
DEVELOPING A CAPITAL IMPROVEMENT PROGRAM



FINANCIAL MANAGEMENT ASSISTANCE

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INTRODUCTION

Capital improvements are usually so expensive that it is most unusual for a local government to be able to pay for even one improvement in a budget year. However, the cost of capital improvements does not change the importance of the improvement, indeed the essentiality of the improvement, to the ability of a local government to provide the services it is authorized or required to provide to its citizens. A local government must use careful financial and management planning to maintain its capital assets and to provide for future needs. This document is intended to be a simplified review of the definition of capital improvement programs, the policies, process and procedures that can aid in developing such a program.

For more information or for more DOLA technical assistance publications see the department's web site at www.dola.state.co.us and click on Data, Information and Publications.

WHAT ARE CAPITAL IMPROVEMENTS?

A wide range of public facilities and equipment should be considered in capital planning. While there are no hard and fast rules, capital planning deals with the purchase or construction, major repair, reconstruction or replacement of capital items such as: buildings, utility systems, roadways, bridges, parks, landfills, and heavy equipment which are of high cost and have a useful life of several years. Capital expenditures are sometimes difficult to identify. A fire truck or a new computer, thought of as a very costly capital item in a small community, may be considered in the operating budget in a larger jurisdiction.

Operating activities generally have a low cost per unit and recur on a frequent or regular basis. Capital expenditures are usually determined based on their projected life span and initial cost estimates. In some jurisdictions a capital expenditure may be an item that has an initial cost greater than \$2,500 and a useful life of five or more years. Other communities might set initial cost limits at \$20,000 and life span expectations at a minimum of ten years. One Washington State jurisdiction defines capital expenditures as costs other than those covered in regular operating budgets for the following three major categories:

1. Infrastructure (roads, bridges, parks, facilities [including building systems and remodeling], sewers, solid waste, water systems);

2. Heavy equipment and vehicles; and
3. Office equipment (computers, calculators, furniture).

They further distinguish between capital outlays and capital projects;

1. Capital Outlay. Any non-major capital expenditure having a service life of two years or more and a value of \$150 or more that is not physically dependent on or affixed to a particular stationary fixed asset. Examples: office equipment and vehicles.
2. Capital Projects. A major capital expenditure exceeding \$1,000 in value, with a fixed life of one year or more; a separate, discrete improvement that has a specific purpose in developing, upgrading, replacing or maintaining the existing infrastructure. Examples: upgrades to facilities, roads, sewers.

These ARE Capital Improvements:

City Halls	Land Purchases
Courthouses	Street Lighting Systems
Fire and Police Stations	Storm Sewers
Libraries	Major Building Additions & Remodeling
Park Land & Development	Airports
Streets, Roads, & Sidewalks	Disposal Sites & Equipment
Parking Lots & Buildings	Jails
Sewer & Water Mains	Recreation Buildings
Schools	Tennis Courts
Hospitals	Swimming Pools
Water & Sewage Treatment Plants	

These MAY BE Capital Improvements:

Fire Trucks	Parking Meters
Road Graders & Similar Equip.	Police Cars
Computer Systems	Pickup Trucks
Police & Fire Radio System	Street & Road Repairs
Trash Compactor Trucks	Playground Equipment
Minor Building Remodeling or Additions	

These ARE USUALLY Operating Expenses:

Office Furniture	Pothole Repairs
Library Books	Electric Typewriters
Fire Hoses	Blueprint Machines
Lawn Mowers	Road Gravel

ADVANTAGES OF CAPITAL PLANNING

A systematic, organized approach to planning capital facilities provides a number of real and practical advantages:

