



# Capital Improvement Program

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## Opener Activity






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# Why Do we Need a Capital Improvement Program?

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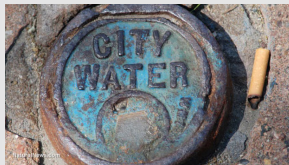




Because.....

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We Cannot Afford  
Not To.....

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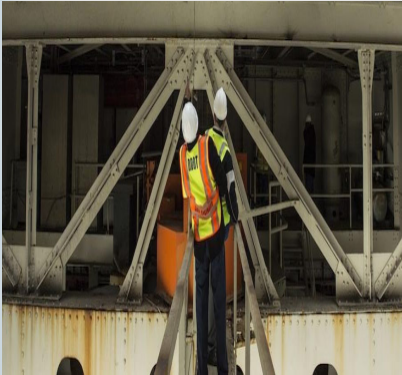


An aerial view of the Interstate 35W bridge that collapsed over the Mississippi River in Minneapolis, Aug. 3, 2007.  MORRY GASH/AP

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After decades of decline, public spending on infrastructure is at its lowest since 1947. State and local governments, which account for about three-quarters of the nation's infrastructure spending, have been slashing their budgets and putting off repairs

Investments in Capital cannot be Overstated and are Critical Components to a Government's Future Economic and Development Growth

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## Course Overview

- CIP Overview
- CIP and Local Government Budgets
- The CIP Process
- CIP Roles of Decision Makers and Capital Requests
- Selection of Capital Requests
- Funding Capital Improvements
- Capital Improvements After Budget Adoption

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## Learning Objectives

**Recall** the definition of capital improvement program and capital assets

**Distinguish** between a budget for CIP compared to operating



**Define** criteria for including improvement in CIP

**Describe** planning documents and policies to consider during development of the CIP

**Recall** the elements of a capital replacement schedule

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## Learning Objectives

**Describe** the operating impact of a capital improvement on the budget

**Explain** how capital improvements are selected and methods used to evaluate and prioritize



**Describe** the roles of governing authority and other participants involved in the capital planning and budgeting process

**Discuss** the typical funding options related to a capital improvement plan

**Recall** how capital improvement plans are developed and managed


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# CIP OVERVIEW

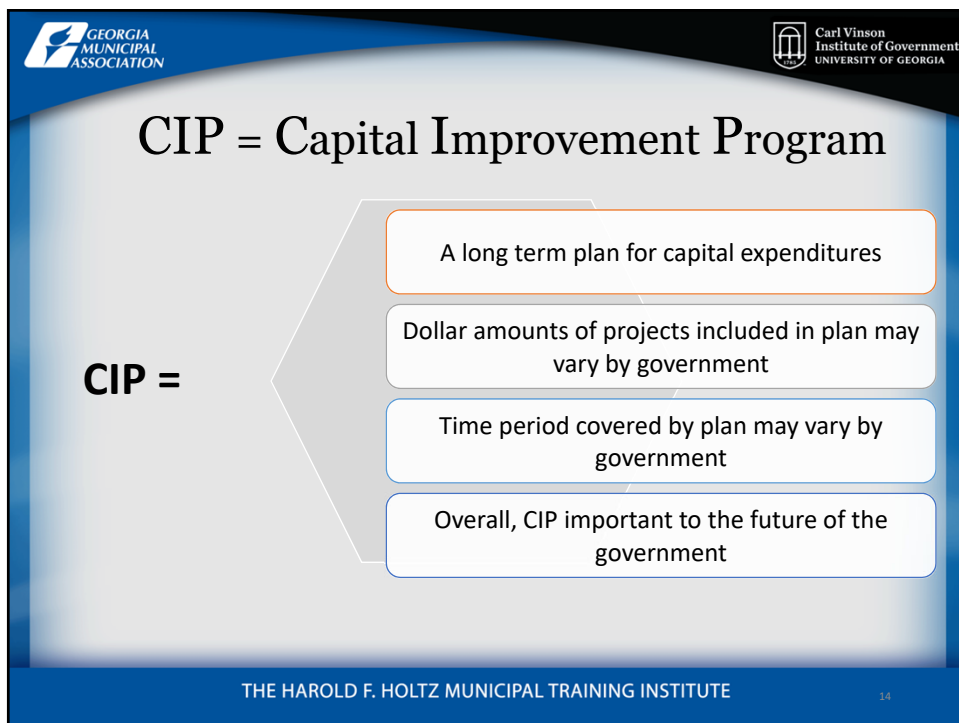
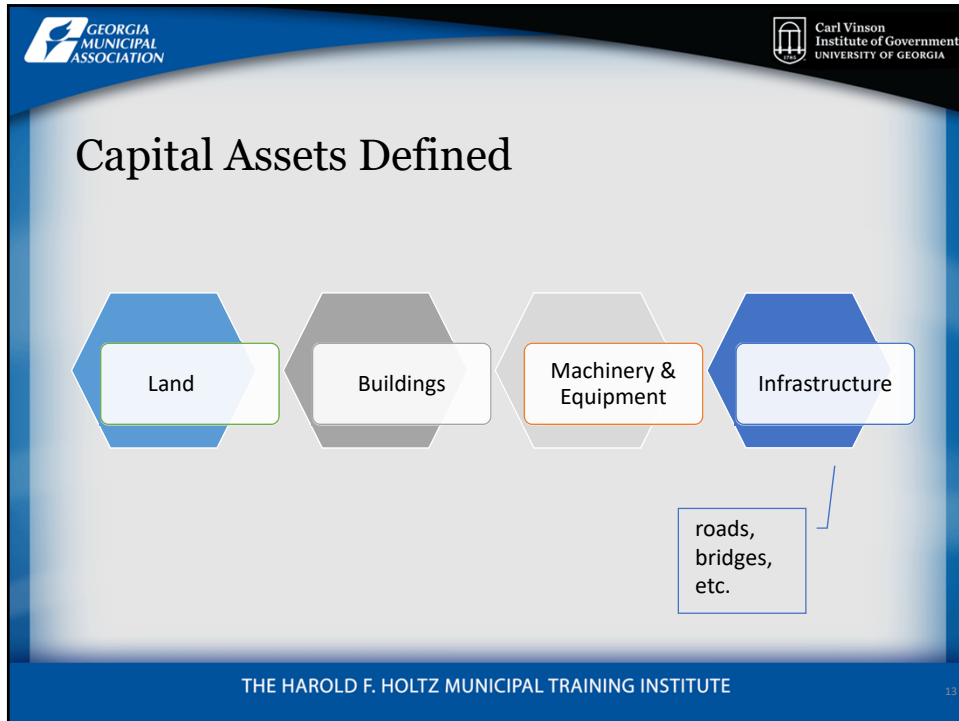
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## Group Discussion Definition of Capital Improvement Program




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## Why a CIP?





