

Administrator's Brief

CAPITAL IMPROVEMENT PLANNING

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Introduction

It's highly likely infrastructure is a hot-button issue in your community. From repairing roads to building fire stations, citizens expect their local governments to maintain and upgrade infrastructure – and it's no coincidence that capital planning is one of your government's top priorities.

As a City Manager or County Administrator, you're expected to play an integral role in developing a Capital Improvement Plan (CIP), explaining it to elected officials and winning their support, implementing the plan, and explaining it to citizens. This isn't easy, but I'm here to help.

I've created many Capital Improvement Plans. Each city I've worked in had different needs and internal dynamics, but no matter the city, the planning always goes better when the entire leadership team understands how the process works.

“As a City Manager or County Administrator, you’re expected to play an integral role in developing a Capital Improvement Plan (CIP)”

So, in this brief guide, I’m going to explain what goes into a CIP – think of it as Capital Improvement Projects 101! We’ll answer the following questions:

- What is a Capital Improvement Plan?
- What are the benefits of developing a Capital Improvement Plan?
- What are the features of a Capital Improvement Plan?
- What is the process of developing a Capital Improvement Plan?

You may already know some or all of this information, but sharing this guide with others in your organization can spread awareness about capital project budgeting and improve alignment across teams, with elected officials, and even with citizens.



Capital Improvement Plans are among the most important documents a government creates.

“The plan provides a working blueprint for sustaining and improving the community’s infrastructure.”

What is a Capital Improvement Plan?

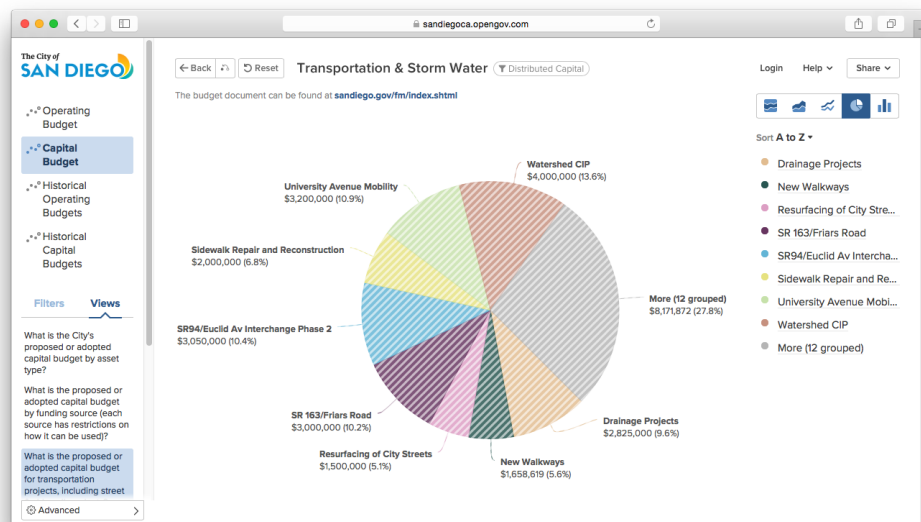
A Capital Improvement Plan (CIP) contains all of a local government’s individual capital projects, equipment purchases, and major studies; in conjunction with construction and completion schedules and in consort with financing plans. The plan provides a working blueprint for sustaining and improving the community’s infrastructure. It coordinates strategic planning, financial capacity, and physical development. A CIP stands at the epicenter of a government’s Planning, Public Works, and Finance departments.

A CIP has two parts: a capital budget and a capital program. The capital budget is the upcoming year's spending plan for capital items. The capital program is a plan for capital expenditures that extends typically five to ten years beyond the capital budget.

What are the benefits of developing a Capital Improvement Plan?

A complete, properly developed CIP delivers the following benefits:

- Synchronizes capital and operating budgets
- Systematically evaluates competing demands for resources based on a prioritization matrix reflecting the entity's long-term goals and objectives
- Identifies, prioritizes, and optimizes capital project financing:
 - Pay-Go
 - Federal and State grants
 - Debt financing
- Links strategic and comprehensive plans with fiscal capacity
- Informs the public about the government's investment in infrastructure



Transparency and reporting tools such as OpenGov help governments inform staff and citizens about infrastructure investments. Here, San Diego is showing citizens its budgeted transportation investments.

“At a minimum, the committee usually includes the major departments with capital facilities – e.g., public works for capital facilities, and police and fire for rolling stock.”

What are the features of a Capital Improvement Plan?

The CIP typically includes the following information:

- A listing of the capital projects, equipment, and major studies
- A priority ranking of projects
- A financing plan
- A timetable for the construction or completion of the project
- A project justification
- A classification, itemization and explanation for the project expenditures

How are Capital Improvement Plans developed?

Governments typically follow these steps when developing a CIP:



Step 1: Organize the Capital Improvement Plan

CIP Governance: The process begins with deciding to prepare a CIP and Capital Budget, and designating a lead department. Although the budget or finance office typically begins the process, sometimes the public works department takes the lead because it has excellent multi-year programs that strategically examine capital projects. At a minimum, the committee usually includes the major departments with capital facilities – e.g., public works for capital facilities, and police and fire for rolling stock.



