Capital Planning and Program Implementation Outline

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Purpose

- Establish the roles, responsibilities, and concerns of the Finance Officer in capital program management.
- Checklist to use to improve practices and remember tasks, because CIP management is so complex.
- Resource to learn and borrow from policies, practices and tools of other entities.
- Outline structured so that user can identify and focus on elements of special concern and drill down as necessary to review examples.
- Compilation of practices that can be revised and updated (and developed) independently/ simultaneously.
- Basis for the development of GFOA recommended practices, conference sessions, or courses.

Scope

- Information useful for different kinds of governmental entities, different kinds of projects
  Higher level roll-up may be more useful for small governments with smaller CIP's?
  Information specific to different governmental entities, e.g., school district, city, county, etc.)
- Definitions
- Descriptions of best practices
- Do's and don'ts
- Problems (E.g., cost overruns due to poor estimates, market for design or construction services, unforeseen conditions, omissions, inadequate coordination, inflation; low-balling)
- Examples
- Cross-references
- Attachments/ exhibits
- Links/ sources of additional information (e.g., publications, other websites)

Disclaimers

- Elements may be governed by local or state laws
- No "one-size-fits-all"

I. CIP and development process

A. Definition of Comprehensive Plan
B. Definition of Capital Plan or Capital Improvement Plan (CIP)
C. Responsibility for coordinating CIP preparation process; other roles and responsibilities in the process
D. CIP planning and implementation - parameters
    1. Responsibility for coordinating CIP development process
    2. Other roles and responsibilities
    3. Annual schedule/ cycle of steps in CIP planning and implementation
        a. Timing of CIP development relative to operating budget development
    4. Types of projects to be included in the CIP
    5. Policies for CIP preparation and implementation
    6. Information presented for CIP requests
    7. CIP document(s)
E. Budget: total project cost vs. cash-flow budgeting (see Section VI - *Capital Budget Preparation and Approval* for more detail)
F. Legal requirements/ types of approvals (see Section VI - *Capital Budget Preparation and Approval* for more detail)
G. Entities with approval authority
    1. Budget office
    2. Centralized/ decentralized CIP management entity
    3. "Client" or project end-user
    4. Planning agency
    5. Chief executive
    6. Elected officials
        a. Legislative body
        b. Clerk of Circuit Court (Florida counties)
    7. Public (referenda)

II. Financial Planning for Capital Projects

A. Framework/ relationship with other budgets/ plans/ factors
   1. Framework of the multi-year financial plan
      a. Revenue growth
      b. Expenditure growth
      c. Legal constraints (e.g., debt limits)
      d. Financial commitments from previously funded capital projects
   2. Framework of the strategic plan
   3. Compliance with policies
      a. Debt affordability policy
      b. Capital eligibility policy
      c. Use of one-time revenue sources
      d. Term of debt
      e. Pay as you go funding targets
      f. Capital reserves (minimum/ maximum)
   4. Relationship between the capital and operating budget
      a. Debt service
      b. Pay as you go
      c. Operating budget impacts of capital projects (revenues and expenditures)
      d. Use of "surplus" capital funds
   5. Compliance with arbitrage regulations
   6. Financial modeling
   7. Definition of capital budget: amounts projected to be spent vs amounts authorized to be spent; budget entire project costs vs only costs projected to be incurred during the budgeted period
   8. Definition/ specificity of use of bond proceeds, e.g., funds project-specific or fungible within narrow or broad categories

B. Funding sources/ financing options/ alternatives (policies may be associated with use of particular sources)
   1. "Carry-forward" funds
      a. Process for review and approval of carry-forward budget
   2. Lease vs. buy decisions
   3. Capital reserves
   4. Short-term construction financing: BANs, GANs, commercial paper, etc.
      a. Short-term debt "rolled over"
      b. Short-term debt converted into long-term debt
   5. GO debt
   6. Revenue debt
   7. Variable rate demand debt
   8. Taxable debt
   9. Pay-as you-go
      a. Capital reserves
      b. One-time revenue sources
      c. Unreliable/ decreasing revenue streams