- Plans for major expenditures on a regular basis




- Prioritizes projects since funding is typically not available for all projects at one time

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## Why a CIP?



- Requires **planning** by local governments beyond the current year to provide the desired benefit to the local government





- Encourages interdepartmental **collaboration** regarding planned projects

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## Operating vs. Capital Budget

Operating Budget	CIP Budget
<ul style="list-style-type: none"> <li>• Recurring</li> <li>• Daily Operations               <ul style="list-style-type: none"> <li>• Mowing of right-of-way</li> <li>• Maintenance of city pool</li> <li>• Transport of prisoners to court</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Non-recurring</li> <li>• One-time expenditures               <ul style="list-style-type: none"> <li>• Expanding road ways</li> <li>• Construction of new pool</li> <li>• Construction of new courthouse</li> </ul> </li> </ul>

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## State Law Governing CIP



  
  


- Requires a "project length balanced budget for each capital project fund"
  
- Requires a contract for public works construction that exceeds \$100,000

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## State Law Governing CIP

- Although recommended, the State of Georgia code does not require involvement of the public in the development of the budget
- Code requires governing authority to hold a public hearing prior to budget adoption
- Governing authority adopts capital budget which is developed from the plan




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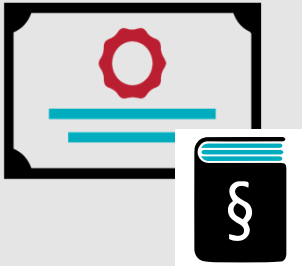


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## State Law Governing CIP

**Bonds** are a typical funding source for CIP projects

Georgia requires election for general obligation bond issue



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# Local Law Governing CIP

Local laws vary by government

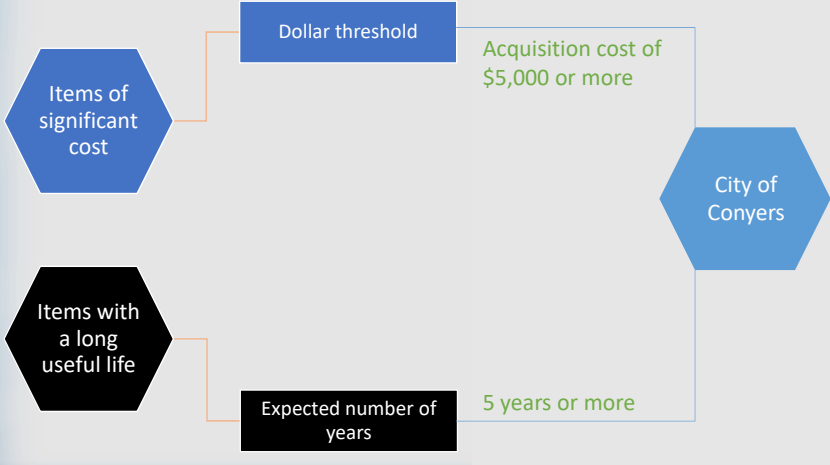
Local laws provide additional direction regarding the CIP process



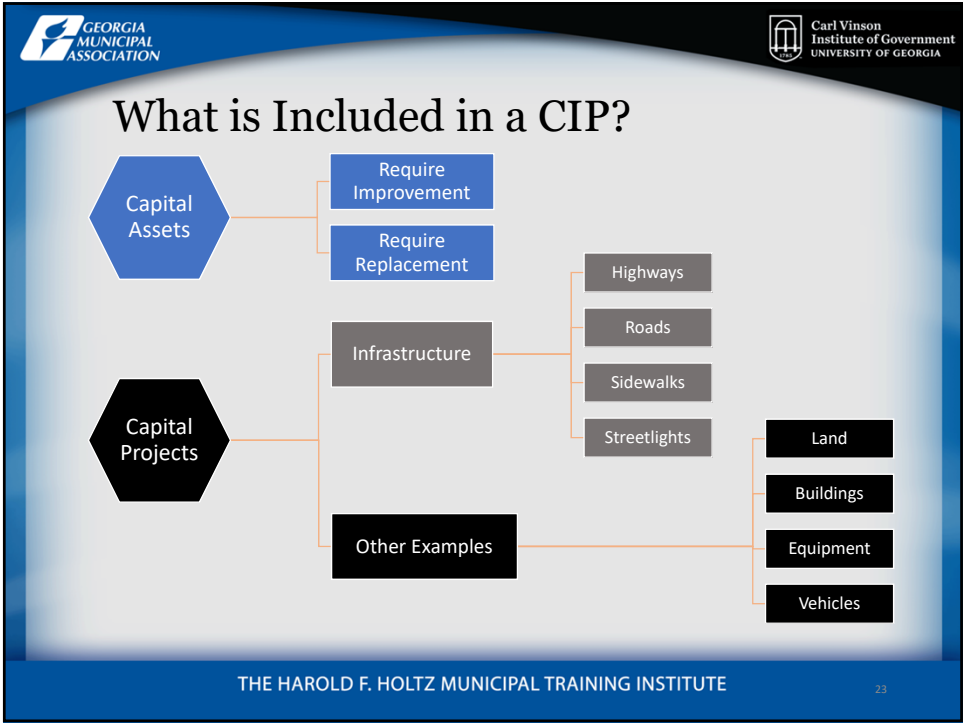
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# What is Included in a CIP?