- ●Using taxpayers dollars wisely. Advance planning and scheduling of community facilities may avoid costly mistakes. The effort put into deliberate assessment of the need for repair, replacement or expansion of existing public works, as well as careful evaluation of the need and timing of new facilities can provide many savings. Project timing may be improved to better use available personnel, expensive equipment and construction labor by scheduling related major activities over a longer period. Coordination of construction of several projects may effect savings in construction costs (a newly paved street may not have to be torn up to replace utility lines). Overbuilding or underbuilding usually can be avoided. Needed land can be purchased at lower cost well in advance of construction.
- ●Focusing on community needs and capabilities. Public works projects should reflect the community's needs, objectives, expected growth and financial capability. Assuming each community has limitations for funding capital facilities, planning ahead will help assure that high priority projects will be built first.
- ●Obtaining community support. Citizens tend to be more receptive toward projects which are part of a community-wide analysis. A high priority project which is part of an overall plan is less suspect as being someone's "pet project". Where the public participates in the planning of community facilities the citizens are better informed about the community needs and the priorities. A capital facilities program reduces the pressure on elected officials to fund projects which may be of low priority. One of the primary benefits of a community capital improvements program is that **BECAUSE THE CITIZENS PARTICIPATED, THEY ARE MORE WILLING TO SUPPORT BOND ISSUES, RATE INCREASES AND OTHER FUNDING METHODS.**
- Encouraging economic development. Typically, a firm considering expansion or relocation is attracted to a community which has well planned and well managed facilities in place. Also, a capital facilities program allows private investors to understand a community's tax loads and service costs, and reflects the fact that the community has done some advance planning to minimize the costs of capital facilities.
- More efficient administration. Coordination of capital facilities construction, both within a jurisdiction and among city, county and special districts, can reduce scheduling problems, conflicts and overlapping of projects. Also, work can be scheduled more effectively when it is known in advance what, where and when projects are to be undertaken.

- A capital improvements program allows a community to anticipate lead times necessary to conduct bond elections and bond sales, prepare design work and let contract bids.
- Maintaining a stable financial program. Abrupt changes in the tax structure and bonded indebtedness may be avoided when construction projects are spaced over a number of years. Major expenditures can be anticipated, resulting in the maintenance of a sound financial standing through a more balanced program of bonded indebtedness. Where there is ample time for planning, the most economical methods of financing each project can be selected in advance. Keeping planned projects within the financial capacity of the community helps to preserve its credit and bond rating and makes the area more attractive to business and industry.
- Federal and state grant and loan programs. A capital improvements program places the community in a better position to take advantage of federal and state grant programs, because plans can be made far enough in advance to utilize matching funds, both anticipated and unanticipated. Most federal and state grant/loan programs either require prior facilities planning, or favor, in ranking applications, applicants which have conducted such planning.

PROCESS

The major phases in developing a capital facilities program are outlined below. Local officials must decide how elaborate their approach should be and who will conduct the various steps for their community.

The steps include:

1. Identifying the needs for facilities, the timing, costs and means of financing for each project;
2. Preparing a financial analysis of the jurisdiction's capacity to pay for new facilities;
3. Setting priorities among the proposals;
4. Seeking review and comment by the public on the recommended projects and priorities;
5. Preparing a final capital facilities program showing projects, priorities, schedule of completion and methods of funding each project;
6. Adopting the capital facilities program by the governing body and adopting first year's projects as a capital budget as part annual budget; and

7. Reviewing the capital facilities program annually.

CAPITAL IMPROVEMENT PROGRAM PROCEDURES

- Appoint a coordinator and other participants and define responsibilities;
- Inform citizens;
- Set rules/policies
 - i. Define capital improvement
 - ii. Determine length of plan (5 years is recommended)
- Develop a priority system
- Prepare inventory list
 - i. Include age, condition, replacement dates
 - ii. Include improvements underway and current status
- Prepare a project request list in priority order
 - i. Include in-depth information on each (justification, future operation and maintenance costs, relationship to other projects)
- Review projects and develop project summary lists
- The financial picture
 - i. Revenue trends/projections
 - ii. Expenditure trends/projections
- Alternative financing mechanisms
- Final report, adoption, and implementation

POLICIES:

The first step in preparing a CIP is to have a set of fundamental policies in place. These policies should define a "capital improvement", determine length of plan and develop a priority system.

Capital improvements can be defined to include acquisition or lease of land; any projects requiring borrowing, equipment, building and facilities; studies whose cost exceeds \$5,000 and related major equipment, furnishings and improvements that exceed a stated dollar amount.

A CIP should show at least five years of capital planning. The CIP of projected projects will be reviewed once a year and another year will be added on.

