June 23, 2026

NEW HAMPSHIRE MUNICIPAL ASSOCIATION

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Capital Planning Process Overview

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The information presented in NHMA's training events and materials is accurate as of the date of the presentation. NHMA's training events do not constitute legal advice. For legal advice, city and town officials may contact Legal Services at legalinquiries@nhmunicipal.org or their own municipality's legal counsel. Please refer to NHMA's Legal Services FAQ for details about how our service works. For Government Finance Advice, please contact financeinquiries@nhmunicipal.org.

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AGENDA

- Four of The Five W's
- Capital Assets
- Other Considerations
- Where to Begin
- Policy Time
- Fiscal Capacity / Condition
- Analysis and Identification of Fiscal Stress

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Four of The Five W's

Some people have no idea what they're doing, and a lot of them are really good at it. -- *George Carlin*

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What is it?

A Capital Improvement Program (CIP) is a multi-year financial and strategic planning tool used to:

- identify,
- prioritize, and
- fund

large-scale physical assets, infrastructure, and equipment.

It should determine the approximate date, over at least a six-year period, the assets that will need to be replaced **and** the suggested method of funding those assets.

Capital Improvement Programs are NOT required by law but are powerful tools in avoiding fluctuations in property taxes, assisting with budgeting, and ensuring the health and safety of our capital assets and those who use them.

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CIP In Practice

Maintains data on all relevant capital projects (project costs, operating cost and revenue impacts, project description and history, and proposed method of financing)

Allows users to examine the impacts of various capital plan assumptions on tax rates (or user fees), reserves, debt load, and fund balances;

- to explore different revenue and expenditure growth assumptions;
- to vary the timing and mix of capital projects over a three to six-year planning period;
- and to adjust assumptions about individual capital projects

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Authorization (Who)

RSA 674:5

- In a municipality where the planning board has adopted a master plan, the local legislative body may authorize the planning board to prepare and amend a recommended program of municipal capital improvement projects projected over a period of at least 6 years.
- As an alternative, the legislative body may authorize the governing body of a municipality to appoint a capital improvement program committee, which shall include at least one member of the planning board and may include but not be limited to other members of the planning board, the budget committee, or the town or city governing body, to prepare and amend a recommended program of municipal capital improvement projects projected over a period of at least 6 years.

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Authorization

RSA 674:5

- The capital improvements program may encompass major projects being currently undertaken or future projects to be undertaken with federal, state, county and other public funds.
- The sole purpose and effect of the capital improvements program shall be to aid the mayor or selectmen and the budget committee in their consideration of the annual budget.

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Purpose and Description

RSA 674:6

The capital improvements program **shall** classify projects according to the urgency and need for realization and **shall** recommend a time sequence for their implementation.

The program **may** also contain the estimated cost of each project and indicate probable operating and maintenance costs and probable revenues, if any, as well as existing sources of funds or the need for additional sources of funds for the implementation and operation of each project.

The program **shall** be based on information submitted by the departments and agencies of the municipality and **shall** take into account public facility needs indicated by the prospective development shown in the master plan of the municipality **or** as permitted by other municipal land use controls.

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Preparation

RSA 674:7

I. In preparing the capital improvements program, the planning board or the capital improvement program committee **shall** confer, in a manner deemed appropriate by the board or the committee, with:
   - the mayor or the board of selectmen, or the chief fiscal officer,
   - the budget committee,
   - other municipal officials and agencies,
   - the school board or boards,

   and **shall** review the recommendations of the master plan in relation to the proposed capital improvements program.

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Preparation

RSA 674:7

II. Whenever the planning board or the capital improvement program committee is authorized and directed to prepare a capital improvements program, **every**

- municipal department, authority or agency,
- **and** every affected school district board, department or agency,

shall, upon request of the planning board or the capital improvement program committee, transmit to the board or committee a statement of **all** capital projects it proposes to undertake during the term of the program.

The planning board or the capital improvement program committee shall study each proposed capital project, and **shall** advise and make recommendations to the department, authority, agency, or school district board, department or agency, concerning the relation of its project to the capital improvements program being prepared.

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Consideration by Mayor and Budget Committee

RSA 674:8

Whenever the planning board or the capital improvement program committee has prepared a capital improvements program under RSA 674:7, it shall submit its recommendations for the current year to the mayor or selectmen and the budget committee, if one exists, for consideration as part of the annual budget.

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Why?

- Ensures assets inherited from prior administrations are preserved
- Creates continuity in long-range planning
- A plan helps bridge the gap between the long-term planning process and the development of the annual operating budget.
- Lenders and bond raters expect it
- Federal granting agencies are leaning towards it to ensure the money they give us won't be wasted
- A CIP is a legal prerequisite for some other land use tools, such as growth management under RSA 674:22 or impact fees under RSA 674:21

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Why?

- A plan can systematically anticipate needs rather than just reacting to unanticipated problems (thus preventing surprises among government officials and the voting public).
- Planning ahead allows time to get the necessary resources in place bit-by-bit rather than all at once, avoiding spikes in the tax rate.
- Advance planning leaves time to identify alternate sources of funding (federal and state grants, long and short-term debt, or pay-as-you-go).
- Good plans create a blueprint linking fiscal capacity with the need to promote economic development through investments in infrastructure.
- Regular attention to capital assets increases the likelihood of proper maintenance to extend the life of existing assets.