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**LOCAL GOVERNMENTS  
AND CIP BUDGETS**

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## Relationship of Operating and CIP

Operating	Capital
<ul style="list-style-type: none"> <li>• Annual budget</li> <li>• Adopted annually</li> <li>• Daily operations of the local government</li> <li>• Includes revenues and expenditures for the fiscal year</li> <li>• Funds service delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Five- to six-year plan</li> <li>• Adjusted annually</li> <li>• Major expenditures of the local government</li> <li>• Plan for identifying future spending needs</li> </ul>






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## CIP

 CIP is not a budget, rather it is a plan

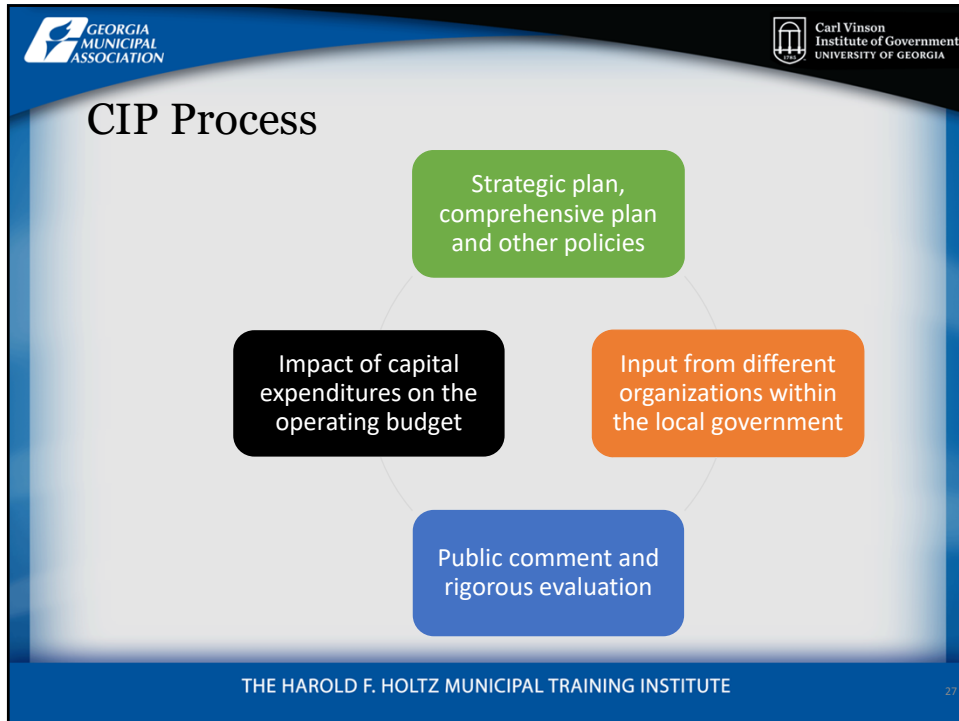
 Process by which all major expenditure needs are identified, not necessarily funded

 Capital budget is developed from CIP

 After expenditures have been identified, select which projects will be included in the annual capital budget

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## Comprehensive Plan

State law, through the Georgia Department of Community Affairs (DCA), requires each county or municipality to prepare a 20 year comprehensive plan according to the planning requirements set up by the Department.



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## Budget Policy

- Budget policy provides plan of action for strategic plan

Budget Policy



Should not contradict  
goals of strategic plan





Strategic Plan



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## Components of a CIP Policy

<b>CIP Policy</b>	Definition of the <b>time horizon</b> (for example, a five year plan)
	Definition of <b>major expenditure</b> (for example, minimum cost of \$25,000)
	Definition of <b>useful life</b> (for example, a useful life of ten years or longer)
	Direction regarding <b>spending priorities</b>
	Details of <b>evaluation process</b>

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## CIP Financial Policy

<b>CIP Financial Policy</b>	Includes details about how to finance major expenditures
	Considers state code
	Considers local code
	Identifies sources of available revenue
	Defines restrictions on sources of revenue
	Specifies debt limitations

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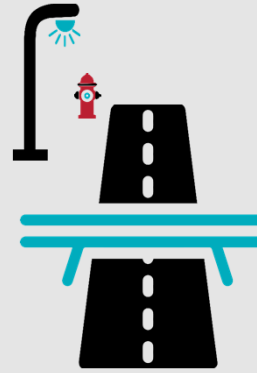
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## Capital Replacement Schedule

Brings attention to the need for maintenance of existing infrastructure

Encourages regular replacement and maintenance of assets

Commits regular funding to the replacement and maintenance of assets



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## Vehicle Replacement Schedule

VEHICLE REPLACEMENT SCHEDULE  
BULLDAGW CITY  
FY20X1-FY20X5

FUND	DEPARTMENT	VEHICLE #	YEAR	MILES	MODEL TYPE	CATEGORY	REPLACEMENT YEAR	CURRENT REPLACEMENT						NOTES
								COST	20X1	20X2	20X3	20X4	20X5	
GENERAL	POLICE	V-2500	20X1	80,000	SEDAN	POLICE	20X1	\$ 25,000	\$25,000					HIGH REPAIR COSTS/VEHICLE DAMAGE
GENERAL	POLICE	V-2805	20X5	50,000	SEDAN	POLICE	20X1	\$ 25,000	\$25,000					
GENERAL	RECREATION	V-2902	20X4	120,000	VAN	VAN	20X5	\$ 26,000					\$26,000	
GENERAL	FIRE	V-2002	20X3	200,000	PUMPER	FIRE EQUIPMENT	20X4	\$ 600,000				\$600,000		VEHICLE TO BE PLACED AS RESERVE
GENERAL	PUBLIC WORKS	V-2040	20X1	200,000	DUMP TRUCK	PUBLIC WORKS	20X3	\$ 150,000		\$150,000				
SANITATION	SANITATION	V-2521	20X2	200,000	SANITATION TRUCK	PUBLIC WORKS	20X2	\$ 300,000		\$300,000				
TOTAL								\$ 1,126,000	\$50,000	\$300,000	\$150,000	\$600,000	\$26,000	



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CIP PROCESS

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CIP Process

Inclusion of projects in the capital improvement plan should be consistent with:



CIP Coordinator

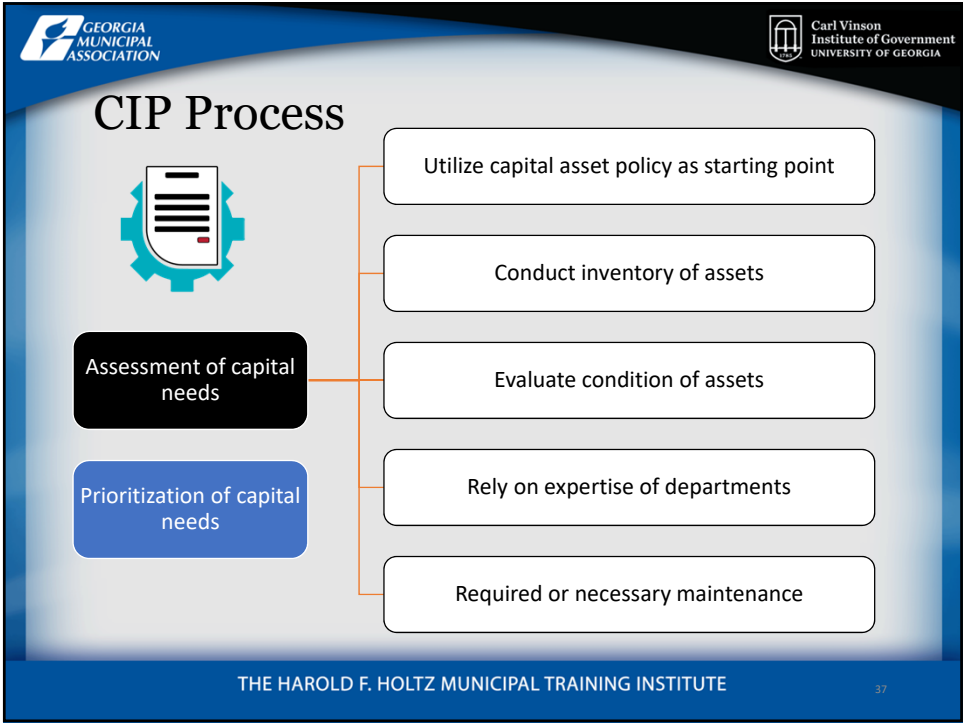
Comprehensive Plan

Additional planning documents

Current & future service delivery requirements

Strategic plans

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# CIP ROLES OF DECISION MAKERS AND CAPITAL REQUESTS

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## Role of Decision Makers

Governing Authority	Appointed Manager
<ul style="list-style-type: none"> <li>• Defines priorities through strategic plan</li> <li>• Conducts public hearings</li> <li>• Adopts budget</li> </ul>	<ul style="list-style-type: none"> <li>• Guides process</li> <li>• Reviews requests</li> <li>• Shapes requests to meet direction of governing authority</li> </ul>





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## Capital Improvement Requests

**Project description**

- Aligned with priorities in strategic plan? If no, request is not funded

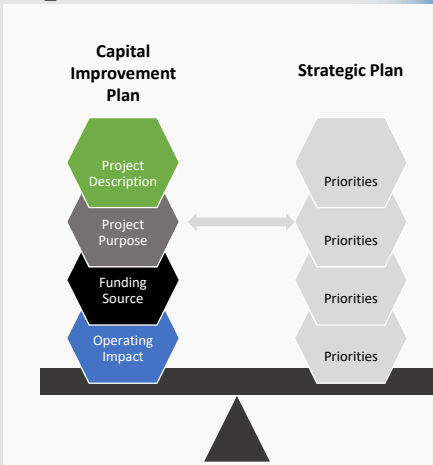
**Project purpose**

- Justification for why the project is needed

**Funding source**

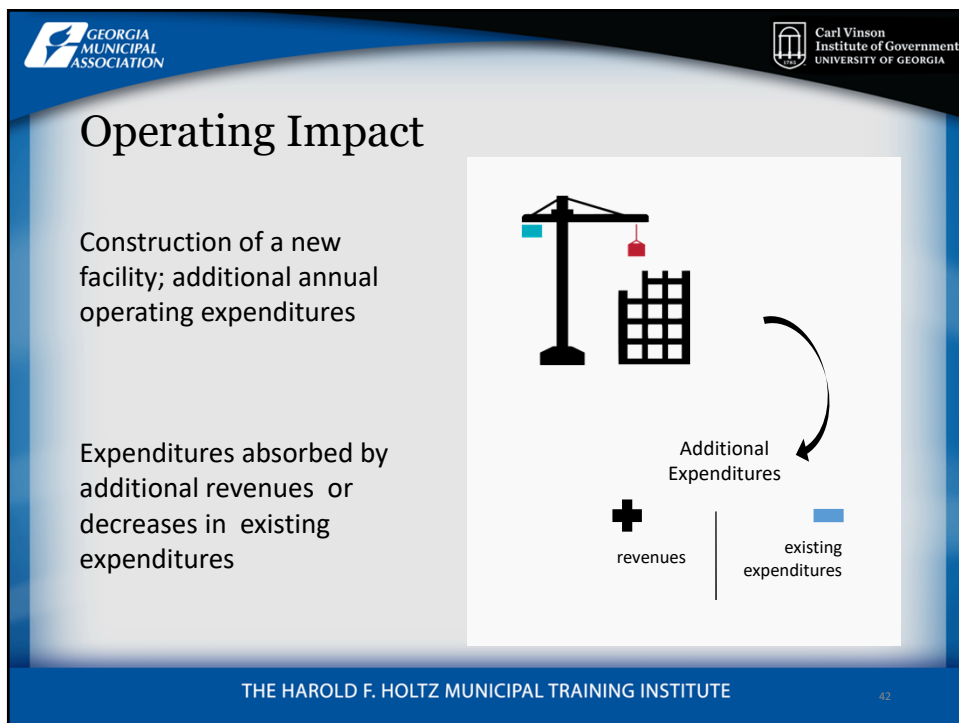
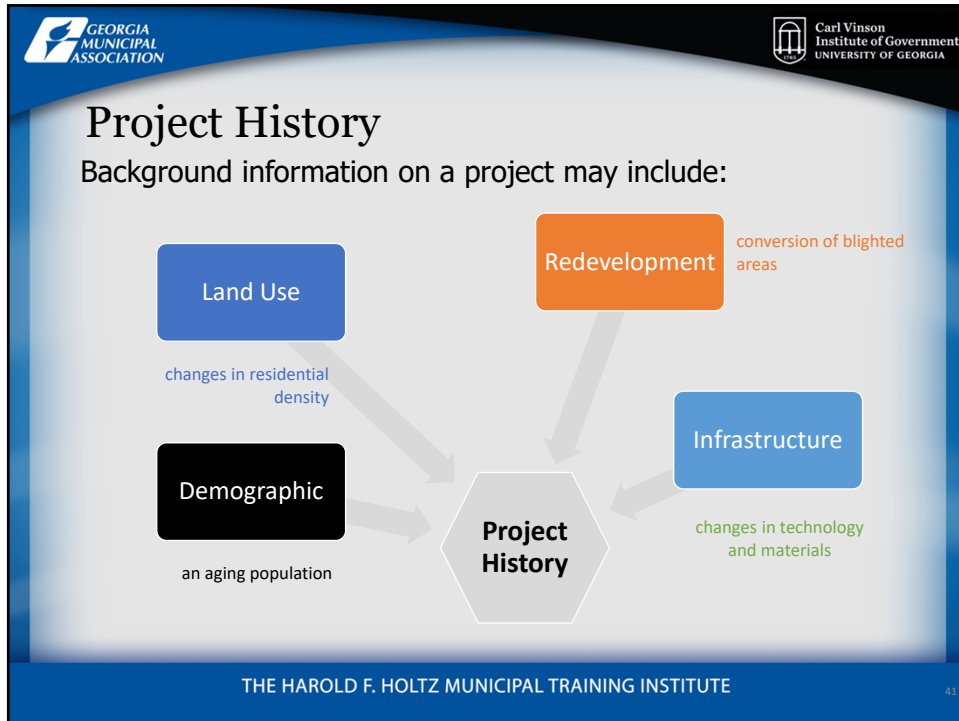
- How do we pay for it?