10. Capital investment contingent upon revenue generation
11. Exactions: funds or investments exacted from developers
    a. Impact fees (general)
    b. Impact fees – varied by zone as incentive/ disincentive to develop, correct time/ benefit imbalance (cheaper capital costs vs. higher operating costs)
    c. Two-tier impact fees for “green” vs. “infill” development
    d. Impact fee credits/ offsets – earned by developers when they make infrastructure investments
12. Cash proffers: voluntary developer contributions (used by the Commonwealth of Virginia)
13. Donations
14. Dedicated taxes or other revenue streams
15. Public-private partnerships
16. Grants
    a. Set-aside funds for matching grants
    b. Reporting/ reimbursement processes
17. State Revolving Loan Fund
18. Other: TIFs, energy conservation bonds/ productivity bank approach

III. Identification of Capital Project Needs

A. Framework/ relationship with other plans/ data/ factors
   1. Policy
   2. Regional planning information
      a. Economic development
      b. Transportation
      c. Housing
      d. Demographic projections
      e. Anti-sprawl development that is environmentally, fiscally, and economically sound
   3. Strategic plan
   4. Facility master plan
   5. CAFR
      a. GASB 34
         - Historic cost (used for accounting) vs. replacement cost
         - Potential tool for proactive asset management

B. Identifying projects
   1. Inventory of existing projects and their status
   2. Advocacy of "client"/ user
   3. Technical staff/ capital project manager [example: Australian asset management model: separate "specifier" (identifying needs) and "provider" (implementing projects) functions - cross-reference in see Section VIII - *Project Delivery and Implementation*]
   4. Facility/ infrastructure needs assessments
   5. Facility/ infrastructure master plans
      a. Example: purchase of land to give to municipalities as easements – reduces risk of flooding, but takes property off tax rolls
   6. Fixed asset inventory data
      a. Recurring projects
      b. Estimated useful life
      c. Warranty expiration dates
      d. GASB 34 "Modified Approach" structure (for some kinds of assets)
   7. Operations and maintenance data
   8. Repair/ replace decisions
   9. Requests
      a. Agencies
      b. Citizens/ community groups/ complaints
      c. Elected officials
      d. Chief executive

C. Project types
   1. Meeting growth or reductions in service demand
   2. Replacement of asset at end of useful life
   3. Replacement of obsolete asset

4. Revenue generation
5. Economic development projects
    a. Identification
    b. Standards, evaluation, approvals
    c. Funding and delivery
6. Projects triggered by regulatory requirements
7. Environmental or historical preservation

IV. Project Scoping and Costing

A. Roles & responsibilities
B. Minimum data requirements/ information template
C. Procedures
D. Cost estimation
    1. In-house/ contracted cost estimation
    2. Level of detail/ components to be estimated; standardization
    3. Use of historical cost data for estimating future project costs
    4. Quality control
    5. Contingencies
    6. Activation costs
    7. Ongoing operating costs over facility/ asset life cycle
        a. Standardized process for estimating operating budget impacts
        b. Debt service costs
        c. Costs of fringe benefits and post-retirement benefits
    8. Economic impacts
    9. Revenue projections
    10. Cost escalation/ inflation
    11. Elements to be considered/ common omissions/ errors/ risks
    12. Avoiding "sticker shock" and improving capital plans by instituting cost estimating standards and by educating stakeholders
E. "Value engineering" – reducing costs in advance
F. Multi-year projects: development of target schedule/ annual funding
G. Multiple levels of scoping (see Section VI - "Capital Budget Preparation and Approval")
    1. Budgeted projects: clearly defined scope, financing, and estimate of costs and schedule
    2. Projects in CIP year 2: also well defined, but understood to need updating the following year
    3. "Out-year" projects
        a. Information on potential projects
            - Projected end of useful lives of existing assets where applicable
            - Planning projections (urban, population change, transportation, etc.)
            - Historical trend analysis
        b. Placeholders where appropriate
        c. Apply rate of inflation to current costs to project future costs
H. Issues with specific project types
    1. Economic development
    2. Water/ sewer
    3. Transportation
    4. Roads
    5. Schools
    6. Other buildings
    7. Parks and recreation
    8. Information technology

V. Capital Project Prioritization

A. Framework/ relationship with other plans/ data/ factors
   1. Development projections and plans
   2. Strategic plan
   3. Facility master plan

B. Process
   1. Agency prioritization
   2. Preliminary approvals/ screening
   3. Prioritization committee/ committee members
   4. Presentations to elected officials and the public
   5. Public participation/ input
   6. Legal requirements/ processes (e.g., referenda)