A process to prioritize projects should be established. Some of the factors that could influence the setting of priorities are as follows:

- Encourage citizen participation in the process;
- Projects would be consistent with your comprehensive plan or other goals and priorities;
- Capital projects will be financed as much as possible from specific revenue sources (such as user fees, grants, etc.);
- Projects mandated by state and/or federal law will receive the highest priority;
- Projects essential to public health or safety will receive priority;
- Projects resulting in savings of operating costs will receive priority;
- Projects that generate sufficient revenue to be self-supporting will receive priority;
- Allocate a maximum of 5% of operating revenue for capital improvements.
- Fund capital improvements only in accordance with your approved CIP;
- Require the adoption of a multi-year plan (CIP) and update it annually;
- The community will maintain all its assets to protect city investments and minimize future maintenance and/or replacement;
- Long-term debt financing can be used and is proper when matching costs with benefits received by future residents.

The following pages are sample policies for capital improvement budgeting and related debt management and revenues. These policies were developed by the Government Finance Officers Association.

SAMPLE

Capital Improvement Budget Policies, City/County of _____

Sample Policies

- The city will make all capital improvements in accordance with an adopted capital improvement program.
- The city will develop a multi-year plan for capital improvements and update it annually.
- The city will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.
- The city will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts.
- The city will maintain all its assets at a level adequate to protect the city's capital investment and to minimize future maintenance and replacement costs.
- The city will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.
- The city will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to council for approval.
- The city will determine the least costly financing method for all new projects.

SAMPLE

Debt Policies, City/County of _____

Sample Policies

- The city will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues.
- When the city finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- The city will try to keep the average maturity of general obligation bonds at or below _____ years.
- On all debt-financed projects, the city will make a down payment of at least _____ percent of total project cost from current revenues.
- Total debt service for general obligation debt will not exceed _____ percent of total annual locally generated operating revenue.
- Total general-obligation debt will not exceed _____ percent of the assessed valuation of taxable property.
- Where possible, the city will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
- The city will not use long-term debt for current operations.
- The city will retire tax anticipation debt annually and will retire bond anticipation debt within six months after completion of the project.
- The city will maintain good communications with bond rating agencies about its financial condition. The city will follow a policy of full disclosure on every financial report and bond prospectus.

SAMPLE

Revenue Policies, City/County of _____

- The city will try to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
- The city will estimate its annual revenues by an objective, analytical process.
- The city will project revenues for the next (three/five/other) years and will update this projection annually. Each existing and potential revenue source will be re-examined annually.
- The city will maintain sound appraisal procedures to keep property values current. Property will be assessed at _____ percent of full market value.
- The year-to-year increase of actual revenue from the property tax will generally not exceed _____ percent. Reassessments will be made of all property at least every _____ years.
- The city will follow an aggressive policy of collecting property tax revenues. The annual level of uncollected property taxes will generally not exceed _____ percent.
- The city will establish all user charges and fees at a level related to the cost of providing the services.
- Each year, the city will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases.
- The city will automatically revise user fees (with/without) review of the governing board to adjust for the effects of inflation.
- The city will set fees and user charges for each enterprise fund such as water, sewer, or electricity at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets.
- The city will set fees for other user activities, such as recreational services, at a level to support _____ percent of the direct and indirect cost of the activity.
- Intergovernmental revenues will generally not exceed _____ percent of the current operating budget.
- The amount of funds necessary to match intergovernmental grants will generally not exceed _____ percent of current operating budget.

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

In Colorado, activities such as water and sewage treatment systems should be accounted for and reported upon by utilizing the enterprise fund concept. It is the opinion of the State Auditor that, in the interest of public policy and uniformity of reporting for Colorado local governments, all activities which are similar to a business which normally should be self-sustaining, or which generate funds from charges for services or sale of goods, should be accounted for as an enterprise fund regardless of the size of any subsidy from other revenue sources. The subsidy may take the form of a transfer from other revenue funds or it may be direct tax levy by the fund itself.

The enterprise fund concept provides accounting and reporting which shows whether the utility activity is operated at a profit or loss similar to private businesses. The enterprise fund should include the related fixed assets of the system. Further, the accounting for enterprise funds should recognize and record depreciation as an element of cost in determining income.

INVENTORY

A facilities inventory is a list of all capital facilities owned and operated by a jurisdiction. A facilities inventory should attempt to identify existing facilities, determine original costs and replacement values, consider property condition and estimate dates on which improvements or replacement is necessary. A jurisdiction may wish to gather more information such as: methods used to finance the facilities, the remaining debt and annual debt service and annual operating and maintenance costs.