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Why?

- Helps local officials think through complex infrastructure development and financial decisions.
- Helps bridge the gap between the long-term planning process and the development of the annual operating budget.
- May avert some of the expensive mistakes that frequently result from crisis management.
- Planning ahead allows time to get the necessary resources in place bit-by-bit rather than all at once, avoiding spikes in the tax rate.
- Informs and educates both decision makers and the public about the anticipated investments in the municipality.
- A plan prepared cooperatively among officials, employees and the public increases the "buy-in" so voters understand why items in the plan are important.
- "Shovel-ready" or prepared plans can help a community be ready to participate in federal or state grant programs when they arise.

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When

- A Capital Improvement Program commonly covers a six-year period starting with the next budget year and is updated every 1-3 years.
- If a committee, the governing body should appoint the members as soon after your annual meeting as possible.
- The planning board or CIP committee should start the creation or update process well before the budget process begins.
- Ideally, the CIP will be finished when the budget committee begins to build the upcoming budget.

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Capital Assets

What are they and how do you create the list?

I wish common sense was more common.

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What are they?

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A capital asset is any significant, long-term property or investment held the government. They are high-value resources used in daily operations that provide benefits lasting longer than a single reporting period.

They are expected to provide value for more than one year; they are not intended for immediate sale or disposal.

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Common Capital Assets

- Infrastructure (roads, water and sewer lines, storm drainage, sidewalks, bridges, curb and gutter, streetlights)
- Buildings (administration buildings, libraries, museums, treatment plants, civic centers, pools, public safety buildings)
- Equipment (fire trucks, police cruisers, generators, snowplows, IT equipment, muffin monsters)
- Land (parks, gardens, tree nurseries, waterfronts, industrial park land, parking lots)

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Don't forget about…

- Intangible assets:
  - Non-physical rights
  - Software
  - Water rights
  - Subscription-based information technology agreements (SBITA)
- Historical Treasures & Art
  - Public monuments
  - Government-owned historical collections
- Costly items not necessarily capital assets
  - Five-year revaluation
  - Perambulations

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GASB 34 Asset Schedule

The asset schedule in your annual audited financial statements is based on GASB Statement 34.

This schedule is a great place to start when analyzing what assets belong on the CIP.

Keep in mind that the asset schedule only contains assets that meet both a minimum asset threshold and a useful life threshold.

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GASB 34 Asset Schedule

**** CAUTION ****

If your municipality was a phase 1 (annual revenue exceeding $100M) or phase 2 (annual revenues between $10M and $100M), general infrastructure assets had to be reported if they were acquired or significantly reconstructed in fiscal years June 30, 1980, or after.

If your municipality was a phase three implementation (governments with less than $10M in annual revenues), they may have elected to report general infrastructure prospectively only.

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Property Liability Schedule

Many assets are on your property liability asset schedule.

It is important to update this list on an annual basis.

This is a great place to look for assets to include in your CIP.

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Remember

When determining what assets to add to your CIP, be sure it correlates to pre-approved documents, policies and ordinances, such as it not conflicting with approved Master or Strategic Plan.

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What to Gather

- An inventory of present physical assets
- A maintenance and replacement schedule
- A time-table and estimate of future needs

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Other Considerations

Tact is the ability to tell someone to go to Hades in such a way that they look forward to the trip.

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Growth Management Ordinances

Without a CIP in place, a municipality is not permitted to enact a growth management ordinance under RSA 674:22, I.

This makes sense because a growth management ordinance is only valid to the extent it accurately balances the municipality's need for restrictions on growth and a projection of what is deemed to be "normal growth." Rancourt v. Barnstead, 129 N.H. 45 (1986).

How can a town know what a growth management ordinance needs to accomplish if it hasn't considered what reasonable projected growth is and what infrastructure is required to support it?

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Impact fees

The other major ordinance that may be adopted only after a CIP is adopted is an impact fee ordinance under RSA 674:21, V. Impact fees may be assessed for:

- including and limited to water treatment and distribution facilities;
- wastewater treatment and disposal facilities;
- sanitary sewers; storm water,
- drainage and flood control facilities;
- municipal road systems and rights-of-way;
- municipal office facilities;
- public school facilities;
- the municipality's proportional share of capital facilities of a cooperative or regional school district of which the municipality is a member;
- public safety facilities;
- solid waste collection,
- transfer, recycling, processing, and disposal facilities;
- public library facilities; and public recreational facilities not including public open space.

A town may still levy exactions for off-site improvements under RSA 674:21, V(j) without an impact fee ordinance, but they are limited to the cost of improvements located outside the subject property and include only any necessary highway, drainage, and sewer and water upgrades pertinent to that development.

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Historical data

A complete financial analysis of historical revenues and expenditures is strongly recommended.

Review purchase / rehabilitation / renovation / upgrade costs to determine when the asset was purchases or last overhauled.

Review the revenues from that same year to determine how that cost was funded.

- Property taxes
- Capital Reserves
- Grants
- Donation

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Under NH Law

A CIP "shall" do the following:

- Address capital improvement projects over a period of at least six years.
- Classify projects according to the urgency and need for implementation.
- Include a timetable for implementation of projects.
- Take into account public facility needs shown in the master plan.