C. Tools
   1. Analytic techniques for evaluating potential capital projects
      a. Applicability (e.g., future energy savings)
      b. Techniques
         - Net present value
         - Internal rate of return
         - Pay back period
         - Cost effectiveness analysis
         - Cost-benefit analysis
         - Cash flow modeling
   2. Rating systems
      a. Identification of criteria
         - Project already in progress
         - Legal requirement
         - Health or safety
         - Alleviation of poverty
         - Job creation
         - Protection/ preservation of assets (historical, environmental)
         - End of useful life/ obsolescence
         - Growth/ change in service demand
         - Cost savings
         - Conformance with policies/ strategic goals
         - Comfort/ convenience
      b. Establishment of relative weights of criteria
      c. Prioritization “matrix”/ scoring mechanism/ framework
   3. Prioritizing projects based on strategy plan and/ or program goals, objectives, and priorities
   4. Education; consensus/ clarity among participants in process

D. Outputs
    1. Record of process
    2. Priorities of projects within each year
    3. Assignment of projects to out-years
    4. Draft plan for next level of review/ approval
    5. “B-list” of projects to be reviewed the following year/ list of projects requested but not approved
        a. Acknowledgement of receipt of the request
        b. Schedule in out-years or use as potential placeholder for next year
        c. Potential liability issue associated with project being requested but not funded

VI. Capital Budget Preparation and Approval

A. Outputs
   1. Clearly identified projects and project phases to be implemented in the next year's budget
   2. Finalized amounts and sources of project funding
   3. Well scrubbed data before being held accountable for implementation

B. Budget:
   1. Total project cost vs. cash-flow budgeting
   2. Cash flow method: no tracking/ control over total project cost

C. Steps (for each project to be included in the budget)
   1. Update project scope
      a. Identify/ coordinate with "owner"/ responsible organizational unit
      b. Revise definition of needs, expected outputs/ outcomes
      c. Revise expected extent & timing of benefits
   2. Update project cost estimate
      a. Review each project cost component
      b. Update cost estimates
      c. Finalize project phasing as appropriate
   3. Prepare/ update project design and construction schedule
      a. Identify project completion milestones
      b. Finalize plan of finance including the timing of budget year's cashflow requirements
   4. Document development and production
   5. Prepare communications plan (as needed, e.g., for major projects)
      a. Periodic status reporting to legislative body and/ or public
      b. Status reports available online or in hard copy
      c. Other

D. Legal requirements/ types of approvals
   1. Budget
   2. Plan
   3. Debt issuance
      a. When does bonding authority lapse
   4. Contracts
   5. Design and construction – alternatives for scope of approval
      a. Separate, approval of phases: design approved, then construction approved after design is completed and updated cost estimate is submitted
      b. Inclusion in budget means approval to proceed with all phases

VII. Financial Controls for Capital Projects

A. Big picture budget/ financial controls
   1. Regulations
      a. External: e.g., referendum requirements
      b. Internal: e.g., change orders
   2. Establishment and compliance/ update of draw schedules
   3. Draw rates as trigger for debt issuance
   4. Monitoring/ controls to ensure timing/ amount of debt issuance meets needs and conforms with plans

B. Processes
   1. Authority
      a. Administration agents with approval roles/ authority
      b. Approval role/ authority of legislative body (e.g., Council approval of final payment)
   2. Processing types and steps
      a. Contract processing
      b. Invoice processing
      c. Change order/ amendment processing
   3. Streamlining processes

C. Coordination of budget and project data/ management
   1. Develop financial scenarios and contingency plans
   2. Reconciling financial system with contractor systems/ records; establishing consistent means of tracking/ comparing costs
      a. Construction Specifications Institute
      b. AIA Chart of Accounts
   3. Prioritizing, tracking, and linking multiple funding types
   4. Draw schedules
   5. Change orders
   6. Contract amendments
   7. Budget adjustments, transfers, amendments
   8. Budget/ schedule variance tracking

D. Logistics
   1. Project identification systems/ methods
      a. Data captured by project numbers
      b. Tying separate contracts to the same project
      c. Tracking projects and contracts from year to year
   2. Data to be captured
      a. Budgeted amounts
      b. Contracts, change orders, and amendments
      c. Funding source
      d. Encumbrances
      e. Expenditures

3. Systems/ data types
    a. Accounting
    b. Budget
    c. Debt
    d. Contract
    e. Project schedule
    f. Project status
4. System options (e.g., existing, off-the-shelf, custom)
5. Interfaces between different data management systems
6. Reconciliation/ standardization of separate data inputs
7. Establishment of system checks and balances, control mechanisms, tracking mechanisms
8. When do capital costs end and operating costs begin