A sample Capital Facilities Inventory form (CIP-1) is attached and can be used by your jurisdiction in compiling the background information used in completing the CIP.

Form CIP-2 can be used to list current projects, their status and funding.

The Capital Project Request form (CIP-3) is designed for larger entities that rely on departmental budget requests. This form is a good way to get "real" figures on project proposals. The idea is to get a written justification and estimated costs including, most importantly, future operating and maintenance costs.

Forms CIP-4 and CIP-4a are general project summary lists. The Past Revenue Trends form (CIP-5) and Past Expenditure Trends form (CIP-7) can assist you in reviewing past practices and in projecting future revenue and expenditures on form CIP-6 and CIP-7.

CAPITAL FACILITIES INVENTORY

Facility	Year Built or Acquired	Latest Major Improvement	Condition	Adequacy	Target Date: Replacement Expansion

CIP-1

STATUS OF APPROVED PROJECTS

Project	Status	Expected Completion Date	Total Funds Committed	Funds Committed But Unspent	Financed By

CAPITAL PROJECT REQUEST 20__ - 20__

Submitted by: _____

Date Prepared: _____

1. Project Title _____ Dept. Priority _____	
Location _____	
3. Description New: _____ Addition: _____ Replacement: _____ Other: _____	
4. Justification:	5. Possible Alternatives:
6. Relation to Other Projects and Master Plan:	7. Total Estimated Capital Costs a) Planning, Design, Engineering _____ b) Land Purchase _____ c) Other Non-Capital Cost _____ d) TOTAL RECURRING COST _____ e) Other _____ Total Capital Cost _____
8. Future Estimated Recurring Costs: a) Annual Operating Cost _____ b) Annual Maintenance Cost _____ c) Other Non-Capital Cost _____ Total RECURRING Cost _____	9. Estimated Future Capital Costs a) Total Cost of Project _____ b) Cost to Date _____ c) Remaining Cost _____ d) Estimated Cost Through 20__ _____ e) Estimated Cost After 20__ _____
10. Proposed Method of Financing Current Revenue _____ Special Assessment _____ General Obligation Bonds _____ State Aid _____ Revenue Bonds _____ Federal Aid _____ User Charges _____ Other _____	11. Estimated Capital Expenditures by Year Prior to 20__ _____ 20__ _____ 20__ _____ 20__ _____ 20__ _____ 20__ _____ 20__ _____ Beyond 20__ _____

CIP-3

CAPITAL PROJECT SUMMARY LIST 20__ - 20__

(Cost Estimates in Thousands of Dollars) _____ Department _____

Priority	Project Description	Total Cost (\$000)	Cost Thru 20__ (\$000)	Est. 20__ Cost (\$000)	Remaining Cost 20__ - 20__					Est. After 20__ (\$000)
					20__ (\$000)	20__ (\$000)	20__ (\$000)	20__ (\$000)	20__ (\$000)	

CIP-4

CAPITAL IMPROVEMENT PROGRAM SUMMARY LIST 20__ - 20__

(Cost Estimates in Thousands of Dollars)

Department/Project	Total Cost (\$000)	Cost Thru 20__ (\$000)	Est. 20__ Cost (\$000)	Remaining Cost 20__ - 20__					Est. After 20__ (\$000)
				20__ (\$000)	20__ (\$000)	20__ (\$000)	20__ (\$000)	20__ (\$000)	

PAST REVENUE TRENDS

Fiscal Year/Revenue Source	20__	20__	20__	20__	20__
Property tax					
State-Shared Taxes					
Federal Revenue Sharing					
Other Intergovernmental Revenue					
Other Revenues					
Total					
Total Taxable Valuation					
Property Tax Mill Levy					
Estimated Population					
Total Revenue/Capita					

CIP-5

PAST EXPENDITURE TRENDS

Fiscal Year/Revenue Source	20__	20__	20__	20__	20__
Operating and Maintenance Costs					
Capital Projects Costs					
Debt Service Costs					
Total					
Estimated Population					
Operating and Maintenance Costs/Capita					