A CIP "may" include the following:

- The estimated cost of each project.
- The probable operation and maintenance costs
- The probable revenues (if any) from each project
- Project the effects of the plan on key financial variables, such as the property tax rate, debt management & the operating budget

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Where to Begin

Sometimes I look at someone and think “somewhere out there a village is missing it’s idiot.

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Under NH Law

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Before beginning

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Before a capital improvements program can be prepared, (a) the municipality must have established a planning board under RSA 673:1, and (b) the planning board must have created and adopted a master plan under RSA 674:1.

When considering how this fits with a CIP, it is helpful to remember that a master plan is intended to delineate the best and most appropriate future development of the area to guide the planning board in its work, so the community can achieve smart growth, sound planning, and wise resource protection. RSA 674:2, I.

After those two prerequisites are met, the legislative body (town meeting, town council or city council/aldermen) may authorize the creation, adoption and amendment of a capital improvements program. RSA 674:5. In a town meeting town, this is done by approval of an article on the warrant.

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Development Process

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Set Meeting Dates / Milestones

Review current policies such as capital asset, purchasing, budget

CIP Request Department Heads Submit Project Sheets

Review of Project Proposals with Manager/Admin. And Department Head

CIP Committee Prioritizes Projects

CIP Reviews / Calculates Funding

CIP Committee Finalizes Plan

CIP Committee Presentation Budget Committee-Select Board

CIP Presentation to Town Meeting

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Timelines

- Ensure someone is appointed from the planning board to coordinate the effort
- Consult with the town administrator, town or city manager, the governing body and the budget committee to discuss the process and the timeline.
- The timeline should be two things:
  - Reasonable
    - It is important for the planning board or committee to recognize that the officials and employees from whom they are trying to get information each have a lot of other things on their plate
  - Well-publicized

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Timelines

The Capital Plan should precede the annual budget process

The timeline should include:

- A period to assess the current fiscal and capital asset situation and to review the master plan. If there are many departments or too much information, the planning board or committee might consider creating subcommittees to each review a certain portion of the information (perhaps a specific department) and report back to the larger group.
- A discussion period during which the planning board or committee can discuss issues with the town/city manager or administrator, ask and answer questions, and gather additional information.
- A plan for exactly who will draft the CIP and when.
- A timetable for drafting, revising, and adopting the CIP.

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Review your Policies

Operations
- Is there a chain of command the CIP committee should follow?

Budget
- Does it reference capital outlay expenses?
- Does it have a limit on how much can / should go into CRFs / ETFs?

Fund Balance
- Does it discuss acceptable uses of fund balance such as the purchase of capital outlay?

Revenues
- Do they discuss CRF / ETF uses for capital outlay?
- How about a one-time revenue policy?

Expenditures
- Do you have a purchase policy the CIP committee needs to take into account?

Capital Asset
- What is the definition of capital assets?
- What is the threshold?
- What is the useful life?

Investment
- Do the trustees of trust funds have an investment policy that ties up a CRF when it might be needed for a specific purchase?

Debt
- Will a CIP with debt financing as part of the financing plan bring the town over the debt limit?

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Staff Input

Staff should play a roll in determining assets to possibly add to the schedule. Have them:

- Verify condition of existing infrastructure and equipment
- Identify trends affecting capital issues
- Develop a list of needs and suggested projects
- Fill out a CIP requirement form

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Requirement Form

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Create a form for department heads and administration to fill when requesting items to be placed on the CIP schedule. The form might include:

- ✓ Department
- ✓ Asset description
- ✓ Reason why item is needed
- ✓ Estimated date deeded
- ✓ What will be the impact if the item is not acquired
- ✓ Authoritative estimate for the cost of the capital item
- ✓ Possible revenue sources
- ✓ Explanation of how this asset should be prioritized over others for the requesting department
- ✓ Name, title and signature of requestor
- ✓ Date submitted
- ✓ Date reviewed
- ✓ Decision
  - ✓ Approved to be added to schedule
  - ✓ Denied, and reason for denial
  - ✓ Other notes / explanations

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Form Example

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CAPITAL IMPROVEMENT PROGRAM

PROJECT YEAR	*2021-2023*	PROJECT COST	*2021 - $80,000*
DESCRIPTION	*Culvert & Outfalls Program*	DEPARTMENT	*Public Works*

IMPETUS FOR PROJECT (IE. MANDATED, COUNCIL GOAL, DEPT INITIATIVE, ETC.)

Department Initiative, MS-4 Permit

DESCRIPTION (TO INCLUDE JUSTIFICATION)

2021 - Oyster River Road - locations in the Faculty Development Neighborhood- $80,000
2022 - Mill Road @ Oyster River (near Foss Farm) - $70,000
2023 - Mill Road @ College Brook (headwall and outlet) - $85,000

ESTIMATED COSTS:	PRELIMINARY STUDY, DESIGN AND ENGINEERING	$	-
	FINAL DESIGN AND ENGINEERING	$	10,000
	CONSTRUCTION ENGINEERING OVERSIGHT	$	-
	CONSTRUCTION COSTS	$	70,000
	CONTINGENCY	$	-
	TOTAL PROJECT COST	$	80,000
FINANCING	OPERATING BUDGET	$	80,000
	UNH - CASH	$	-
	BOND - TOWN PORTION	$	-
	UNH PORTION	$	-
	FEDERAL/STATE GRANT	$	-
	CAPITAL RESERVE ACCOUNT	$	-
	TOTAL FINANCING COSTS	$	80,000
IF BONDED:	NUMBER OF YEARS		N/A
	TOTAL PRINCIPAL	$	-
	TOTAL INTEREST	$	-
	TOTAL ESTIMATED COST	$	-

Durham
https://www.ci.durham.nh.us/businessoffice/approved-2020-2029-capital-improvements-program

Or for a fillable form - Bristol:

https://www.bristolnh.gov/DocumentCenter/View/848/Cip-Project-Request-Form-Fillable-PDF

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Presentation

Have management and / or the department heads present their requests to the committee. They should:

- ❑ Be prepared to explain why it is needed when it is needed.
- ❑ Come with repair history supporting whey the asset should be moved from it's original estimated replacement / upgrade timeline.
- ❑ Have ideas on how to offset the cost of their request.
- ❑ Be prepared to explain why their request may or may not be more important than other requests. Make them prioritize the asset replacement.

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Prioritize

It is unlikely in local government that there will ever be enough funds, resources, or staff time available to pursue every capital project which can be justified.

Local leaders must prioritize to ensure the right projects are kept when the resources run out

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Prioritization Considerations

Have predetermined, clear, objective set of criteria to evaluate all projects, programs and services.

Promote fair, transparent, and unbiased methods when allocating limited resources.

Ensure existing assets are maintained before embarking on new initiatives.

Consider if there are current assets, programs, or services that are in the budget but no longer fit the needs of the community. Can those funds be re-directed to current items?

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Ranking

Establish a Priority Order:
- Need vs Want
  - Required by law
  - Public health & safety
  - Improves productivity / services/ achievement
  - Support Strategic plans, CIP Plans, goals, policies
  - Reduces operating costs
  - Improves obsolete facility
  - Directly benefits local economic base
  - Social, cultural, historic or aesthetic value
- Aggregate Need Ranking - based on 'three pillars' of assessment:
  - Equity
  - Facility Condition/Service Outcome
  - Capacity Utilization -Greater need = higher priority

Option: define a formal point system / score card

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

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Calculate Cost

Determine the current cost of the asset / program / project based on what management or departments supply with the request form.

Consider inflation and cost increases.
- Inflation has increased by 28.6% since 2020
- Highway construction projects have increased 68%-70% since 2021 according to the National Highway Construction Cost Index
- Labor costs have increased more than 25% since the onset of the COVID pandemic according to the SSA Average Wage Index

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Offsetting Revenue

Identify the revenue sources to be used to support items on the CIP schedule.

Common sources are:
- General Fund/General Revenue/General Taxation
- Grants (remember matching requirements)
- General Obligation (GO) Bonds
- Local borrowing
- Revenue Bonds
- Special Assessments
- Impact Fees & User Fees
- State or Federal "Pass Through Financing"
- Partnerships & donations
- Revolving Funds

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Borrowing

Do **NOT** forget to review and follow your debt policy!

The key is managing debt, so you borrow for the right projects at pre-determined borrowing points that maximize the government's borrowing efficiency.

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Fiscal Capacity

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A fiscal analysis to assess fiscal capacity is a critical step.

- ❖ The planning board or committee should obtain or create a comprehensive list of all the trust funds, capital reserve funds, special revenue funds, and other funds .
  - ❖ What are the current balances in each fund?
  - ❖ What is the typical funding / revenue source for each fund?
- ❖ Other important information includes:
  - ❖ The tax rate
  - ❖ Fixed costs going forward (such as bond payments or other debt service)
  - ❖ The past, present and future expected revenues, expenditures and debt (i.e., what can the municipality afford?).
  - ❖ The current status of previously approved projects
  - ❖ What are the cost estimates and funding sources for projects which are currently underway and when are they expected to be completed?
  - ❖ What impact do those projects have on the fiscal analysis and asset inventory once they are finished?
  - ❖ Economic Trends

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Example – CIP Financing

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Durham - https://www.ci.durham.nh.us/sites/default/files/fileattachments/planning_board/page/73653/draft_cip_2026-2035.pdf