E. Policies for use of funds remaining after project completion
    1. Reversion to a parent account
    2. Use for other projects within or across project categories
        a. Use to cover shortfalls in other projects
        b. Potential accountability problems
    3. Debt defeasance
    4. Reserve funds (e.g., asset maintenance, pay-as-you-go)
    5. Incentives to complete projects under budget
    6. Issues specific to federal funding sources
    7. Don’ts: transferring “surplus” capital funds to the general fund
    8. Other

F. Accounting requirements
    1. Fixed asset accounting group
    2. GASB 34 requirements

VIII. Project Delivery and Implementation

A. Project management staffing, organizational structure, processes and tools
   1. Role of the Finance Officer
   2. Design services
      a. Contracted
      b. In-house
   3. Project management
      a. Contracted
      b. Title company as agent model: title company makes inspections, approves payments, ensures compliance criteria for payment, and ensures conformance with draw schedule
      c. In-house
   4. Centralized/ de-centralized capital program/ project management
   5. Tools
      a. Project management skills
      b. Technology (e.g., integration of multiple information systems; project management software) [See also Section VII - "Financial Controls for Capital Projects"]
   6. Cost control strategies
      a. "Wrap-up" insurance policy: program for contractors to subscribe to government policy to reduce insurance/ project costs while controlling costs

B. Project delivery alternatives
   1. Framework
      b. Legal constraints
      c. Policies
   2. Evaluation procedures
   3. Project delivery types
      a. Competitive bidding
      b. Competitive sealed proposals
      c. Construction manager-agent contracts
      d. Construction manager-at risk contracts
      e. Design-build contracts
      f. Design-build-own-operate
      g. Design-build-operate-maintain
      h. Job-order/ time and materials contracts
      i. Performance contracts
      j. Public/ private partnerships
   4. Delivery of non-"bricks and mortar" project/ purchase types, e.g., IT, equipment

C. Project preliminaries/ initial steps
   1. Identification of projects at same site at the same time or in near future
   2. Hazardous materials
   3. Identification of easily overlooked project elements, e.g., moving costs, telecommunications

4. "What/ if" analysis of impacts of cost overruns/ schedule problems
5. Determine whether Request for Qualifications step is needed

D. Involvement of stakeholders in design process, as appropriate and constructive
   1. Project manager(s) from various fields of expertise (e.g., architecture, civil engineering, mechanical engineering, etc.)
   2. Financial/ budget managers
   3. Other agencies affected by project
   4. Operations and maintenance staff
   5. "Client" or end user
   6. Elected officials
   7. Public

E. Design phase contract management processes
   1. Standard design services RFPs, contract requirements, and boilerplate design contract language
      a. Standard contract types such as American Institute of Architects (need to identify and consider pros and cons of any specific contract type)
   2. Establishment of target schedule
   3. Design consultant selection process
   4. Criteria and methods for selection: e.g., approach, experience, references, residency, affirmative action
   5. Design contract administration/ payment procedures
      a. Compensation
         - Hourly/ hourly up to a cap/ fixed fee
         - Tying payments to phases
         - Financial performance/ schedule incentives
      b. Promulgation/ enforcement of design standards
         - Legal requirements (e.g., building codes, NFPA, zoning)
         - Standard design elements
         - Standard materials/ systems/ equipment
         - Energy efficiency goals/ requirements
      c. Definition of scope of multiple prime contractors/ coordination
      d. Design reviews
      e. Iterative cost estimation
      f. Scope control
      g. Invoice information requirements and payment approvals
      h. Contract changes/ amendments

F. Bidding
   1. Assessing the market and potential impact on project cost
   2. Approval to bid (financial/ other reviews and approvals)
   3. Bid packages
      a. Tailored to multiple prime contractors as needed
      b. Elements of bid package
         - Legal requirements

- Prevailing wages
- Bonding requirements

c. Additions/ deductions to base bid
d. Quality standards
e. Availability of/ access to bid package

4. Maximizing competition (advertising; website; outreach)
5. Pre-qualification (criteria; responsibility/ process for review; disqualification)
6. Affirmative action programs
7. Addenda
8. Pre-bid conferences
9. Bid evaluation (discussion of risks, e.g., lowballing)

G. Construction phase contract management processes
1. Third party construction manager option
2. "Partnership" model of project management/ implementation
3. