NOTE: This is a draft document under discussion by the Board of Finance. No action beyond discussion has been taken regarding the document at this time.

Town of Ridgefield Board of Finance
Capital Budget Guidelines
Adopted _________
DRAFT Version 3 (August 2026)

Introduction

This Capital Budget policy provides guidelines for the preparation of the Capital Budget for the Town of Ridgefield. The policy is intended to provide guidance to the Board of Selectpersons and Board of Education in their submission of Capital Budget requests, as well as to facilitate evaluation and consideration of such requests by the Board of Finance and the voters. These guidelines are intended to supplement the provisions of the Town Charter governing the budget process.

Section 1: Capital Budget – Purpose and Application

The purpose of the Capital Budget is to fund longer-duration assets that fall outside the financial scope of annual operating budgets. These assets can include various physical equipment, land and buildings, certain electronic equipment and software purchases, and major infrastructure improvements and repair projects (for example, replacement of a town-owned bridge). Where appropriate for capitalization, the capital request may include the costs of planning and design of the project or equipment.

Section 2: Capital Budget – General Guidelines for Inclusion

2A. Duration of Assets

It is the expectation that expenditures approved through the Capital Budget process will generally be financed by Town borrowings and subsequently repaid through the Debt Service portion of the annual Operating Budget. To the extent that this borrowing and repayment process spreads the repayment cost of Capital Budget expenditures across multiple future budget years, it is important that the assets in each annual Capital Budget exhibit a pattern of useful lives that in the aggregate are reasonably expected to exceed the corresponding payout pattern for the debt that will be used to fund those expenditures, based on current assumptions for debt maturity structure and interest rates.

In general

- No item should be included in the Capital Budget that has an expected useful life of less than 5 years.

- Items with an expected useful life of less than 8 years should not comprise more than 25% (by cost) of the annual Capital Budget.

2B. Size of Assets/Expenditures

Borrowing to fund capital items incurs the cost of future interest payments, in addition to the direct costs involved – generally on the order of 25%-30% of the direct cost. In addition, the process of issuing municipal debt incurs certain administrative costs. For these reasons, it is generally not cost effective or appropriate to use the Capital Budget to acquire smaller-value assets that should better be accommodated in the annual Operating Budgets

In general

- No items/projects should be included in the Capital Budget that have a cost of less than $50,000; however,
- Items/projects with a cost of $25,000 to $50,000 may be included if the expected useful life exceeds 15 years.

It is recognized that for some smaller town departments, the occasional capital item of this smaller magnitude could still result in a substantial year-over-year swing in the unit's corresponding annual operating budget. The Town and the Board of Education may choose to present a separate section of its operating budget for such items, rather than include them in individual department budgets. If presented in this manner, such a listing should report the requesting department, the nature of the item/request, and the amount involved.

Section 2C. Expected Timing of Outlays

All items proposed for the Capital Budget should reasonably be expected to be initiated (that is, purchased or the purchasing process started, or project actively initiated) by the end of the fiscal year that the budget covers. Items exceeding this timing expectation should include an explanation of why the item/project needs to be included in the current budget and cannot be delayed to a future budget cycle.

Section 3: The Capital Budget Submission Process

Capital Budgets shall be submitted and reviewed pursuant to the provisions of the Town Charter, as further detailed by these guidelines.

3A. Supporting Information

As part of the annual budget process, the Board of Selectpersons and the Board of Education shall submit both a proposed Capital Budget for the upcoming fiscal year and a Capital Budget planning projection for the subsequent 4 fiscal years. The latter shall show currently anticipated plans for capital budget projects in each of those future years. Collectively, this information will constitute each entity's "5-Year Capital Improvement Plan" ["CIP"].

Each annual submission shall include:

- A short descriptive listing of the proposed capital items, including estimated cost and anticipated useful life for each item.
- A reconciliation detailing changes in the upcoming fiscal year Capital Budget proposal compared with the information in the prior CIP, such as new items not previously in those plans and items accelerated or postponed from the prior timeline, as well as material changes in cost estimates.
- A summary or narrative of changes in the "out-years" of the current CIP relative to the prior plan.

Details of supporting documentation, such as explanation of need/purpose and cost estimates and bids, for the coming year Capital Budget proposed items should be available in the level of detail specified by members of the Board of Selectpersons and Board of Finance.

3B. Funding Offsets

Information about potential sources of external funding (such as grants) for Capital Budget requests should be identified in the submission material. The presentation should discuss the likelihood that the offset will be realized (e.g., that the grant has been approved, pending completion of the project, or that there is an X% likelihood or realization) as well as the expected timing and any conditions for realization.

The Board of Finance, as part of its deliberations and recommendation of the Capital Budget, should determine item by item whether information about potential offsets should be included in the information presented to the Annual Town Budget Meeting and in the annual Budget Referendum questions. In general, offsets should NOT be anticipated unless the offset is already approved (subject to project realization) or demonstrates a very high expectation of being realized.

Section 4: Off-cycle Capital Budget Requests

The Capital Budget is intended to be primarily an annual exercise, to facilitate proper evaluation, control, and management of the Town's debts and debt service costs. However, it is recognized that unexpected needs will occur that may require additional capital spending, with the procedures for initiating and considering such requests defined in the Town Charter.

In general, off-cycle budget request are discouraged, particularly when the proposed capital expenditure could have been reasonably anticipated and included in the requesting Board's immediately prior Capital Budget. An off-cycle request should be of an urgent nature and should include an explanation for why the request cannot wait until the next budget cycle.

Among the considerations of the Board of Finance in reviewing the annual Capital Budgets is the level of total capital funding being requested by each requesting Board, and in total. The annual review cycle for this information is typically completed by early April. To provide a proper perspective on total capital spending, any off-cycle capital requests which are approved after the completion of the March/April budget process shall be considered part of the requesting Board's total Capital Budget request for the <u>following</u> fiscal year. For example, if the Board of Selectpersons is presenting a Capital Budget proposal for the coming fiscal year of 25 items totaling $7.3M, but there have been 2 off-cycle requests for a combined $450,000 since the prior April, the request as submitted should show 27 items for $7,750,000 in the subsequent budget process, with the two off-cycle approval items noted as such.