



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Supporting a Commonwealth of Communities

The Nuts and Bolts of Capital Planning

*Presented by
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April 13, 2023

Today's Goals

- Learn about DLS & FMRB
- Nuts and Bolts of Capital Planning
 - Essential Concepts
 - Who's Responsible
 - Components
 - How to Fund
- Tools and Resources
- Reality Check



Division of Local Services

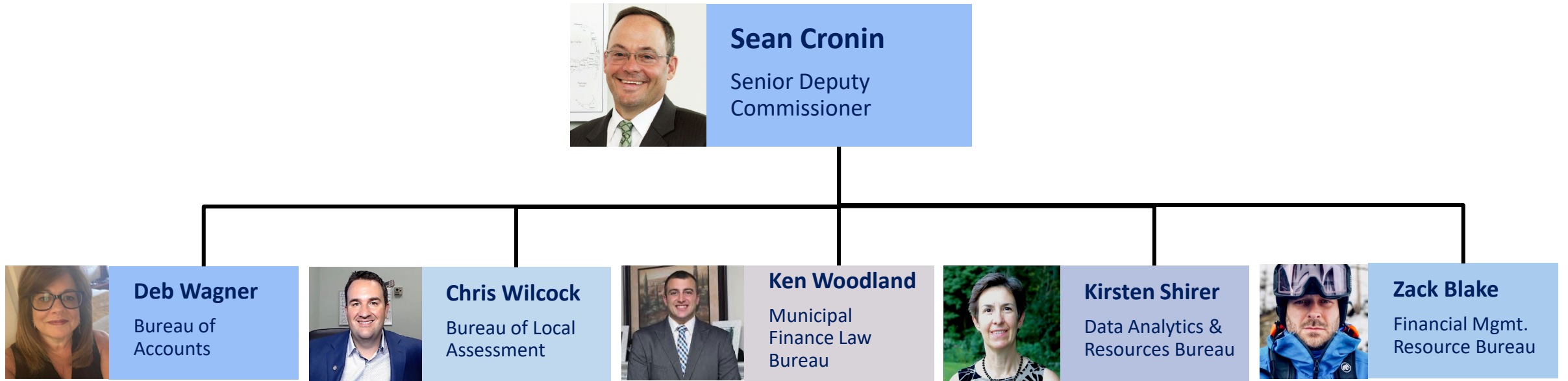
The Division of Local Services (DLS) provides oversight to assist Massachusetts cities and towns in the achievement of sound and efficient fiscal management

DLS is responsible for:

- The accuracy and quality of local accounting and treasury management
- Ensuring the fairness and equity of local property assessment and taxation
- Distributing local aid
- Maintaining a comprehensive databank on local finances
- Interpreting state laws that govern local finances
- Technical Assistance & Training



Organization





Financial Management Resource Bureau

The Financial Management Resource Bureau (FMRB) advises cities and towns on opportunities to improve their financial management operations:

- **Our project management team brings real-world experience and practical advice to every assignment**
- **We collaborate with other DLS bureaus and state agencies (like MassIT) to provide comprehensive guidance and tools**
- **Whether your community is facing a particular issue, would like to implement a best practice, or could benefit from a general assessment of its financial condition, we can assist**



