

Model Capital Program and Budget Policy



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Guidance

The capital assets of a town and their condition are critical to the quality of services that a municipality can provide. Capital asset expenditures can be more controversial than other expenditures because they typically involve large sums of money, often raised through debt financing, and not every citizen will agree as to the necessity of each project that is undertaken. By using a well thought out capital improvement program, the town can plan for replacement of assets, potential capital reserve funding, operating budget expenditures, and debt service expenditures.

Vermont law provides for adoption of a capital budget and plan at 24 V.S.A. § 4430 and encourages that the capital improvement plan conforms to the municipal plan.

Capital improvement policies need to be general and flexible to accommodate a community's political will while still providing enough guidance to enable sound financial choices. Therefore, the policy will generally consist of guidelines designed to stimulate an informed debate to encourage the most enlightened choices, rather than trying to force efficient or effective decisions by way of a rigid menu of policy choices. Determining the criteria for selecting projects in advance will take the emotion out of the selection process.

Consider the following when developing a capital improvement policy:

Capital Improvement Program. The basis of any capital improvement plan is the capital improvement program (CIP), a five-year projection of the town's capital needs and its available financial resources. The purpose of the CIP is to help build consensus on what are the most important projects, thus ensuring these projects are undertaken first. The policy needs to include the criteria that will be used to prioritize the projects that are included in the plan.



Project Financing. There are numerous alternatives for financing capital projects, from pay-as-you-go financing or accumulation of reserve funds to leases and other debt instruments. The policy should include a discussion of the town's preferred financing methods.

For more information on capital planning, please see the *Vermont Land Use Planning Implementation Manual*, published by the Vermont Land Use Education and Training Collaborative. The Implementation Manual is available at <https://www.vapda.org/local-boards--staff.html>.

Please note that this model policy has been developed for illustrative purposes only. VLCT makes no express or implied endorsement or recommendation of any financial policy, nor does it make any express or implied guarantee of legal enforceability or legal compliance, nor does VLCT represent that any particular policy is appropriate for any particular municipality. Your legal counsel should review any proposed financial policy before adopting it.

As always, please contact the Municipal Assistance Center if you have questions at info@vlct.org or 800-649-7915.

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