2025 CAPITAL IMPROVEMENT PROGRAM

Description	Operating Budget	UNH Cash	Bonding		State & Federal	Capital Reserve	Grants, Trade & Other	Total
			Town	UNH				
General Fund								
Fire Department								
New Fire Station			$ 4,000,000	$ 16,000,000				$ 20,000,000
Thermal Imaging Camera						$ 12,000		$ 12,000
Replace 2013 Chevrolet 2500 (Utility Truck)						$ 65,000		$ 65,000
Refurbish 2015 Marion Pumper			$ 80,000	$ 80,000				$ 160,000
Replace 2016 Chevrolet Tahoe (Chief's Car)						$ 95,000		$ 95,000
GIS								
GIS Program	$ 30,000							$ 30,000
Information Technology								
IT Equipment Replacement	$ 29,500							$ 29,500
Police Department								
Vehicle Replacement	$ 127,000							$ 127,000
Public Works								
Buildings & Grounds Division								
Seasonal Decorative Lighting	$ 2,500							$ 2,500
Courthouse/Old Town Hall Restoration			$ 367,000					$ 367,000
Operations Division								
Road Resurfacing	$ 488,000							$ 488,000
Crack Seal Program	$ 25,000							$ 25,000
Sidewalk Improvement Program	$ 40,000							$ 40,000
Drainage System Rehabilitation Program	$ 85,000							$ 85,000
Stormwater Management Permit Compliance	$ 30,000							$ 30,000
Facility Infrastructure Preventative Maintenance	$ 25,000							$ 25,000
Madbury Roadway, Sidewalk, Drainage Const.			$ 2,298,000					$ 2,298,000
Dump Truck Replacement			$ 185,900					$ 185,900
Mobile Air Compressor Replacement	$ 30,000							$ 30,000
Longmarsh Road Bridge Replacement			$ 1,300,000					$ 1,300,000
Sanitation Division								
Recycling Collection Vehicle Replacement			$ 299,000					$ 299,000
Total General Fund	$ 912,000	$ -	$ 8,529,900	$ 16,080,000	$ -	$ 172,000	$ -	$ 25,693,900

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Semi-Final Steps

Once the committee finalizes the capital improvement program / plan they may consider forwarding the plan to management and department heads for review.

This will forestall the department head from thinking the carpet was pulled out from under their feet when something is not included in the budget they felt should be.

It will also give them a chance to make recommended changes to the program before the program / plan is finalized and submitted to the required people.

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Consider Public Input

The public should be encouraged and enabled to participate in significant decisions prior to making a final decision (in this case adopting the CIP.) Additionally, public input into the capital improvement priority rankings may actually be helpful.

Remember:

- Citizen input concerning your capital priorities is not the only virtue of a public hearing.
- Citizen education is valuable in its own right.
- Informed Citizens can better understand and support budget decisions.

Ultimately, in SB-2 and traditional town meeting municipalities, the citizens have the final say as to how much goes in the budget.

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Final Steps

Adopt the plan!

Once the committee finalizes the capital improvement program / plan they shall submit its recommendations for the current year to the mayor or selectmen and the budget committee, if one exists, for consideration as part of the annual budget.

This can be as simple as emailing a final document to the requires parties, or they may consider actual presentation and justifications either jointly or separately to the:

- Governing body / Mayor
- Budget committee

The committee may also consider presenting the program / plan to town meeting.

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Points to Remember

The capital plan is a flexible document

It can and should be changed when the situation requires

As a “Plan” it is not “cast in stone”

The plan is not mandatory when determining the budget. It is only for consideration when determining the budget!

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Policy Time

I never make the same mistake twice.
I make it like five or six times just to be sure.

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GFOA Best Practice

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GFOA Recommends Capital Planning Policies should contain:

- A description of how the government organization will approach capital planning
- A clear definition of what constitutes a capital improvement project
- The establishment of a capital improvement program review committee
- A description of the role of the public and other stakeholders
- Identification of how decisions will be made, prioritization of projects and allocating limited resources
- Assessment of the government's fiscal capacity

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GFOA Best Practice

GFOA Recommends Capital Planning Policies should contain:

- Procedure for accumulating reserves for new and replacement purchases
- Linking debt funding strategies with useful life and legal restraints
- Requirement for development of multi-year plan which includes long term financing costs and strategies
- Requirement that the plan includes significant capital maintenance projects with a funding plan
- Provisions for monitoring and oversight of the approved CIP annual budget and multi-year plan

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Management Definition

Your policy should define what and when items belong in the plan.

Equipment and facilities wear out and must be replaced. Which is why competent managers of a city or town's assets should plan for how best to acquire and pay for replacement equipment and facilities. As the old cliché goes:
"You can pay me now, or you can pay me later!"

For example, the patrol cruiser that you bought new four years ago now has 250,000 miles on it and needs a transmission that will cost $6,000. Without the cruiser the police will be on foot.

Should you fix the transmission and hope that the engine will hold up for a few more years?
OR
Should you trade it in on a new cruiser, even if that means that you will not be able to afford the front-end loader needed by the highway department and that you promised two years ago?

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Key Policy Components

- The introductory section includes various information on the CIP process, policies, and governance that help provide context and framework under which the CIP is formulated.
- The Overview sets the tone for the CIP with the Joint BOS/Planning Board message and provides status of existing projects, including summaries of authorized expenditures and projects that are underway.
- The Capital Funding section includes various financial summaries of the CIP by program and funding source. It also includes analysis of the Town's debt capacity as impacted by the CIP.

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Key Policy Components

There should be sections dedicated to describing specific programs and projects. This would include all departments and facilities. These sections detail the projects by major programs.

- The first part of each of the programs provides a summary overview of costs and funding sources. Also included is specific information on the impact debt financing will have on annual debt service payments where applicable.
- The next pages provide a detailed description of each project, associated master plan impact, project justification, cost schedules, funding schedules, changes from the last CIP, and operating impacts, if any.
- Language examples may include:
  - The current CIP is largely funded by Capital reserves, PAYGO and short-term financing.
  - In addition, the Capital Reserve Funds are integrated in the comprehensive funding strategy for the CIP.
  - Please note that cost estimates are subject to market pressures and may not reflect the actual costs incurred at project implementation.

