

# BERKSHIRE PLANNING TOOLS



One in a series of “toolbox” items to accompany the Regional Plan for the Berkshires

June 2001

## Capital improvement program

### What is a Capital Improvement Program?

A Capital Improvement Program (CIP) is a blueprint for planning a community’s capital expenditures and is one of the most important responsibilities of local government officials. It coordinates community planning, financial capacity and physical development.

A CIP is composed of two parts: a capital budget and a capital program. The capital budget is the upcoming year’s spending plan for capital items, tangible assets or projects that cost at least \$10,000 and have a useful life of at least five years. A commonly used threshold for smaller communities may be \$2,500. The capital program is a plan for capital expenditures that extends five years beyond the capital budget.

#### Capital Improvement Program

*A blueprint for planning a community’s capital expenditures. It coordinates community planning, financial capacity and physical development. A CIP is composed of two parts; a capital budget and a capital program.*

Development of a CIP that will ensure sound fiscal and capital planning requires effective leadership and the involvement and cooperation of all municipal departments. The responsibility for overseeing the CIP process is delegated to a community’s chief elected official or the board of selectmen, which appoints a CIP Committee.

A municipality, at its annual meeting, may by vote establish a CIP Committee. The Committee begins the CIP process by forwarding its recommended capital budget and program to the elected official or selectmen, who then review the proposal and make their recommendation to town meeting for adoption.

### Benefits of a CIP

A CIP has many benefits, including but not limited to the following:

- Facilitates coordination between capital needs and operating budgets.
- Enhances the community’s credit rating, control of its tax rate, and avoids sudden changes in its debt service requirements.
- Identifies the most economical means of financing capital projects.
- Increases opportunities for obtaining federal and state aid.
- Relates public facilities to other public and private development and redevelopment policies and plans.
- Focuses attention on community objectives and fiscal capacity.
- Keeps the public informed about future needs and projects.
- Coordinates the activities of overlapping units of local government to reduce duplication. Achieved by assessing and prioritizing each departments inventory, revenue, expenditures and debt.

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- Encourages careful project planning and design to avoid costly mistakes and help a community reach desired goals.

### **Implementing A CIP: A 10-Step Process**

A CIP can be prepared in any number of ways, take varying amounts of time, and involve a range of participants. State law and local custom will influence the process. In larger communities, the CIP can easily be a year round function. In smaller communities, the CIP may take only one or two months to complete. For most localities, a time frame of four to six months will be required. The following 10 steps are a guideline communities can use for implementing a CIP.

**Step One: Adopt A CIP By-law And Appoint A CIP Committee.** The municipality should consider adopting a by-law at the annual meeting to create and empower a CIP Committee. *BRPC has a model bylaw which communities may find helpful.*

*One of the most important duties of a CIP committee is to assess the municipality's financial capacity so that the tax levy and debt service remain stable.*

**Step Two: Prepare An Inventory Of Existing Facilities.** The initial task for the CIP Committee is to prepare a complete inventory of all municipality and school properties and assets. The inventory should include all buildings, equipment, utilities, roads and sewers and be in conjunction with the municipality's Capital Budget.

**Step Three: Determine The Status Of Previously Approved Projects.** Identify projects underway, determine whether additional funds are required, and determine the amount of unspent funds available from completed and discontinued projects. The benefit of this update is that officials involved in the budget process will be kept informed of the progress of projects approved in prior years.

**Step Four: Assess the Municipality's Financial Capacity.** With the assistance of the municipality's accountant, treasurer, and chief administrative officer, the Committee should analyze the municipality's ability to afford major expenditures. This analysis should examine recent and anticipated trends in revenues, expenditures, debt and unfunded liabilities.

**Step Five: Solicit, Compile And Evaluate Project Requests.** The CIP Committee should solicit departmental recommendations for CIP projects. Each department submits requests, which include a clear statement of the need and justification for the project, its costs, its net effect on the operating budget and an implementation schedule. The Committee then evaluates each request by reviewing project information.

**Step Six: Establish Project Priority.** The proposed projects are ranked in priority as objectively as possible. The Committee should evaluate each project in relation to other projects and determine their relative importance.

**Step Seven: Develop A CIP Financing Plan.** The Committee should recommend the method of financing each project. Some financing options are:

#### ***Long Term Financing:***

- *General obligation bonds and revenue bonds.*
- *State and federal loans and grants.*
- *Setting aside money in the stabilization fund to pay for all or a portion of a capital project.*

#### ***Short Term Financing:***

- *Appropriation of current revenue or reserves such as free cash.*
- *Short-term debt such as bond anticipation notes and grant anticipation notes.*
- *Contracting/leasing provisions authorized by Chapter 30B Section 12 of the Massachusetts General Laws.*
- *Private sector service provision. Under this option private firms provide public services to a community on a contractual basis or through*

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*another arrangement, such as a license or leaseback agreement.*

**Step Eight: Adopt A Capital Improvement Program.** The CIP Committee's completed report should be presented to the board of selectmen or chief elected official for review and adoption. The report should include a summary of the CIP Committee's recommendations for the upcoming year's Capital Budget and the following years' Capital Program as well as its analysis of the municipality's fiscal capacity.