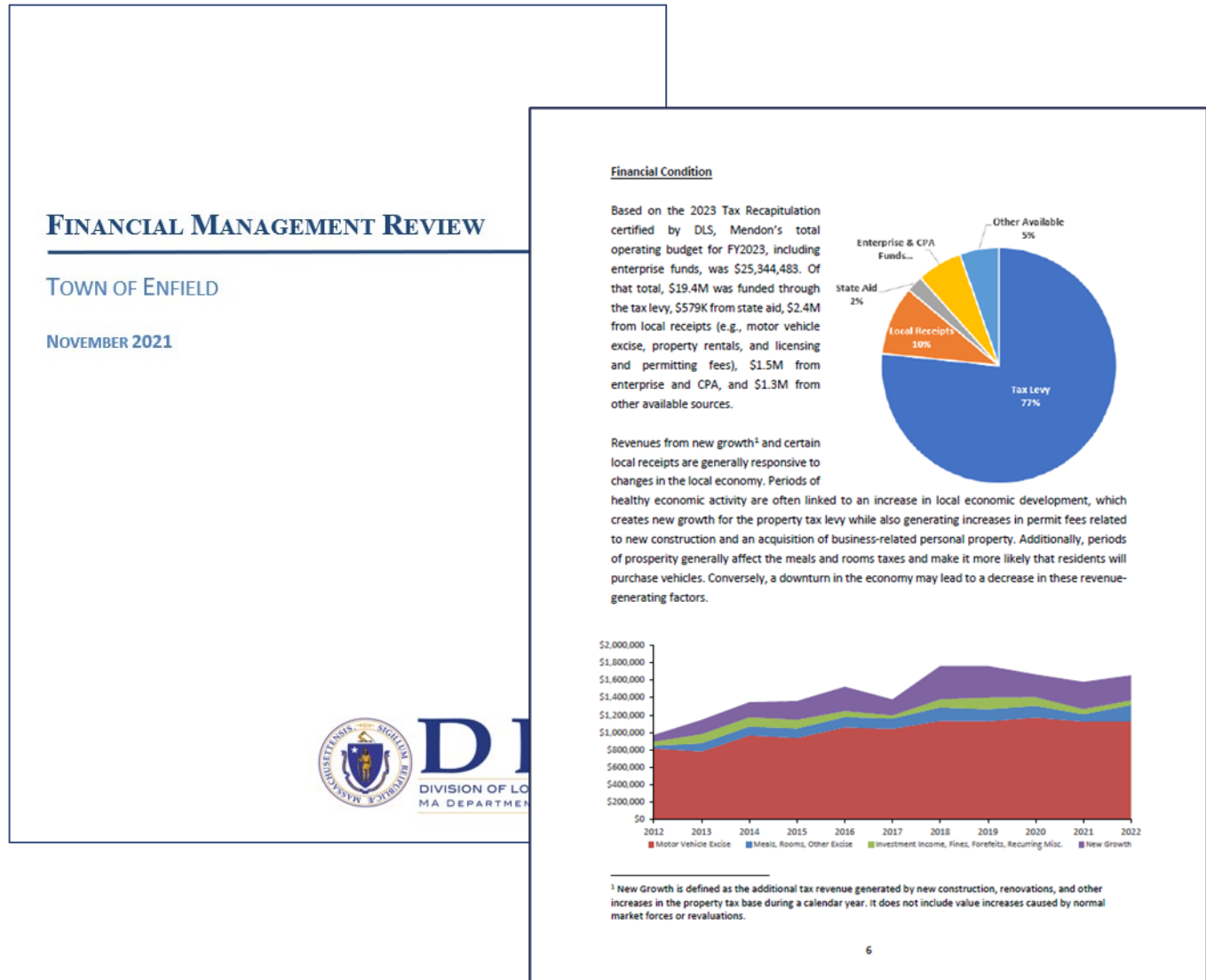
FMRB's Mission

We strive to provide cities and towns with the support and resources they need to strengthen core financial management competencies and operate more efficiently and effectively.

- **Conduct in-depth Financial Management Reviews and study individual finance office practices and procedures**
- **Produce tailored financial planning guidance, including financial policies, forecasts, capital planning analyses, budget documents and financial trend monitoring indicators**
- **Develop and circulate financial management best practices and tools**
- **Provide hands-on financial management training and assistance**

Financial Management Reviews

- Town government structure in the context of the duties and responsibilities of financial officers
- The town's capital planning, forecasting and budget processes
- The degree of coordination and communication that exists between and among boards, officials and staff involved in financial management operations
- The general efficiency of financial operations as measured by the town's success in maximizing resources and minimizing costs



Financial Planning Guidance

Financial Forecasts: develop assumptions, project revenues and expenditures, offer policy recommendations

Capital Planning Analyses: project financial capacity, offer policy and process recommendations

Financial Policies: define purpose, applicability, policy, procedures and references on reserves, debt, investments, indirect costs, reconciliations, etc.