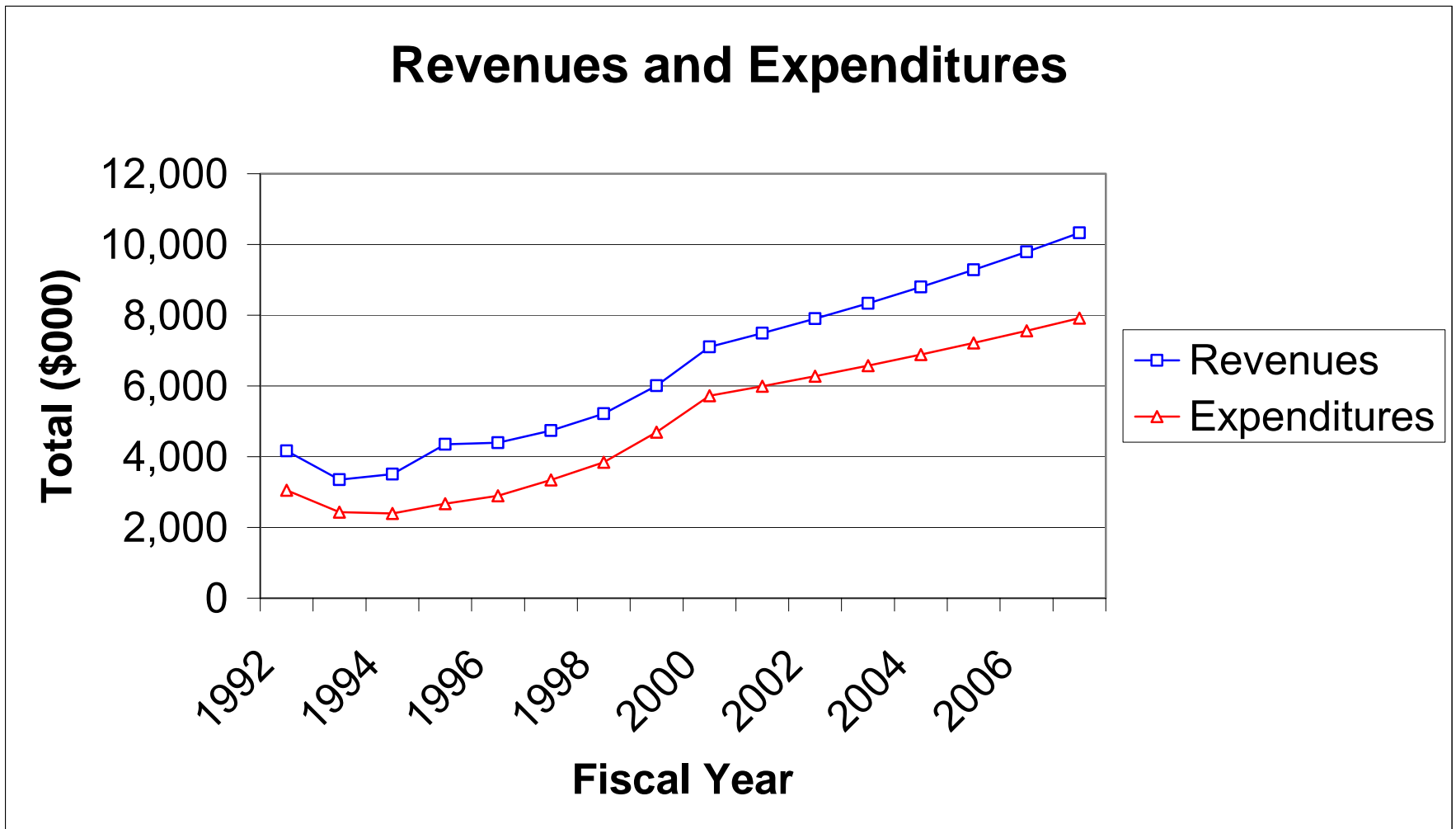
CIP-6

PROJECTED REVENUES AND EXPENDITURES 20__ - 20__

Item	20__	20__	20__	20__	20__
Projected Population					
Projected Taxable Valuation					
Anticipated Revenues:					
Property Tax					
State-Share Taxes					
Other Revenues					
Total					
Anticipated Expenditures:					
Property Tax Mill Levy					
Estimated Population					
Total Revenue/Capita					
Total					
Available for Capital Projects					

CIP-7

PAST AND PROJECTED REVENUES 20__ - 20__



CIP-8