The selectmen or elected official should hold a public forum to present the CIP and solicit further citizen comment. The selectmen or elected official then considers (and may amend) the proposed Capital Budget and Capital Program and forwards them to the finance committee. The finance committee reviews and recommends action only on the Capital Budget, but does so in considering the overall Capital Program. A finance committee recommendation to amend the Capital Budget suggests disagreement with portions of the Capital Program. Those differences should be resolved with the selectmen or elected official prior to town meeting.

**Step Nine: Monitor Approved Projects.** Once the annual meeting has adopted the Capital Budget and the fiscal year begins, departments are authorized to begin project implementation. The selectmen or elected official, through its CIP Committee, should monitor the efforts of the departments. Periodic reports by the CIP Committee to the selectmen or elected official should indicate changes in the targeted completion dates, identify serious problems, and document the financial status of each project.

**Step Ten: Update Capital Program.** Annual updating of the Capital Program involves repeating Steps Two through Nine to reflect new information, policies and proposed projects. The CIP Committee should review and revise the entire program as necessary to reflect its most recent determination of the need for equipment, maintenance of equipment, the municipality's

social and environmental conditions, the development or revision of financial policies, and the community's financial resources. After the first year has been budgeted, one year is added to the Capital Program and the remainder of the plan updated. This completes the CIP process.

### **Suggested Capital Improvements Schedule**

#### ***Spring.***

Adopt CIP bylaw at annual town meeting.

#### ***Oct./Nov.***

Appoint CIP Committee. Committee prepares inventory of current facilities. Committee surveys status of previously approved projects.

#### ***Nov./Dec.***

Committee prepares financial analysis. Departments prepare and submit requests.

#### ***Dec./Jan.***

Committee reviews and ranks requests.

#### ***Jan./Feb.***

Committee prepares six-year schedule of projects and decides on method of financing based upon financial analysis.

#### ***Feb./Apr.***

Committee presents Capital Budget and Capital Program to board of selectmen or chief elected official. Selectmen or elected official review CIP. Board holds public hearing. Board approves and prepares CIP. Finance committee reviews Budget. Citizen involvement

#### ***Spring***

Town Meeting approval.

#### ***Next Fiscal Year***

Update Capital Program.

### **Linking A CIP To A Comprehensive Plan**

A good CIP depends on good program planning by the departments generating CIP requests. In

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an ideal world, nearly every project request would have a close connection to the various elements of a Comprehensive Plan, such as the Public Facilities Element, including plans for schools, water and sewer systems, fire stations, the Open Space and Recreation Element, the Housing Element, the Transportation Element, or the Economic Development Element.

### **Case Study: Town Of Savoy**

In January 2000, the Town of Savoy received a Municipal Incentive Grant from the Massachusetts Department of Housing and Community Development to undertake a Capital Improvements Planning Program. The grant was awarded in response to an application filed by the Town which sought assistance in developing a more efficient method of planning and prioritizing needed capital purchases in order to better allocate scarce financial resources.

Savoy has historically been unable to completely meet all of its fiscal needs, given a limited tax base of almost entirely residential land use. Commercial and/or industrial enterprises are virtually non-existent in Savoy and its revenue raising ability is further hampered by the large amount of State owned land within its boundaries. While the Commonwealth makes payments in lieu of taxes, they are significantly less than the property taxes that could be raised if the land were in private ownership.

In early 2000, the Board of Selectmen voted to establish a Capital Improvement Committee that included representation from all town

departments that have a need for capital expenditures and/or have responsibility for the overall financial health of the Town. The committee included members from the Selectboard, Finance Committee, School Committee, Highway/Public Works, Public Safety, Parks/Recreation, Planning Board, and Treasurer.

Next an inventory of town capital items was completed and a future needs assessment was performed, with requests submitted by each department head. Once a clear picture was obtained of all capital needs and a determination made of the funding required, the CIP committee, with input from town surveys and workshops, arrived at a list of items requiring funding.

At the beginning of the process, there was skepticism as to the benefits of instituting a capital planning process. However, through participation on a committee that included representation of all the town's interests, members learned how to work by consensus in reaching decisions. While the project did not magically create new sources of revenue, town leaders saw how cooperation, and recognition of each other's needs can make the entire budget process a little less painful and result in some real gains.

At the end of the project, voters approved the adoption of a Capital Improvement Bylaw as recommended by the committee, assuring that the program would continue.

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*This publication is one in a series of "toolbox" items to support the Regional Plan for the Berkshires. If you would like to receive additional copies of this or other toolbox items, please contact the Berkshire Regional Planning Commission, 33 Dunham Mall, Pittsfield, MA 01201 or call (413) 442-1521. Copies of the toolbox items are also available on the web. Visit [www.berkshireplanning.org](http://www.berkshireplanning.org)*

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