Budget Documents: outline framework as a policy document, financial plan, operational overview and communication device based on GFOA essential criteria

Financial Trend Indicators: offer a snapshot of the community's fiscal health by illustrating trends in key revenue, expenditure and demographic categories

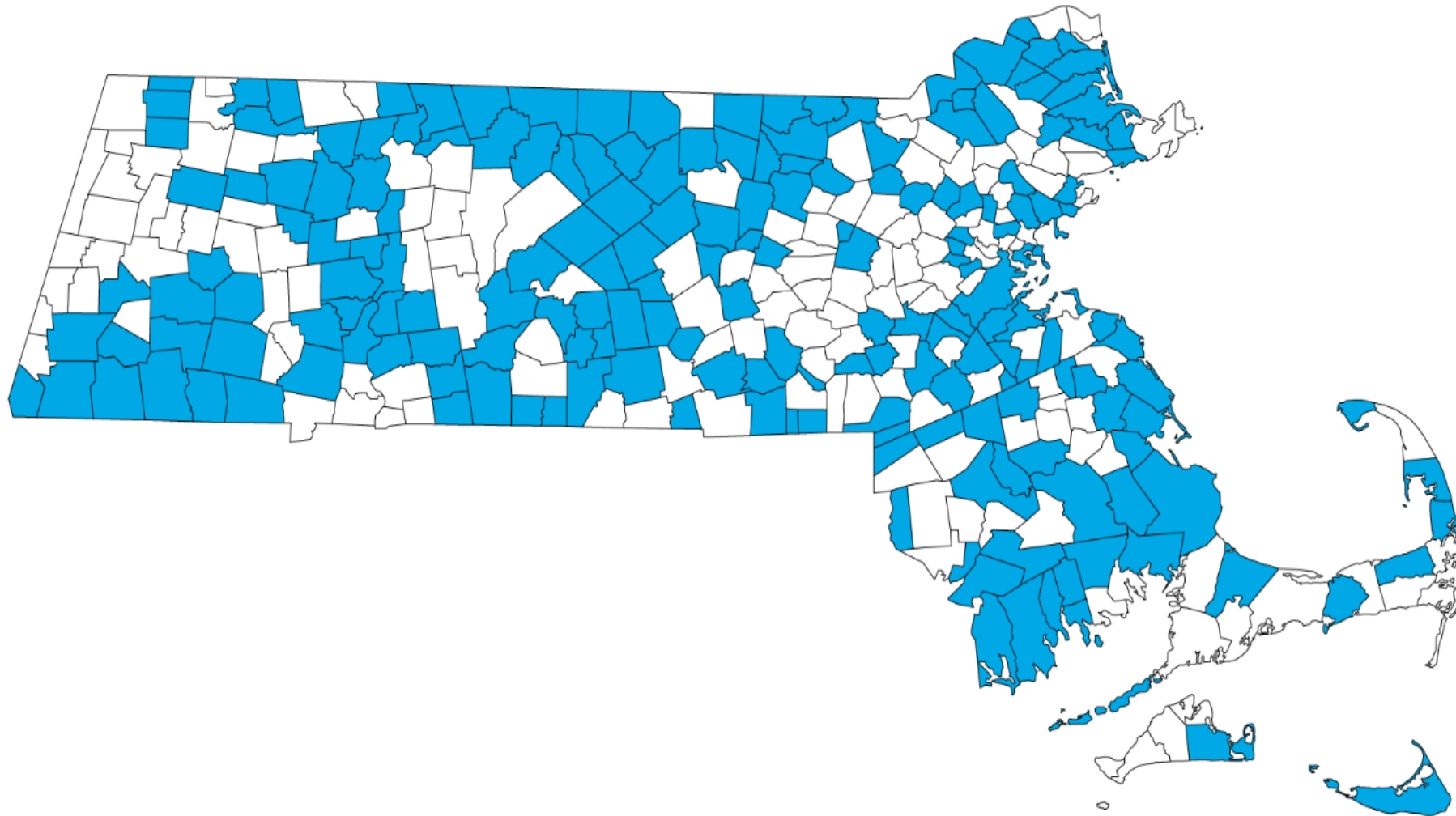




Financial Management Training

- **Roles and responsibilities of municipal finance officials (accountant, treasurer, collector, and assessor)**
- **Financial management processes and procedures (payroll, accounts payable, reconciliations, receivables, etc.)**
- **Other municipal 101 best practices**

Where We've Been Recently



All our reports are available on our website at: www.mass.gov/dls > Financial Management Resource Bureau

Our Work in Context



351 Cities & Towns

263 Open Town Meeting/Select Board

130 Utility Districts

231 Public School Districts

Nearly a 1/3 have pop. < 5K with avg. budget of \$10M

Smallest is Gosnold with 70 people and \$1M budget

Of those with < 5K pop.