Capital planning should involve major departments with capital facilities.

“Modern visualization and reporting technology such as OpenGov helps when presenting this complex capital improvement plan in an understandable and user-friendly manner.”

Develop Process, Forms, Criteria, and a Schedule: The next step in preparing the CIP is to develop:

- › A CIP budget calendar detailing milestones and dates for the CIP process
- › Specific forms detailing project proposals
- › A prioritization and decision-making matrix for evaluating and selecting capital projects

Citizen and Stakeholder Involvement: The CIP budget calendar typically includes the process to involve citizens and important stakeholders (other capital facilities providers in the area).

➤ Step 2: Identify Projects and Funding Options

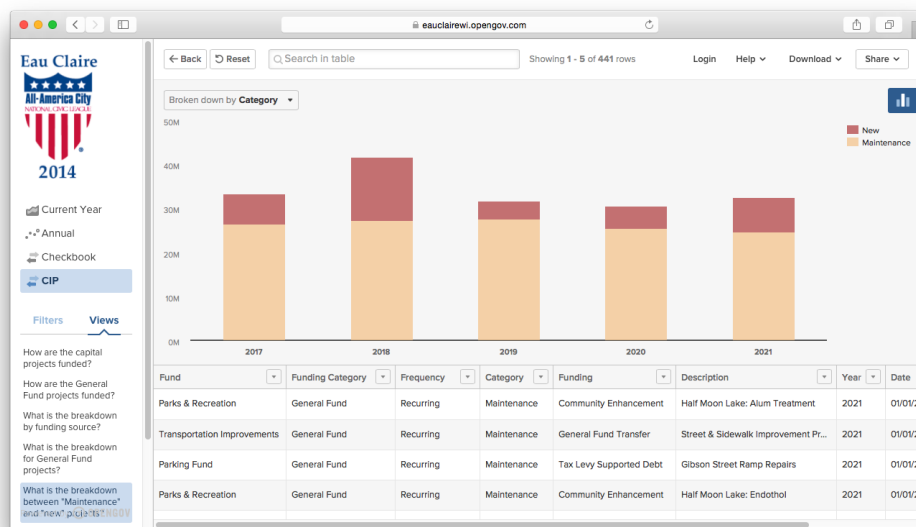
We often identify projects from the individual infrastructure systems' "capital needs studies." Although many jurisdictions lack both capital needs studies and comprehensive infrastructure and condition assessments, it is still possible to craft an effective CIP without them through developing project request forms. The project request forms should designate the funding source(s) available for the project.

Selecting projects after the project proposals have been submitted, the CIP committee evaluates and prioritizes each proposal without regard to the funds available. Then, finance staff forecast the amount of un-earmarked money available. Projects competing for general funds, that is, un-earmarked money, are re-prioritized based on the available funds.

We next divide the projects into priority groups — i.e., those which are urgent and for which efforts should be made to find funding; those which should be completed as funds become available, and so on. Projects with existing funding, from enterprise funds, should also be evaluated. This process helps decide which proposals will receive funding.

➤ Step 3: Prepare and Recommend a Capital Plan and Budget

The selected projects, plans, timelines, and financing summaries are then compiled and presented for approval to the elected officials. Modern visualization and reporting technology such as OpenGov helps when presenting this complex capital improvement plan in an understandable and user-friendly manner. The governing body conducts hearings, workshops, and other outreach efforts to ensure all stakeholders and interested parties can provide feedback.



OpenGov helps present capital projects in an intuitive and useful manner.

Governments should develop performance indicators and project development milestones for the recommended capital plan for subsequent reporting purposes. Project management and performance indicator systems are important capital budget implementation tools.

Step 4: Adopt the Capital Budget

The CIP's first year becomes the Capital Budget. There are three ways that governments can approve projects in the capital budget:

- Adopt an annual capital budget. This method funds projects only a year at a time with the funds needed for the project for that year.
- Adopt the capital budget with the entire amount for every project approved in that fiscal year, regardless of whether it will be spent that year. In addition, carryover funds for capital projects from one year are usually put into the next year's budget and approved again by the elected officials.
- Approve a bond financing and authorize the project(s).

"The CIP's first year becomes the Capital Budget."

“A capital improvement plan (CIP) is a dynamic community planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements over a multi-year period.”

Conclusion

A capital improvement plan (CIP) is a dynamic community planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements over a multi-year period. It is critically important and one of a government entity's major responsibilities. The CIP is a working document and should be reviewed and updated annually to reflect changing community needs, priorities, and funding opportunities to ensure the infrastructure exists to advance the community's strategic and long-term goals and objectives.

About Charlie Francis

Charlie Francis is a municipal finance expert. He has more than forty years of local government financial management experience in both the public and private sector, including twenty years of experience as a Chief Financial Officer. Most recently, he served as the Director of Administrative Services and Treasurer for the City of Sausalito where he earned the unofficial title of “OpenGov super user”. He has also served as a finance manager for the Town of Colma, CA and as CFO and acting City Manager for the Cities of Indian Wells, CA and Tracy, CA. governments without modern recruiting technology.

