Model Capital Improvement Plan and Capital Budget Policy + Guidance

Copyright Vermont League of Cities and Towns
Current as of: 10/31/2026

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, sometimes raised through debt, and not every citizen will agree as to the necessity of each project undertaken. By using a well thought out capital improvement plan, a town can plan for the replacement of assets, potential reserve funding, operating budget impacts, and debt service.

Vermont law provides for adoption of a "capital budget and program" in 24 V.S.A. § 4430, and encourages that the capital improvement plan ("program") conforms to the municipal plan.

Capital improvement policies need to be general and flexible enough to accommodate a community's political will, while still providing enough structure to support sound financial choices. Determining the criteria for selecting projects in advance, rather than debating them project by project, takes much of the emotion out of the selection process.

Consider the following when developing a capital improvement policy:

Capital Improvement Plan. The basis of any capital improvement policy is the capital improvement plan (CIP), a multi-year projection, covering at least five years of the town's capital needs and available financial resources. Vermont law sets five years as the required minimum; many towns plan further ahead, VLCT's own capital planning resources describe multi-year plans commonly spanning five to 20 years, particularly useful for infrastructure with a longer useful life, such as water and sewer systems. The purpose of the CIP is to build consensus on the town's most important projects (including asset renewal or maintenance), so those projects are undertaken first rather than those suggested by whoever has the loudest voice in the room in a given year. The policy should include the criteria used to prioritize projects, health and safety,

Copyright Vermont League of Cities and Towns
Current as of: 10/31/2026

legal compliance, asset preservation, service delivery, hazard resilience and available outside funding are common starting points, and a capitalization threshold, the dollar level above which a purchase is tracked as a capital asset and planned for through the CIP rather than treated as an ordinary operating cost.

Asset Management. A capital improvement plan is only as good as the town's knowledge of what it already owns. Maintaining a basic inventory of capital assets, along with periodic condition assessments, helps a town catch a failing culvert or an aging truck while there's still time to plan and budget for it, rather than after it fails.

Project Funding and Financing. In capital planning, it's useful to distinguish two related but distinct tools for paying for a project. Funding is money that doesn't need to be repaid, grants, budget appropriations, impact fees, reserve funds, and unassigned fund balance. Financing is money that is borrowed and repaid over time, typically through a general obligation bond or a state revolving fund loan. Most small capital projects rely on funding alone; financing enters the picture once a project is large enough that the town needs to borrow. As of July 2025, Vermont towns may also maintain an unassigned fund balance under 24 V.S.A. § 1585, a more flexible complement to purpose-restricted reserve funds under 24 V.S.A. § 2804. The policy should identify a project's funding sources and, where financing is needed, its financing method, including the type of debt obligation and the period of probable usefulness (the maximum term state law allows based on the asset's expected useful life) on which it's based.

For more information on capital planning:

VLCT's Capital Planning resource page.

Vermont Bond Bank's Road to Resilience: Town Highway Disaster Reserve Benchmarks

Copyright Vermont League of Cities and Towns
Current as of: 10/31/2026

Vermont Land Use Planning Implementation Manual, published by the Vermont Land Use Education and Training Collaborative.

Disclaimer: This resource was created by Municipal Operations Support (MOS) staff of non-legal professionals with expertise of the subject matter. It is only intended to provide information and does **NOT** constitute legal advice. Readers with legal questions are encouraged to contact an attorney. The use or downloading of this resource does **NOT** create an attorney-client relationship and will not be treated in a confidential manner. Non-legal questions about this resource can be directed to MOS staff at mos@vlct.org.

Publication Date
03/03/2026

Copyright Vermont League of Cities and Towns
Current as of: 10/31/2026