**Operating impact**



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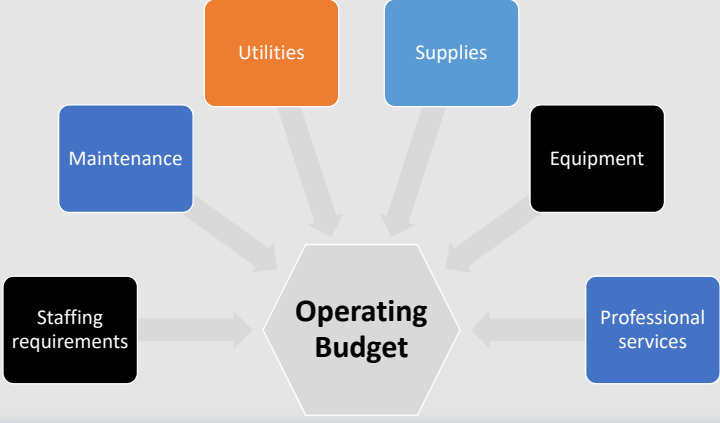
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# Operating Impact



- The CIP impact on the operating budget may include:



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graph TD; Utilities[Utilities] --> OB{{Operating Budget}}; Supplies[Supplies] --> OB; Maintenance[Maintenance] --> OB; Equipment[Equipment] --> OB; Staffing[Staffing requirements] --> OB; Professional[Professional services] --> OB;
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# SELECTION OF CAPITAL REQUESTS


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## Selection of Capital Improvements

Capital improvements and replacements requests often exceed the available funding


Local government should develop a selection process including evaluation criteria

Assists in identifying the improvements and replacements to include in the CIP budget




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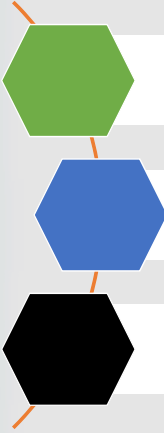


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## Evaluation Criteria



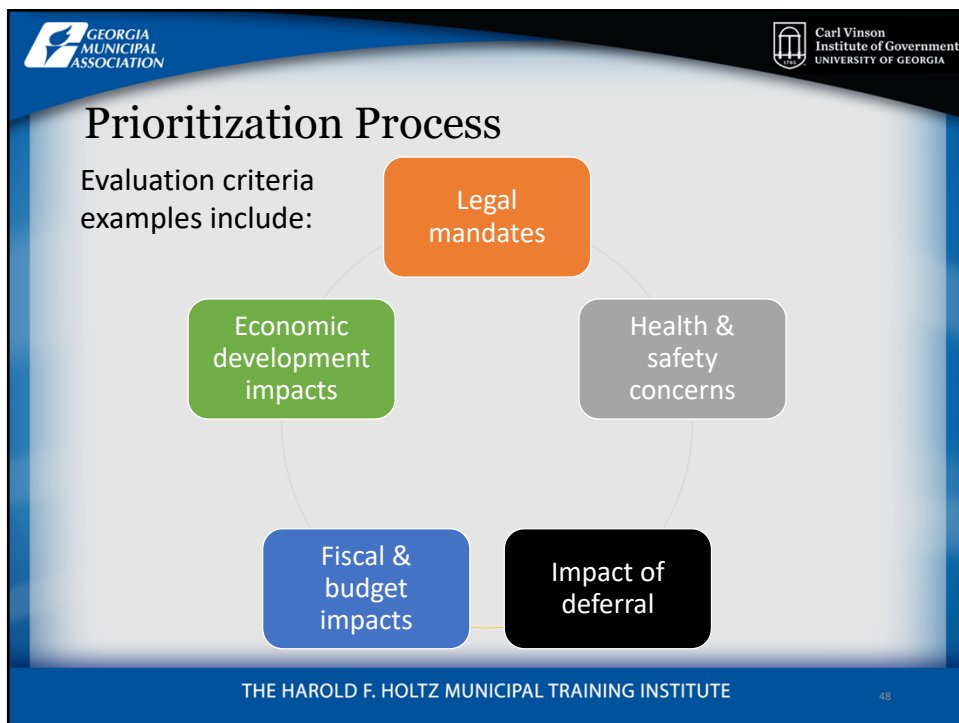
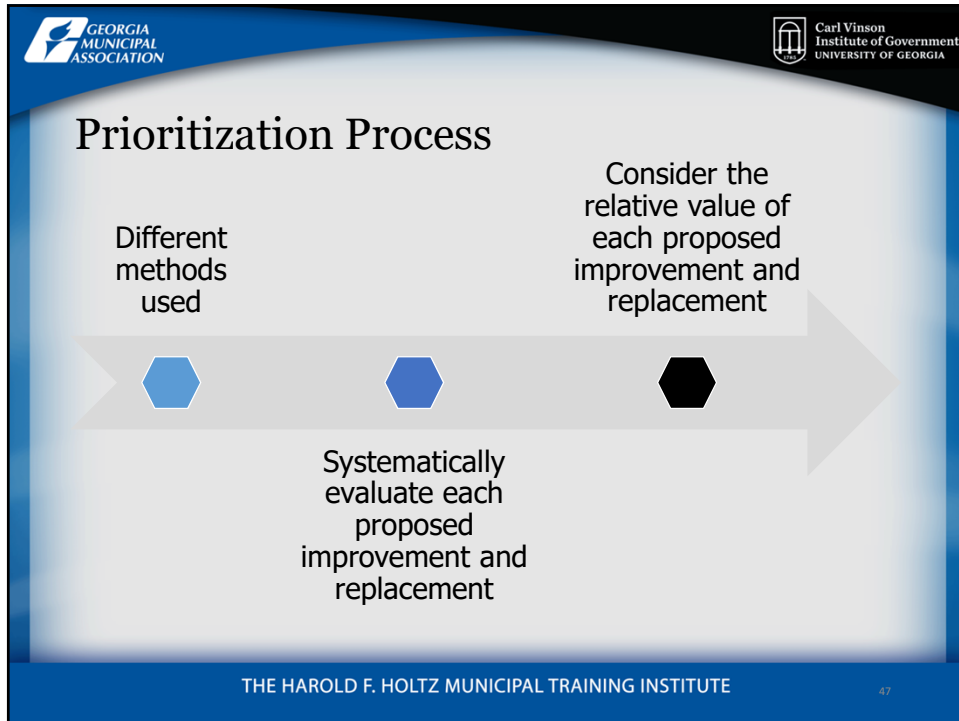
Alignment to strategic plan



