

Cottage Grove = 66



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Something to Ponder

“Rarely does a resident of any of the world’s great metropolitan areas pause to consider...the myriad of systems that operate around the clock to support it...even the most mundane tasks would be impossible without the far-reaching, complex, and often invisible network of infrastructure that support them.”

The Works: Anatomy of a City

Kate Asher

2005.



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Purpose of a City

- Cities and towns exist to provide various services to the citizens.
- These services include public safety, ease of business, education, and quality of life issues.
- Services require Assets.



- Capital budgeting is a process of compiling the capital needs of the city, evaluating, assigning priorities, and scheduling of these over a period of time according to the city's ability to pay.
- Usually, a capital budget covers a period of 5 – 10 years. It is updated annually as each year is "lifted" from the capital budget and included in the city's current year budget.



What is an Asset?

- Broadly defined as “a useful or valuable item or person.”
- An asset can be tangible or intangible.

Tangible

- Buildings
- Vehicles
- Roads
- Bridges
- Pipelines
- Equipment

Intangible??

Property Rights

- Easements
- Leaseholds



What are the Assets?

- City Hall
- Park and Recreation
- Police
- Fire Service
- Public Works
- Utilities

What are common assets between departments?



Capital Asset

- Capital assets are those assets that are used in operations and have an estimated useful life exceeding 1 fiscal year and exceed an established capitalization threshold (land, buildings, infrastructure, plant, vehicles, equipment, etc.).



Useful Life guidelines from the Tennessee Water and Wastewater Financing Board and the Utility Management Review Board

- Buildings (Office and Plant) 30-50
- Equipment and Tools 10-15
- Furniture and Fixtures 5-10
- Machinery, Equipment and Vehicles 5-15
- Pumps and Treatment Equipment 15-20
- Transportation Equipment 5-10
- Water Lines and Storage 40-50



Municipal Assets

Visible



Not so Visible



Assets are impacted by:

- Normal wear and tear
- Weather & Climate
- Accidents, abuse, vandalism
- Age



Roles

Leaders & staff must take care of the citizen's property!

It is a stewardship role.

Caring for community property.

Long life, generally, means economy



Asset Management

Asset management is a process to properly maintain your assets, judge the assets current condition, determine when replacement is necessary and properly budget for the expense.



Asset Management Plan ie., Capital Improvement Plan

- An approach of making decisions on the care, repair and replacement of valuable items owned by a municipality.
- A good asset management plan provides the opportunity for the best return of the money spent by the municipality on assets purchased.



Asset Management definition From the TN Infrastructure Scorecard, October 25, 2020.

Asset management can be defined simply as:

- Understanding what and where your current utility assets are,
- Ensuring a high level of customer service by actively operating, maintaining, and repairing current assets, and
- Working to identify and prepare for future service needs and potential critical asset failure.



Capital Improvement Plan

An Good Plan consists of:

- Asset Inventory of the department.
- Condition of the assets within the department.
- What are the critical assets of the department?



Why is it important to properly maintain capital assets?

- You want them to last as long as possible
- Longer life means cash savings
- ... and less debt
- ... and less interest expense



Asset Inventory List

- Asset name and number
- Asset location and department
- Model number and serial number
- Purchase date
- Purchase cost



Asset Inventory List Continued

- Estimated life span in years or number of hours
- Current condition
- Priority
- Possibility of failure
- Any other information you think may be beneficial

Every Asset should have a maintenance record on file. This data can be very helpful in making decisions.



Condition of Asset

- The assets of each department should be evaluated on a regular basis to establish their condition of operation.
- This could be done by staff, or it may require an outside professional's help.



Critical Assets

- Determining what are the critical assets within a department can be difficult.
- The determination must be made by a group of knowledgeable people who understand that department.
- An outside party may be necessary to assist in the process.



What Level of Service is Acceptable?

- Are potholes and buckled sidewalks acceptable?
- What level of turf care is needed for parks and city lawns?
- What is the capacity and care of the stormwater drains?



- How reliable do you want your drinking water system?
- What level of drinking water purity do you want?
- Will citizens accept sewage backups and overflows?



- What is an acceptable police or fire service response time?
- Is it acceptable to have fire & police vehicles out-of-service?
- Do the roofs on city building leak?
- How secure is the city's electronic infrastructure?



Capital Improvements Plan (CIP)

- The purpose of a CIP is to **identify capital improvement projects, identify and forecast funding sources, prioritize improvements based on funding available**, and estimate a timeline for completion of individual improvements.
- The CIP is normally projected for the next 5+ years.



Sample specific Plans

- Pavement management plan
- Vehicle replacement plan
- Office equipment replacement plan including software
- Water meter changeout plan
- WHAT ELSE??



Who should be involved in preparing a CIP?

The best answer is... **EVERYONE!**

- Employees
- Finance
- Department Heads
- Citizens
- Governing Body (ultimate decision)



Questions for Department Heads

- What is the general appearance of your assets?
- What is the operational condition of your department's assets?
- What are your most critical assets and are they reliable?
- What are the “single point of failure” assets, and are they reliable?



- What are your short-term and long-term maintenance needs?
- Are there adequate resources available to meet the requested level of service?
- Do staff and maintenance personnel have the skills, training and resources to perform the needed asset maintenance?
- Does the department have a capital budget?



Critical Decisions

- What needs to be replaced?
 - prioritizing most critical needs
- When does it need to be replaced?
 - Are we using a good 5-10 year plan?
 - Has it been updated recently?
- How are we going to fund the replacement?
 - Pay-as-you-go
 - Pay as you use



Some additional resources...

<https://www.mtas.tennessee.edu/reference/developing-capital-budget>

<https://icma.org/documents/involving-citizens-capital-improvement-planning-process>

<https://icma.org/documents/capital-improvements-planning-neglected-priority>

<https://www.gfoa.org/materials/capital-asset-management>

<https://www.gfoa.org/materials/strategies-for-establishing-capital-asset-renewal-and>

<https://www.gfoa.org/materials/role-of-the-finance-director-in-capital-asset-management>



Thank you for your time and
participation!!

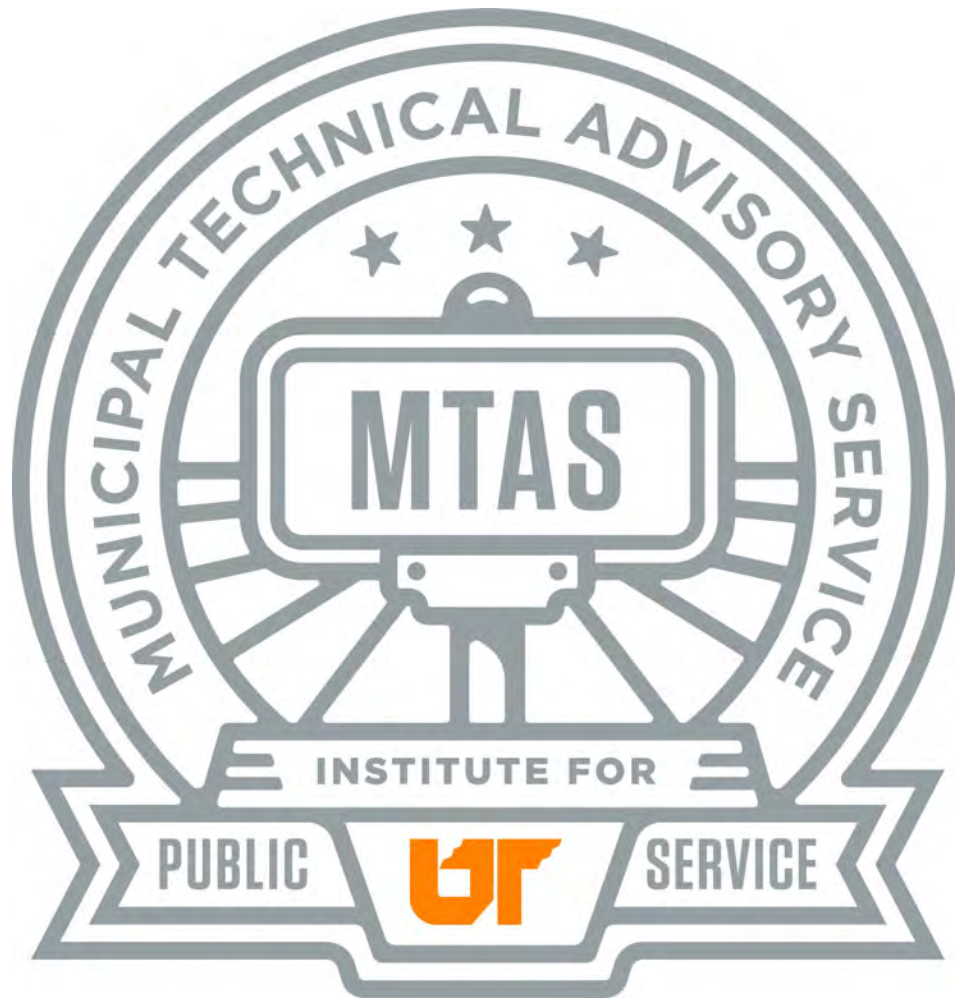
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MTAS MISSION: We work with Tennessee municipalities to improve the lives of those they serve.