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Financial Statements

Financial Considerations in Capital Planning Policy often Include Statements such as:

- ❑ General fund debt service shall not exceed **XX%** of general fund budget.
- ❑ Pay As You Go capital budget shall be a minimum of **XX%** of the general fund budget.
- ❑ **XX%** of taxes shall be appropriated to capital reserve accounts.
- ❑ Total general fund capital investment (debt service and pay go) shall be a minimum of **XX%** of general fund budget
- ❑ Discretionary projects in excess of **$XXX** shall be funded with a debt or capital exclusion warrant article.
- ❑ Enterprise funds shall fully support debt service and capital expenditures. (Water/Wastewater)

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Financing Options

What Financing options should the CIP consider including? Common Policy Statements Include:

- o Commit to annual capital funding level
- o State when short- or long-term debt is appropriate
- o Commit to self-supporting enterprise funds
- o Require evaluation of special revenues sources (e.g., revolving funds, grants)
- o Dedicate a revenue stream (e.g., meals and rooms tax for roadwork in addition to the highway block grant)

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Thresholds

Each community must define for itself what qualifies as "high cost" and a "useful life of several years."

The specific definition in each community will be different based on the population, capital needs, and available budget.

There is no single "right" way to define this. Smaller town could have a larger or smaller threshold than larger towns or cities

For example, a City might set its capital improvement threshold at $25,000 with a useful life of seven or more years. Expenditures that do not meet both the cost and useful life threshold are not included in the capital improvements plan; instead, they are included as a part of the city's operating budget. In a smaller, the threshold may be $10,000 with a useful life of five years. An even smaller community may define it as any project having a useful life of at least 5 years and requiring a gross expenditure of more than $50,000.

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Sample Language

Capital Improvement Program

a) *Submission to Council.* The manager shall prepare and submit to council a five-year Capital Improvement Plan at least ninety days prior to the beginning of each fiscal year.

b) *Contents.* The Capital Improvement Plan shall include:

(1) A general summary of its contents;

(2) A list of all capital improvements which are proposed to be undertaken during the five fiscal years next ensuing, with appropriate supporting information as to the necessity for such improvements;

(3) Cost estimates, method of financing and recommended time schedules for each such improvement; and

(4) The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

The above information shall be revised and extended each year with regard to capital projects still pending.

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Sample Language

The following is the operating guide for the Capital Improvement Plan Committee:

Purpose:

The Role of the Capital Improvement Plan Committee is to assist the City Manager, prepare, and submit to Council a Five-Year Capital Improvement Program by April 1, annually.

Composition:

The Capital Improvement Plan Committee is made up of the City Manager, the Deputy City Managers and the Director of Budget.

Functions:

1. Develop a Five-Year Capital Improvement Plan based on the anticipated construction or capital acquisition needs of all departments under the control of the City Council. Submit to the City Council for its information the suggested Five-Year Capital Improvements Plan including:

   a) Total estimated costs;
   b) Recommendations concerning scheduling and financing the program; and
   c) The correlated fiscal impact of other taxing units' capital programs. (For example, new Water Resources.)

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Sample Language

2. Establish criteria upon which project priority may be based, to include but not limited to:

   a) Effect on the assessed valuation of the City;
   b) Interrelationship of each project with other projects;
   c) Effect of each project on the quality of life and progress of the City;
   d) The number of residents favorably or adversely affected by each completed project;
   e) Each project's relationship to the Comprehensive Development Plan with emphasis upon the Five-Year Capital Improvement Plan and the community development objectives.

3. Determine a priority for each project within the program based upon the established criteria;

4. Secure supporting data, justification for proposed projects, accurate cost estimates and a listing of departmental services and facilities and projected operating costs related to each capital project.

5. Submit a Capital Improvements Plan within such principles, limitations or guidelines as established by the City Council and City Charter Support the Budget office in coordinating and expediting completion of the Capital Improvements Plan as recommended to the City Council.

6. Ensure that "abandoned" projects are clearly explained and labeled.

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Fiscal Capacity / Condition

When I was young, I was poor. After year of hard, honest and painstaking work, I am no longer young.

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What is Fiscal Condition?

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Your municipality's ability to finance expected services on a continuing basis.

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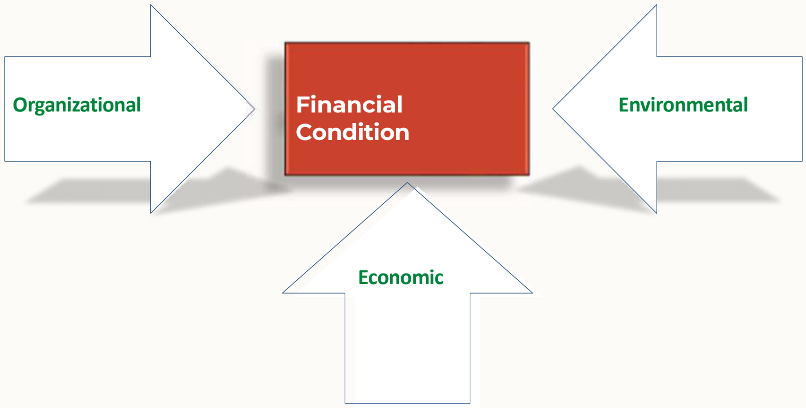
Factors