Consistent with budget policy

Value of project withstands evaluation


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## Evaluation Matrix



Another method used by many local governments to establish priorities for the CIP budget

- Each project is evaluated using the same criteria
- Each criterion has a possible point value, which may vary based on its importance


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## Evaluation Matrix


Scoring matrix provides consistency in terms of evaluation criteria and awarding of points for meeting criteria

Scoring matrix still requires a subjective evaluation to determine the points to assign for meeting criteria



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Criteria	Possible Scores					
<b>Funding</b>	SFLOST, Open Space Funds, etc. identified for project (15)	Funds identified from General Fund (9)	Potential funds to be applied for (grant or other non-City funding) (6)	No identified funds (0)		
<b>Legal Mandates</b>	Court decision (*)	Regulatory requirement (*)	Pending legal action (12)	Potential legal action (9)	Normal project liability (0)	
<b>Public Health &amp; Safety</b>	Existing hazard (severe) (*)	Existing hazard (minor) (12)	Potential hazard (severe) (12)	Potential hazard (minor) (3)	No health or safety issue (0)	
<b>Implementation Feasibility</b>	No implementation obstacles identified (15)	Minor implementation obstacles (12)	Major implementation obstacles (3)	Implementation not likely (0)		
<b>Operating Budget Impact</b>	Decreases operating/maintenance costs (10)	Minimal or no impact on operating/maintenance costs (6)	Slight increase in operating costs and/or personnel requirements (-2)	Significant increase in operating costs and/or personnel requirements (-4)	Very large increase in operating costs and/or personnel requirements (-8)	
<b>Environmental or Pollution Impact</b>	Enhances environment/reduces pollution (5)	Benefits environment/slightly reduces pollution (3)	No environmental change/status quo pollution (0)	Minor negative environmental change/slight pollution (-1)	Diminishes environment/creates pollution (-3)	
<b>Percentage of City Population Served</b>	100% (10)	50-99% (8)	10-49% (6)	<10% (2)		
<b>Preservation of Facility</b>	Loss of facility imminent without project (15)	Additional damage likely without project (12)	Project constitutes normal maintenance (9)	Project constitutes normal minor maintenance (3)	New facility (0)	
<b>Project Life</b>	≥20 years with no extraordinary maintenance (10)	≥20 years with extraordinary maintenance (8)	10-20 years with no extraordinary maintenance (6)	10-20 years with extraordinary maintenance (2)	<10 years (0)	
<b>Conformity to City Plans &amp; Goals</b>	In the Comprehensive Plan, STWP, or other City-wide plan (10)	In the PBR, DSHB/Water System Study, or other small area plan (8)	Under consideration for plan inclusion (6)	Recommended by the City Council (4)	Recommended by staff (2)	Identified by staff (0)
<b>Departmental Plans &amp; Goals</b>	Critical to accomplishing established goals/plans (15)	Will assist in accomplishing established goals/plans (9)	Necessary for department but may harm another (6)	Will not help or hinder accomplishing established goals/plans (0)		
<b>Recreational/Cultural/Aesthetic Value</b>	Major value (5)	Moderate value (4)	No value (0)	Slightly detrimental (-1)		
<b>Estimated Frequency of Use (Average)</b>	7 days/week (10)	Several days a week (8)	Several days a month (4)	Once a month or less (2)		

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# FUNDING CAPITAL IMPROVEMENTS

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## Typical Funding Methods

Funding Methods	Pay-As-You-Go
	General Obligation Bonds
	Revenue Bonds
	SPLOST
	TSPLOST
	Grants
	Partnerships
	Impact Fees
	Fund Balance

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## Typical Funding Methods




Governing authority responsible for selecting **funding options** that meet service demands and public approval and are consistent with:

- strategic plan
- budget policy
- CIP financial policy

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## Lease/Purchase Agreements

Alternative purchase methods that may expedite capital improvements or replacements should be considered

Typically used for acquisition of equipment

Allows a local government to contract with a vendor to purchase equipment over a period of time

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## Lease/Purchase Agreements


**Georgia Code Section 36-60-13,**  
 “each county or municipality in this state shall be authorized to enter into multi-year lease, purchase, or lease-purchase contracts of all kinds for the acquisition of goods, materials, real and personal property, services, and supplies.”




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## Georgia Code Restrictions



Similar to the restrictions imposed by Internal Revenue Service rules





Contract ends when the local government no longer appropriates funding for the contract



Contract does not constitute a debt of the local government



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## Lease/Purchase Agreements

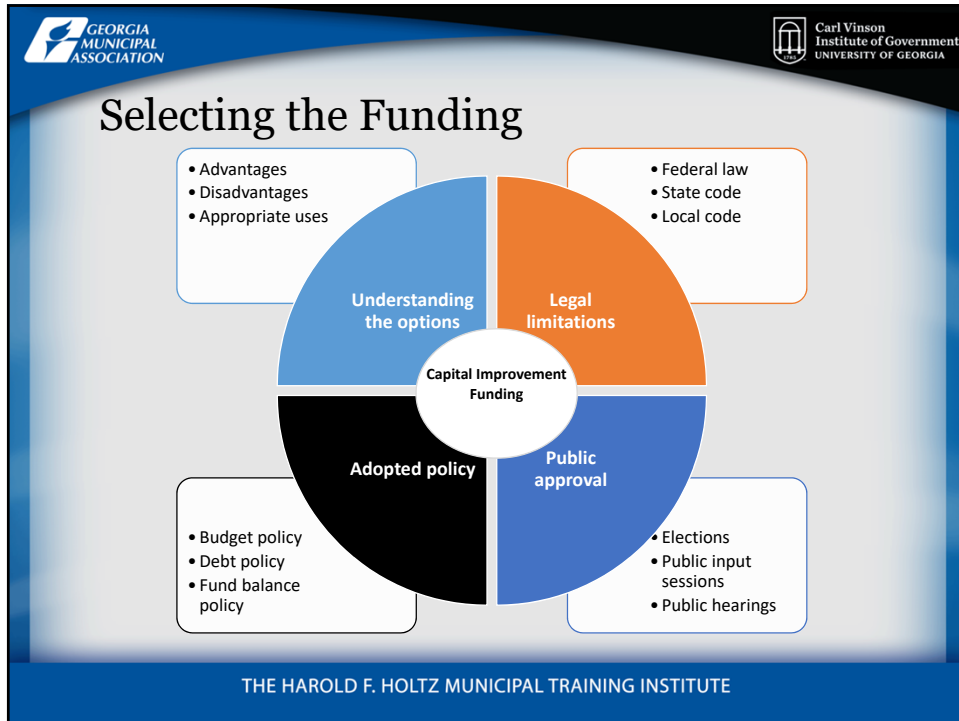
Advantages	Disadvantages
<p>A variety of projects can be funded without incurring voter-approved debt</p> <p>Allows a flexible financing structure</p> <p>Purchase of equipment is not limited by availability of current year revenue</p> <p>Avoids depletion of reserves</p>	<p>Potential to pay more for capital improvements due to financing rates</p> <p>Premature termination of contract forfeits the asset and the payments made to date</p>

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## Legal Limitations

- Federal IRS rules
- State code and construction
- Local code

Funding Source	Georgia Constitution or Code
<b>General Obligation Bonds</b>	Constitution Article IX-V-VI
<b>Revenue Bonds</b>	Code Section 36-82-60 to 36-82-85
<b>SPLOST</b>	Code Section 48-8-110 to 48-8-123
<b>TSPLOST</b>	Code Section 48-8-244
<b>Grants</b>	Constitution Article IX-V-IV
<b>Partnerships</b>	Constitution Article IX-III-I
<b>Impact Fees</b>	Code Section 36-71-1 to 36-71-13

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## Internal Revenue Service

Restricts expenditures and requirements for spending the bond proceeds

Restricts "transfer [of] benefits of tax-exempt financing to nongovernmental persons"


Improvement "will be used by the governmental entity for its own purposes and the bond-financed property will be owned by the governmental unit."



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## Policy Guidelines







Policies help evaluate capital improvements


Review all policies for funding limitations

Policies help identify appropriate funding

Review ensures alignment with priorities of governing authority

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## Public Acceptance

Public disapproval can limit the use of a funding option

Public may be opposed to a funding source due to the potential for increased taxes or user fees



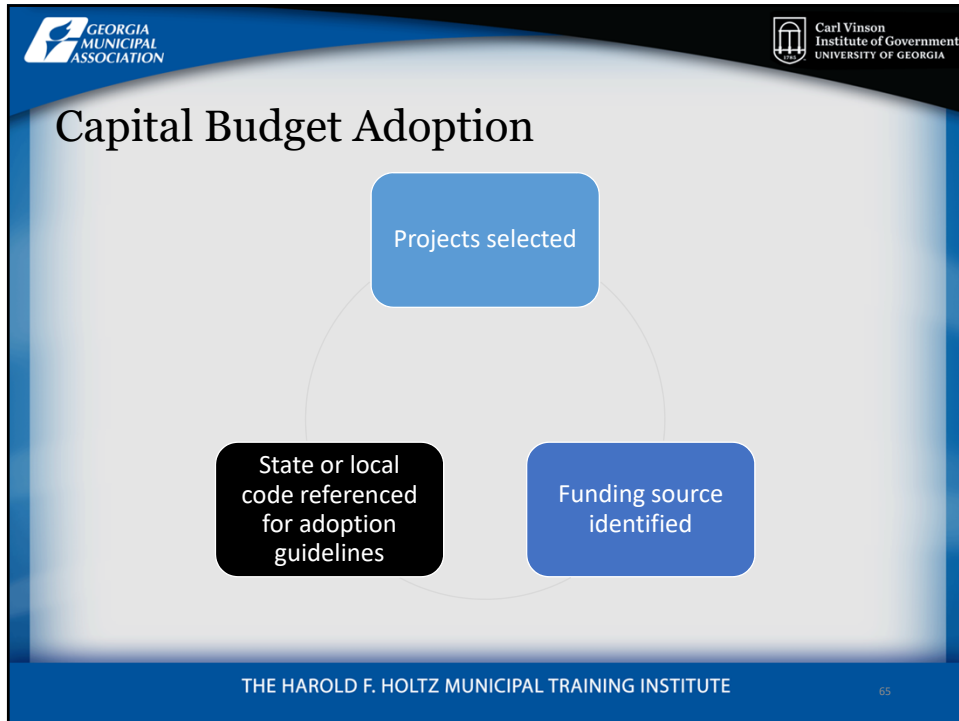
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## CAPITAL IMPROVEMENTS AFTER BUDGET ADOPTION

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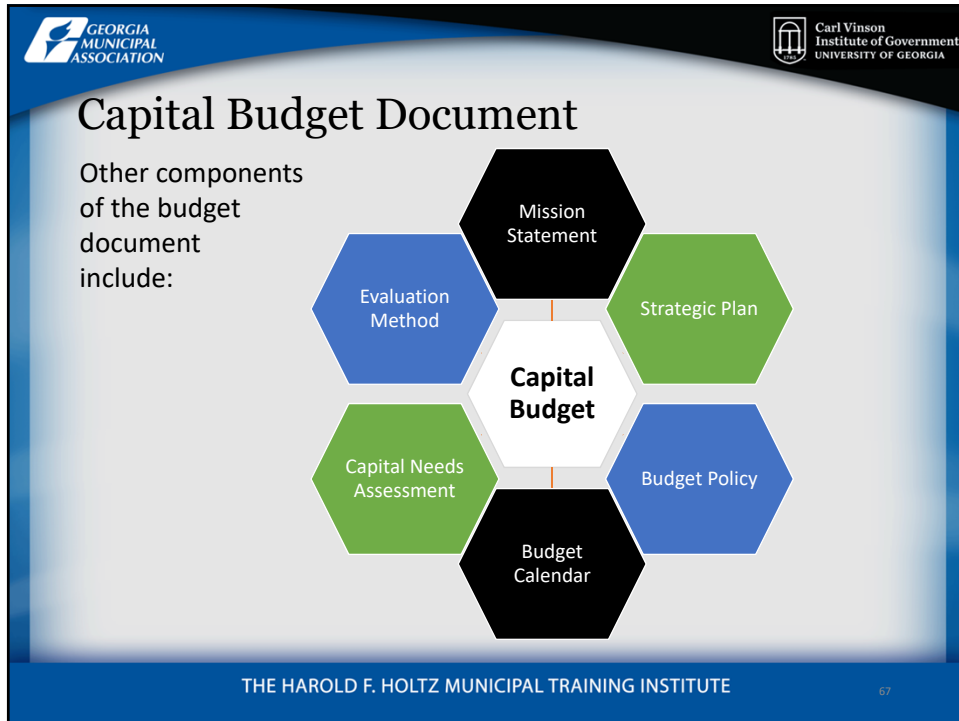
## Georgia Code Section 36-81-6

**Georgia Code Section 36-81-6,**

"on a date after the conclusion of the hearing . . . the governing authority shall adopt a budget ordinance or resolution making appropriations in such sums as the governing authority may deem sufficient, whether greater or less than the sums presented in the proposed budget. The budget ordinance or resolution shall be adopted at a public meeting."

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## Managing Capital Improvements

Adoption of the CIP budget is the end of one process and the beginning of another

For each improvement or replacement, a project manager is assigned, a project plan is developed, and constant monitoring takes place in order to guarantee progress


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## Project Monitoring

**Project Monitoring**



- Monitors the status of capital projects

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- Reviews the progress of capital projects

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- Identifies delays or cost over runs

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- Provides opportunity to make adjustments

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- Ensures availability of funding when needed

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- Confirms legal requirements are met

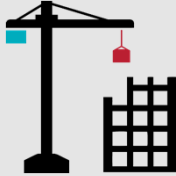


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## Amending the Budget

- Delays in construction or failure to include a project component can inflate the cost of the project
- Change in scope
- Proper procedures need to be followed for amending the budget

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## Amending the Budget

- Source of funding may determine the procedure for amending the budget
- Project deemed unnecessary or infeasible, the funds may not simply be transferred to another project or purpose
- SPLOST funds may be used only for projects adopted by resolution of the governing authority and election by the voters



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## Managing CIP Balances



- Final consideration in the CIP budget is the disposal of any remaining balances
- Use of the balances depends on the source of funds
- Some balances are readily available while other balances require a more rigorous approval process before they are accessible for other purposes







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## SPLOST

-  Strictest requirements for use of excess funds apply to SPLOST balances
-  Georgia Code requires that excess SPLOST funds “be used solely for the purpose of reducing any indebtedness of the county”
-  Collections that exceed the amount needed to pay indebtedness should be paid into the General Fund with intent to reduce property taxes
-  Any use of the funds for projects other than those approved by voters is not permitted without a second election and voter approval

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## General Obligation Bonds

Two-thirds majority vote of the governing authority, remaining bond funds can be spent

“for purposes of a nature substantially similar to the purpose stated in [the bond] notice or to reduce the bonded indebtedness” of the local government






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## General Obligation Bonds

Local governing authority must adopt and publish a resolution that includes

“the reason the bond funds were not expended for the original purpose and . . . the purpose for which such funds will be expended”





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## Class Activity

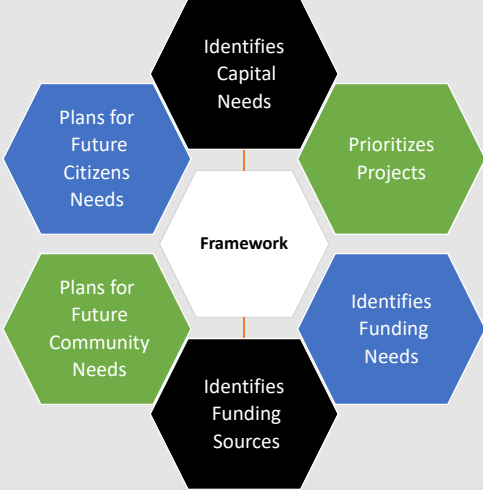


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# Conclusion

A well-defined Capital Improvement Plan:




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# Thanks for your attention!



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