- \$40,270 income per capita
- 152 people per mile
- 52 road miles



Capital Planning 101





What is a Capital Investment Plan?

A capital investment plan is a blueprint for planning out a community's capital expenditures

- **Identifies needs and goals**
- **Necessary for long-term financial planning**
- **Defined, planned, and socialized**

What are the benefits of a capital investment planning?

- **Predictability, forecasts expenses over multiple years**
- **Reduces risk of unexpected and emergency costs**
- **Builds confidence in government is operating efficiently and effectively**

The goal of the capital investment plan is to create a data-driven, comprehensive, integrated, and transparent capital investment strategy

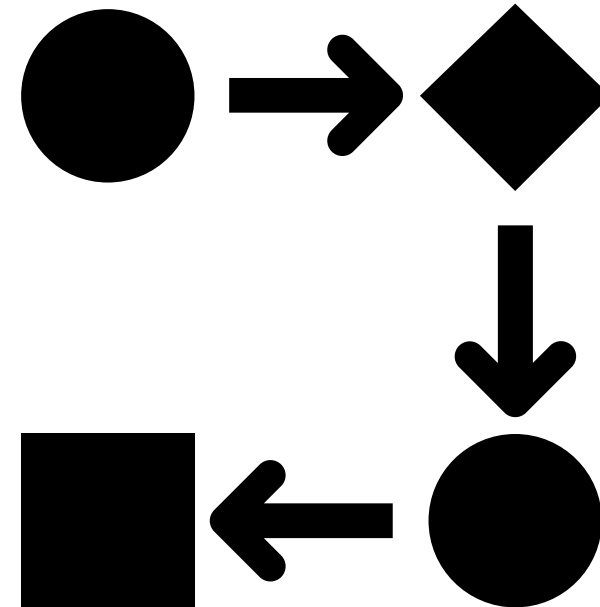
What are the Essential Concepts?

High-Level Perspective

- Community-specific factors
- Resident priorities
- Long-term revenues
- Capacity for annual capital investment

Implementation

- Capital planning process and procedures
- Clear budget responsibilities



Who is Responsible?

Town Admin, Fin Dir, Acct, Planning/Comm Dev Dir

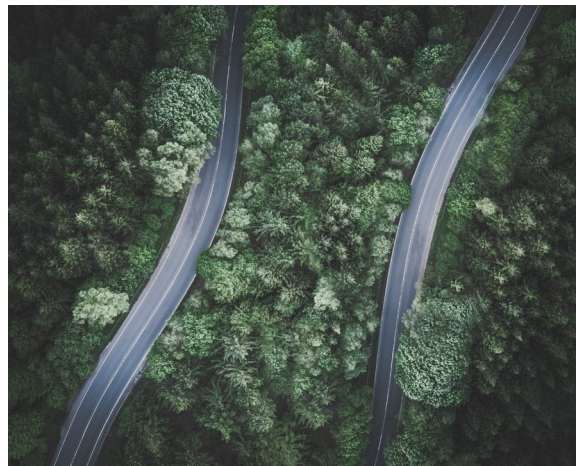
- Expertise, financial knowledge, departmental needs

Capital Planning Committee

- Community needs/goals, taxpayer support
 - Composition, appointment and terms of membership
 - Define to whom CPC reports, when and how
 - Identify where & how CPC's recs are presented



What Are Capital Assets?





How do I Building an Inventory?

What To Include?

The inventory should be a detailed, comprehensive summary of each asset as practicable

- Dates built or acquired
- Date last improved
- Original cost or investment
- Original value, current value, depreciated value
- Expected useful life and remaining useful life
- Usage:
 - how is it used?
 - how frequently is it used?
 - What is the importance of its use?

2018 CAPITAL IMPROVEMENT PROGRAM - PROJECT REQUEST FORM				CIP CODE (4013):	
	Date:	November 15, 2016		Dept. Priority (1 of 3, etc.):	1
	Department:	Fire Department		Est. Funding Request:	\$ 159,750
	Project Title:	Fire Apparatus & Vehicle Reserve		Est. Useful Life (Years):	VARIOUS
	Contact:	Chief David O'Brien		If Yes, when? (FY):	ONGOING
	Previously Presented?	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO			
Project Type: Check All That Apply -					
Scheduled Replacement	<input checked="" type="checkbox"/>	Expanded Service	<input type="checkbox"/>	Deemed Critical by Dept.	<input checked="" type="checkbox"/>
Present Equipment Obsolete	<input checked="" type="checkbox"/>	New Operation	<input type="checkbox"/>	Regulatory Requirement	<input type="checkbox"/>
Replace Worn-out Equipment	<input checked="" type="checkbox"/>	Improved Efficiency/Procedures	<input type="checkbox"/>	Other	<input type="checkbox"/>
Health and Life Safety	<input checked="" type="checkbox"/>	New Revenue	<input type="checkbox"/>		
Project Description:				Photo (click image to insert):	
<p>The Fire Department fire apparatus reserve fund (depreciation account) was created several years ago, to support the routine replacement of fire apparatus. The reserve fund, when properly administered, ensures capital is available to purchase replacement apparatus and small vehicles. The large apparatus is based on a 25-year life span and an amortization schedule for the total fleet of the department. The Capital Improvement Program Committee agreed in principle with the need to ensure adequate funding is available to support a routine schedule of apparatus replacement. The FY15 CIP committee recommended the reserve account be funded at a \$46,000 vice the recommended amount of \$125,000. They also recommended funding in FY16, 17, 18 & 19 be targeted at \$144,750. FY16 and FY17 were funded to an amount higher in order to bring the depreciation account to the levels necessary to allow continued funding at \$144,750. The FY18 recommendation incorporates previously excluded small vehicles including the command vehicle and forestry unit. For FY18 the fund will be used to fund replacement of the command vehicle, with the \$40,000 shortfall made up in the four following years.</p>					
Project Financing:					
Total Project Cost:	\$ 833,200	Town Funding Needed:	\$ 159,750		
Amount and Type of Outside Funding Sources:	\$	Comments:			
Salvage Value of Existing Equipment?	\$	Comments:			
Future Costs & Operating Expenses:					
Estimated Annual Cost of Operation & Maintenance	\$	Comments:			
Estimated Net Effect on Operating Cost, Revenues, Staffing?	\$	Comments:			
Project Planning:					
Proposed Start Date of Project:					
What Planning Has Been Done for Project?					
Is Funding Necessary for Further Plans/Estimating?					
Can the Project be Phased? If yes, expenditure by year					
FY18	FY19	FY20	FY21	FY22	Total
\$ 159,750	\$175,900	\$165,850	\$165,850	\$165,850	833,200



How do I Prioritize?

Formulate an Objective Prioritization Method

- Reference formal town policies; capital policy, debt policy, budget policy
- Categorize requests by reason for need
 - Public health and safety issue
 - Required by law
 - Maintenance or replacement to operational services
 - Improvement to services or efficiencies
 - Social, cultural, historic, or aesthetic value to community
- Create a rating system to apply to all received capital requests
- Compare capital requests to community goals
 - Are the projects being prioritized in line with the community goals and needs?

Sample Scorecards

CAPITAL IMPROVEMENT RATING SHEET

Project Name: _____

Estimated Cost: _____

Major Considerations	Score range	Score
A. Town Department Priority Classification		
1. Essential	10	
2. Maintenance	7	
3. Improve Efficiency	5	
4. New Service	2	

B. Priority Ranking		
1. Very High	10	
2. High	7	
3. Medium	5	
4. Low	2	

C. Project's Expected Useful Life (3 years or less score zero)		
1. 20 or more years	10	
2. 10-19 years	5	
3. 5-9 years	1	

D. Effecting on Operating & Maintenance Costs		
1. Reduce Cost	10	
2. Cost Unchanged	5	
3. Increase Cost	2	

E. Availability of State/Federal Grant Moneys (If no score zero)		
1. Yes	5	

TOTAL SCORE		_____

Ranking Considerations	Levels	Point Range	Score
Department's priority classification	Mandatory	8-10	
	Maintenance	6-7	
	Improve Efficiency	3-5	
	New Service	1-2	
Department's priority rating	Very high	8-10	
	High	6-7	
	Medium	3-5	
	Low	1-2	
Expected useful life	20 + years	8-10	
	10 – 19 years	3-5	
	5 – 9 years	1-2	
	< 5 years	0	
Effect on operating & maintenance costs	Reduces costs	6-10	
	No change	3-5	
	Increases costs	0	
Effect on Town's revenue (tax base)	Increase	6-10	
	Unchanged	3-5	
	Decrease	1-2	
Availability of grant funds	Yes	1-5	
	No	0	



How do I Fund Capital Needs?

Funding Strategies

- **Cash vs. Debt:**
- **Setting capital target: example, 3% of budget net of debt**
- **Setting debt service target: example, 5-8% of budget**
- **Building reserves for specific expenditures**
- **Consider when to do debt or capital exclusions, or special assessment/betterment**

Importance of Policy

- **Establishing policies can support decision-making and consistency in financial strategy.**
- **Important Related Policies:**
 - **Financial Reserves Policies**
 - **Debt Management Policy**
 - **Budget Policy**
 - **Financial Forecasting**

Capital Planning Policy

- **Defines capital project**
- **Assigns responsibility**
- **Outlines process**
- **Establishes selection criteria**
- **Identifies capital financing strategy**
 - **Debt vs cash**
 - **Capital spending as % of annual revenue**
- **Debt maturity and structure (i.e., level principal vs. level debt service)**

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 applies to all current and proposed capital projects in the Town except for those that come under the authority of the Community Preservation Committee. It 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 and Finance Committee. It also applies to related job duties of the Town Administrator, Town Accountant, and Treasurer/Collector.

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.

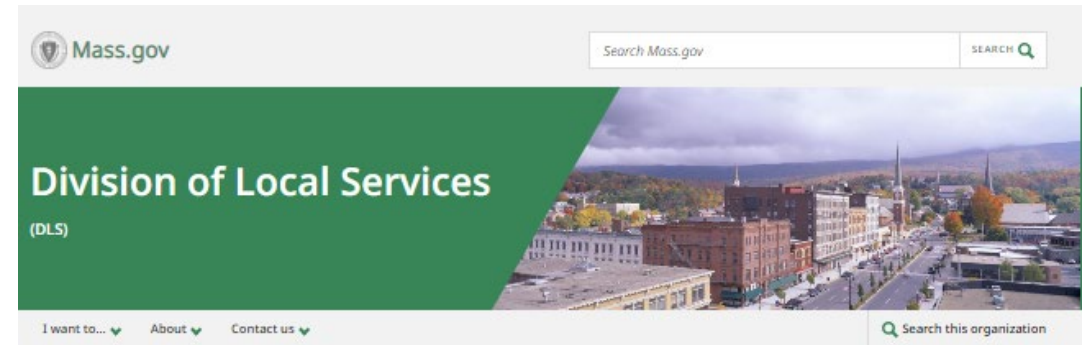
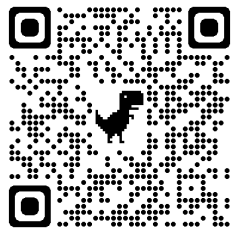
The Town Administrator is charged to oversee Rowley's capital improvement program. This involves identifying and prioritizing projects, analyzing funding, and creating a long-term financial plan achievable within the Town's budget limitations.

Tools and Resources

Resources From the Division of Local Services

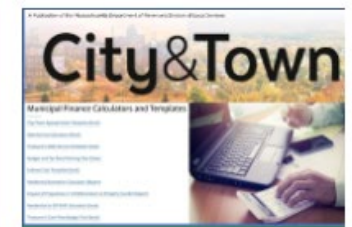
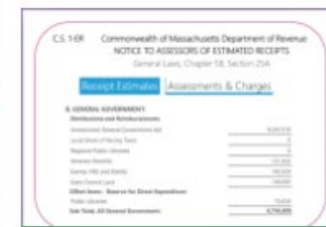
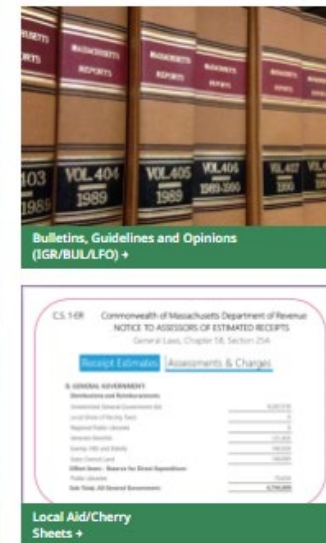
- Capital Targets Template
- Financial Forecasting
- Debt Service Calculator
- Debt Service Schedule Template
- Tax Impact Calculators
- Sample Capital Budget Calendar
- Sample Policies Related to Capital

Municipal Finance Training and Resource Center



DLS promotes sound municipal finance management practices and supports local officials by providing guidance, training and oversight.

Most Requested



A large, semi-transparent yellow diamond-shaped sign with a black border is centered on the right side of the slide. The sign contains the text "REALITY CHECK AHEAD" in bold, black, sans-serif capital letters, arranged in three lines. The background of the slide is a blurred image of a road with yellow lane markings and a white speed limit sign.

Reality Check!

Projected cost increases, sometimes doubled

Limited revenue growth vs. high inflation

Competing costs like electricity, personnel costs/CBAs, other services

Unexpected change in priorities

Unexpected/emergencies

Time building vehicles, constructing building – all extended production timelines

Limited supplies



Any Questions?

Invest the Time

Capital planning requires effort for it to be successful. The work you put into your capital planning will be reflected in your budget process

Details Matter

The more information and detail in your plan, the more stakeholders will understand/support needs. Any Documentation should be easily understood by all stakeholders.

Be Collaborative In Your Approach

Encourage collaboration and diversity in ideas and feedback. The best defense against politics is open communication.

Seek Out Resources & Support

Look for guidance, financial tools, sample policies. Find those who can help