Factors that Affect
Financial Condition



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Components

There are four components of financial condition

- Cash solvency
- Budgetary solvency
- Long-term solvency
- Service level solvency

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Cash Solvency

Factors that affect cash solvency include:

- Billing cycles do not coincide with cash flow requirements.
- Receivables not being enforced timely.
- Lack of Internal Controls/Policy/Procedure
- Economic stress
- Inflationary Pressure

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Budgetary Solvency

Factors that affect budgetary solvency include:

- Deficient budgeting procedures.
- Lack of knowledge about real program costs.
- Failure of management to understand:
  - Financial information
  - Proper budget preparation
  - Set Policy and Internal Controls
  - Monitoring procedures

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Budgetary Solvency

Factors that affect budgetary solvency include:

- Federal, State and local mandates/restrictions
  - Tax cap
  - Budget cap
  - Declining or reduced state or federal aid
- Declining population or industry
- Large, unplanned population growth
- Severe weather

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Service Level Solvency

Factors that affect service level solvency include:

- Stagnant or shrinking tax base.
- High level of tax-exempt properties.
- Lack in growth of revenues.
- Lack of control over rising costs.
- The true cost of providing services.

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Long-term Solvency

Non-existent or inadequate multiyear financial planning may lead to:

- Deteriorating infrastructure
- Lack of funds for contractual and debt payments.

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Other Factors

Other factors affecting financial condition

- Community needs and resources
- Economic and environmental conditions
- Political culture

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Analysis and Identification of Fiscal Stress

As I have grown older, I've learned that pleasing everyone is impossible, but irritating them is a piece of cake

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Sources of Information

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- Financial statements and notes
- Multi-year comparisons
  - Local officials/ managers
  - Bond rating agencies
- State and Federal Data

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Before you Begin

Analyze data integrity

- Is the data from a reliable source?
- Are the numbers current and complete?
- Are there any data or methodological assumptions to be aware of?
- Do the trends or results intuitively make sense?

Garbage in – Garbage out

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What to Analyze

- Fund balance
  - What is the level in each of the 5 categories?
  - What is the trend in change of the levels?
  - What percentage of retainage does / has the town had?
- Operating surplus / deficit
  - Are revenues typically under or over the estimated amount?
    - By how much?
  - Are expenses typically under or over the appropriations?
    - By how much
- Liquidity
- Debt

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Assessing Condition

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- Assess each fund individually
- Assess unit as a whole – keeping in mind legal and/or other restrictions
  - Are there funds which can legally provide assistance / loans to other funds?
  - Avoid using tax revenues from one tax base to fund expenditures for another tax base (i.e., lighting districts, sidewalk districts, refuse collection, etc.)

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Revenue Trend

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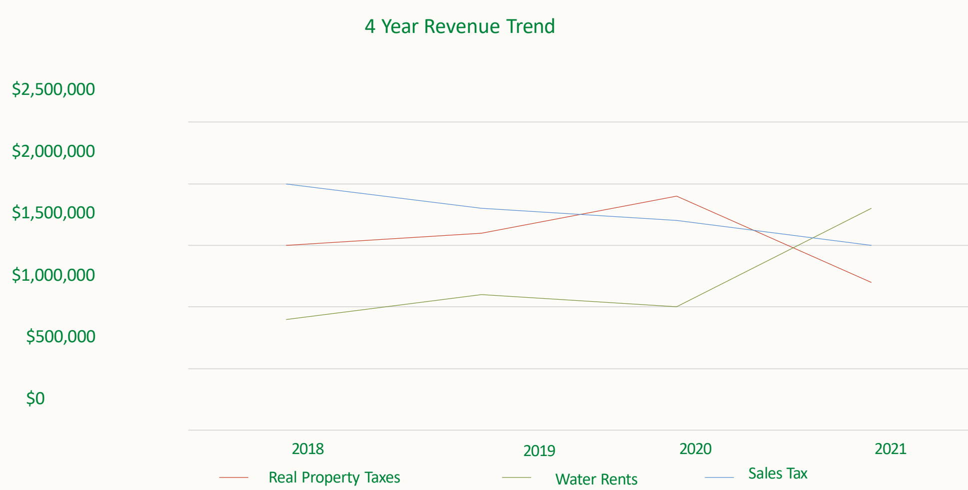

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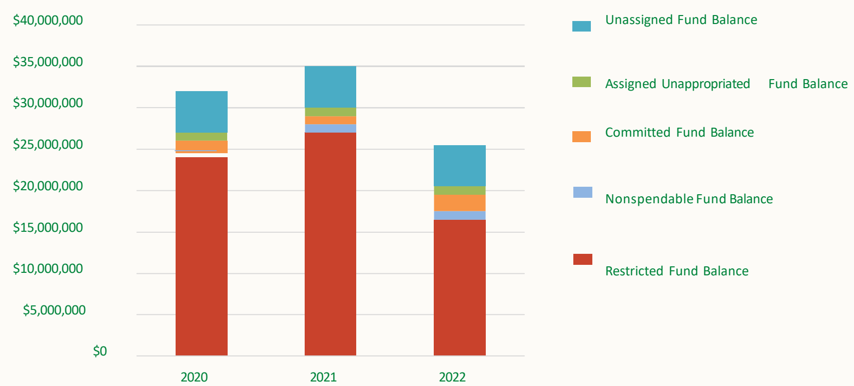
Fund Balance



