



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Capital Planning Fundamentals

Presented by:

Kasey Bik

September 24, 2024

Agenda

- DLS & FMRB
- Capital Planning Fundamentals
 - ✓ Essential Concepts
 - ✓ Components of a Capital Plan
 - ✓ Funding Considerations
- Best Practices
- DLS Tools & Resources



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



Financial Management Resource Bureau

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

- ✓ 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

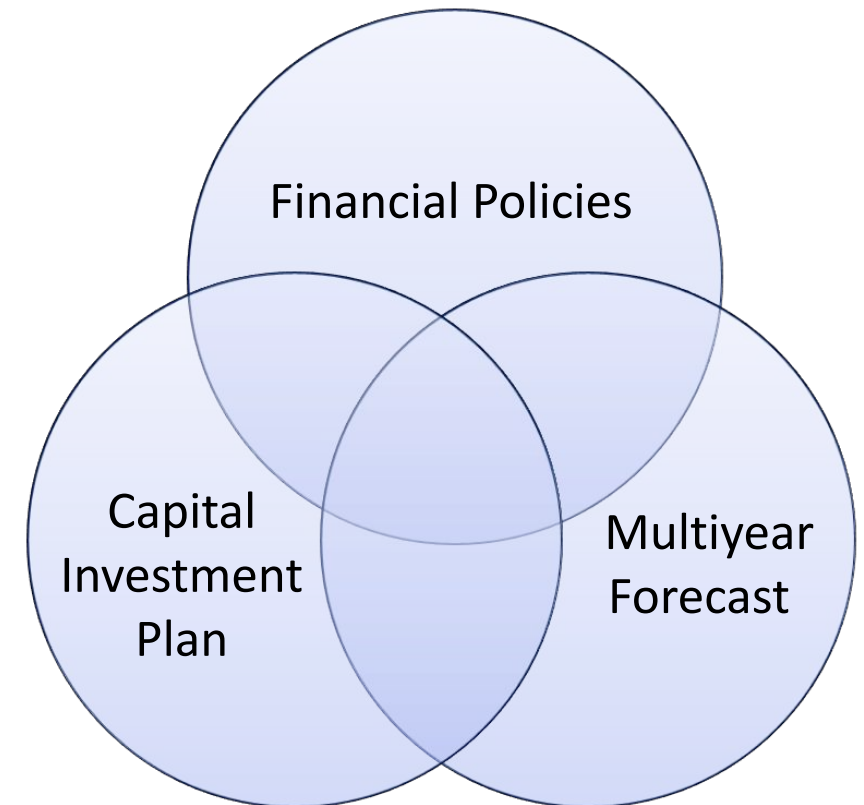
Capital Investment Plan

A capital investment plan is a blueprint for planning out a community's capital expenditures. The goal of the capital investment plan is to create a data-driven, comprehensive, integrated, and transparent capital investment strategy

- 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



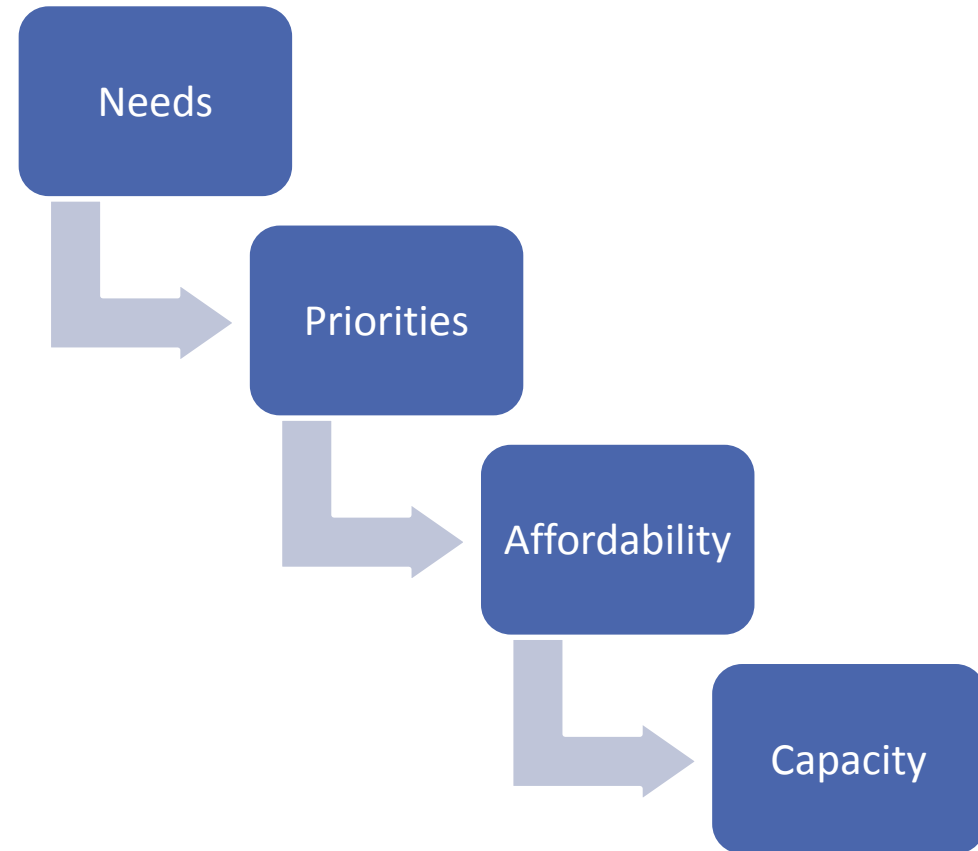
Capital Plan Essential Concepts

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



Capital Assets



Property
Equipment
Vehicles; Fleets
Technology

Infrastructure
Buildings
Utilities
Roads

Information Sources

- Accounting: fixed asset records
- Department Heads: asset records, expertise
- Assessing: property records for land and buildings
- Insurance records on buildings and equipment

Capital Priorities

- 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

- Reference formal city or town policies;
 - ✓ capital policy, debt policy, budget policy

- Compare capital requests to community goals
 - ✓ Are the projects being prioritized in line with the community goals and needs?

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	

Ranking Considerations	Levels	Point Range	Score	
B. Priority 1. Very High 2. High 3. Medium 4. Low	Department's priority classification	Mandatory	8-10	
		Maintenance	6-7	
		Improve Efficiency	3-5	
		New Service	1-2	
C. Project's 1. 20 or more years 2. 10-19 years 3. 5-9 years	Department's priority rating	Very high	8-10	
		High	6-7	
		Medium	3-5	
		Low	1-2	
D. Effectiveness 1. Reduce costs 2. Cost Under Budget 3. Increase revenue	Expected useful life	20 + years	8-10	
		10 – 19 years	3-5	
		5 – 9 years	1-2	
		< 5 years	0	
E. Availability of funds (If no score) 1. Yes	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		

Funding Capital Needs

Funding Strategies

- 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
- Cash vs. Debt

Cash

- Owned without incurred interest; large impact to one-time revenues or reserves
 - ✓ Free Cash , Retained Earnings
 - ✓ Stabilization funds, capital funds, special purpose funds
 - ✓ Grants

Debt

- Spreads cost impact over multiple fiscal years; incurs interest and related fees
- Can be financed outside the operating budget; raises funds in addition to tax levy limit
 - ✓ Borrowing, Debt Exclusion
 - ✓ Capital Outlay Expenditure Exclusion

Importance of Policies

Establishing policies can support decision-making and consistency in financial strategy.

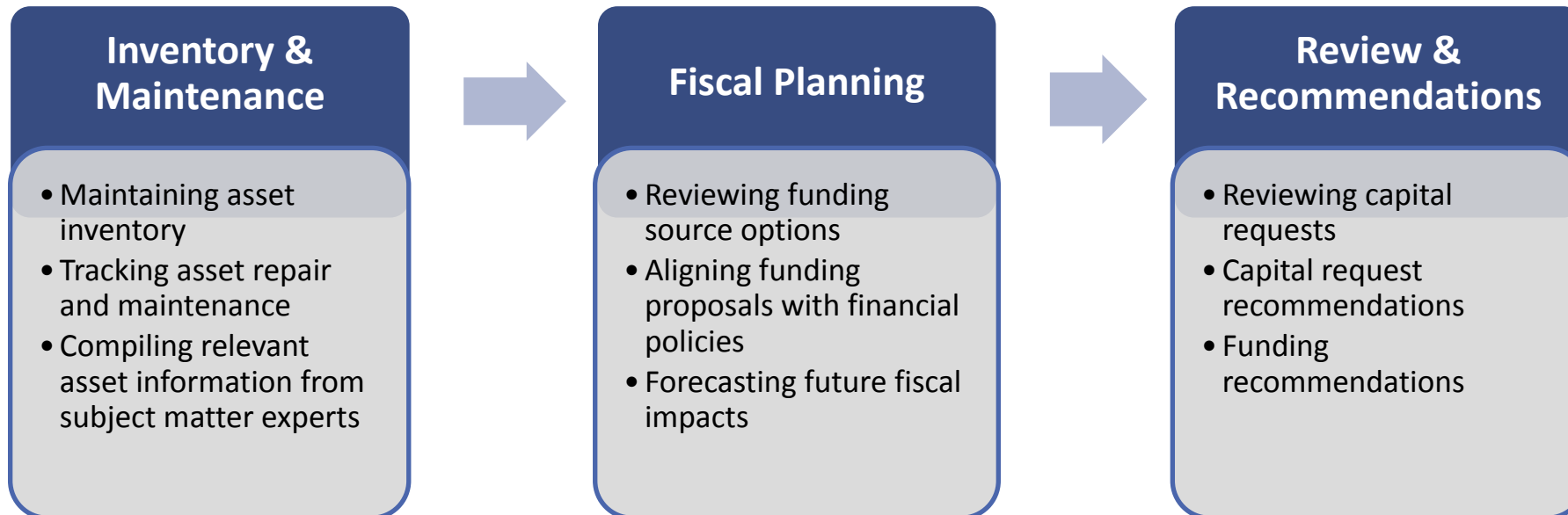
Capital Policy

- 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)

Important Related Policies

- Financial Reserves Policies
- Debt Management Policy
- Budget Policy
- Financial Forecasting

Planning & Collaboration

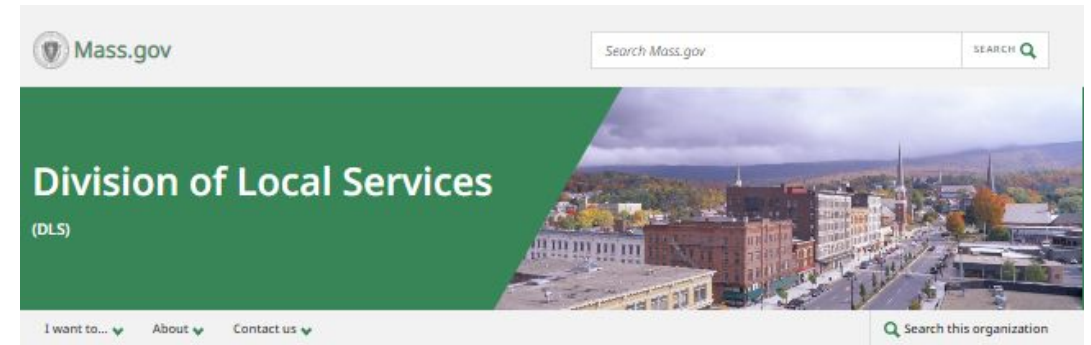


Tools and Resources

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



Data Visualization Pages

View Trends in Municipal Debt [here](#)

View City & Town Data Visualizations [here](#)

Trends in Municipal Debt

General Fund Debt Service

Select a Municipality

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

View Outstanding Debt
View Glossary
351 Report
PDF Download

General Fund Debt Service Over Time

General Fund Debt Service Compared to Budget Over Time

	2018	2019	2020	2021	2022
Budget	\$53,548,106	\$54,808,976	\$59,185,630	\$61,548,844	\$63,816,989
Debt Service as a % of Budget	9.93%	8.55%	7.92%	7.30%	7.16%
Total Debt Service	\$5,315,324	\$4,686,768	\$4,686,241	\$4,494,902	\$4,570,872

General Fund Debt Service & Debt Exclusions Over Time

	2018	2019	2020	2021	2022
Excluded Debt	\$4,172,925	\$4,038,425	\$3,951,225	\$3,851,468	\$3,734,211
Total Non-Excluded Debt	\$1,142,399	\$648,343	\$735,016	\$643,434	\$836,661
Total Debt Service	\$5,315,324	\$4,686,768	\$4,686,241	\$4,494,902	\$4,570,872

General Fund Debt Service Per Capita

General Fund Debt Service by Function Type

Total Debt Service
\$4.571M

Fiscal Year:

Function Type

- Interest on Long Term Debt
- Interest on Short Term Debt
- Other Interest
- Retirement of Debt Principal

General Fund Debt Service | Year-Over-Year % Change

Municipality	2019	2020	2021	2022
Abington	-11.83% ▼	-0.01% ▼	-4.08% ▼	1.69% ▲
Acton	-7.07% ▼	-0.20% ▼	0.23% ▲	38.06% ▲
Acushnet	13.09% ▲	-1.46% ▼	-0.66% ▼	-0.58% ▼
Adams	143.02% ▲	-55.99% ▼	19.89% ▲	-3.82% ▼
Agawam	-15.02% ▼	-5.35% ▼	-2.20% ▼	1.29% ▲
Allford	-22.28% ▼	24.64% ▲	44.46% ▲	1.59% ▲
Amesbury	105.11% ▲	-71.91% ▼	164.43% ▲	-12.81% ▼
Amherst	-9.24% ▼	-14.37% ▼	-10.60% ▼	-35.19% ▼
Andover	6.35% ▲	4.54% ▲	0.53% ▲	-34.36% ▼
Aquinnah	96.73% ▲	12.47% ▲	-6.78% ▼	-7.15% ▼

City & town data visualizations

Graphical representations of data that help explain local government finances and related information.

Latest data visualizations

Trends in Municipal Debt

This interactive data visualization explores trends in local government debt.

General fund expenditures

This dashboard provides insight into General Fund spending for an individual city or town.

Trends in excess levy capacity

View trends in excess levy capacity (the difference between the local property tax levy limit and the actual tax levy)

DLS Capital Planning & Debt Page

Click the icons to download **capital planning and debt tools** available on the DLS webpage



Capital Planning and Budgeting Workbook



Capital Targets Template



Debt Service Calculator



Tax Impact Calculator

The screenshot shows the top of a webpage on Mass.gov. It includes the Mass.gov logo, a search bar with the text 'Search Mass.gov', and a breadcrumb trail: 'Home > Division of Local Services > Municipal Finance Training and Resource Center'. Below the breadcrumb is a section 'OFFERED BY Division of Local Services'. The main heading is 'Developing the Capital Plan and Managing Debt' in large white text on a dark blue background. Below the heading is a sub-heading: 'Provides a funding strategy for maintaining a community's capital assets.' To the right of the text is a photograph of a diverse group of people in business attire looking at documents.

A capital improvement program provides 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. Often times, especially for larger capital projects, communities need to borrow money for financing purposes. These resources are intended to assist communities in developing their own capital planning and debt issuance processes.

TABLE OF CONTENTS

View Capital Planning and Debt Management page [here](#)

DLS Samples

Click the icons below to download
sample documents and forms from DLS



Capital Process Manual



Capital Request Form



Capital Planning Policy

The screenshot shows the Mass.gov website header with the search bar and the breadcrumb "Division of Local Services". Below this is a banner for the "Financial Management Resource Bureau" with a map background. The banner text reads: "Financial Management Resource Bureau" and "FMRB helps cities and towns improve the effectiveness of their financial management operations by providing project-based consulting services and training." Below the banner is a paragraph: "The Financial Management Resource Bureau provides a wide range of published guidance, presentations, trainings, and project-based consulting services. In every local engagement, our team assesses the community's goals, challenges, and constraints to deliver projects containing practical advice and recommendations to improve financial management operations." At the bottom of the screenshot is a search box with the text "Search for financial management resource projects" and a "SEARCH" button. To the right of the search box is a link: "See our complete catalog of projects. All projects".

View Capital Planning projects and other FMRB reports [here](#)

Thank You!

Kasey Bik

Project Manager, Financial Management Resource Bureau

Email: bikk@dor.state.ma.us

Websites:

[Division of Local Services](#)

[Financial Management Resource Bureau](#)

[Municipal Finance Training and Resource Center](#)