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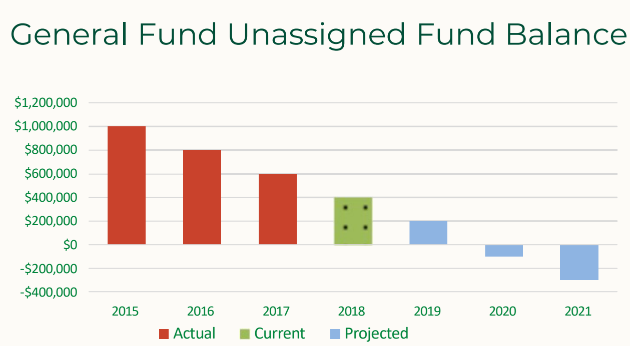
Fund Balance May not Last



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Results of Operations

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Change in Fund Balance and Operating Results	2019	2020	2021
Beginning Fund Balance	**$27,045,326**	**$30,957,589**	**$34,150,384**
Prior Period Adjustment – Increase	$0	$1	$0
Prior Period Adjustment – Decrease	$0	$0	$0
Restated Beginning Fund Balance	**$27,045,326**	**$30,957,590**	**$34,150,384**
Actual Revenues	$110,609,918	$110,582,058	$113,795,342
Actual Expenditures	$106,697,655	$107,389,264	$123,392,687
Operating Surplus / (Deficit)	**$3,912,263**	**$3,192,794**	**($9,597,345)**
Ending Fund Balance	**$30,957,589**	**$34,150,384**	**$24,553,039**

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Liquidity

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Cash as % of current liabilities.

Cash as % of average monthly expenditures.

Cash as a % of ensuing year's appropriations.

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Cash Position

Unrestricted Cash	2019	2020	2021
Cash	$13,664,597	$14,133,780	$16,493,181
Total Unrestricted Cash	**$13,664,597**	**$14,133,780**	**$16,493,181**
Total Unrestricted Cash as a % of Ensuing Year's Budgeted Appropriations	12.25%	12.49%	14.07%
Restricted Cash	2019	2020	2021
Cash, Reserves	$19,032,749	$22,757,049	$23,026,786
Total Restricted Cash	**$19,032,749**	**$22,757,049**	**$23,026,786**
Restricted Fund Balance	$23,624,179	$26,801,718	$16,111,779
Restricted Cash Sufficient to Fund Restricted Fund Balance	($4,591,430)	($4,044,669)	$6,915,007
Total Cash			
Total Cash (200-235)	**$32,697,346**	**$36,890,829**	**$39,519,967**

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Debt

Fiscal Stress Considerations:

- Short-term debt
  - Could be indicative of a cash flow problem.
  - May be the source of funding for deficit fund balances.
- Long-term debt for relatively small purchases or projects.

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Other Analysis

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Other Analysis

- Budgeting
- Interfund activity
- Long-term debt per capita
- Tax levy / tax rates

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Budgeting

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Perform budget vs actual analysis

Analyze the ability to adopt and successfully monitor budgets:

- No budget modifications

Significant budget vs actual differences

- Consistent significant budget modifications

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Results

When you have taken all these components into consideration, you have an idea of what the fiscal condition for your municipality is.

The stronger the condition, the greater fiscal capacity you have.

The weaker the condition, the less fiscal capacity you have.

Determine the fiscal capacity before deciding what can or should not be added to the CIP.

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THANK YOU!

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Our Vision

NHMA is known as the premier source of information and support needed for town and city officials to effectively serve the public.

Our Mission

NHMA supports effective municipal government by leveraging the collaborative strengths of New Hampshire cities and towns through education, training, advocacy, and legal services.

Our History

The New Hampshire Municipal Association, Inc. (NHMA) is a nonprofit, non-partisan membership organization of municipalities. Founded in 1941 for the purpose of exchanging information to facilitate more efficient and effective local government, NHMA was reorganized in July 2003 under the umbrella of the New Hampshire Local Government Center (LGC). At that time all services provided to municipalities by NHMA were assumed by LGC except legislative advocacy, which remained in NHMA LLC, a separate subsidiary of LGC. In the fall of 2012 all "traditional municipal league services" including legislative advocacy, legal advisory services, training programs, and educational publications, were consolidated under NHMA with oversight by the NHMA Board of Directors. Currently, NHMA, Inc. operates as a totally separate, independent organization from the former LGC risk pools (HealthTrust, Inc. and Property Liability Trust, Inc.) with a board comprising only elected and appointed municipal officials elected by NHMA members.

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NHMA's government finance specialist has extensive experience in municipal government and finance. She is available to assist NHMA members with government-finance inquiries and provides educational programming. The available services are described below, and members can contact her at financeinquiries@nhmunicipal.org or by calling 603.224.7447 and choosing option 1.

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MEMBER FEEDBACK

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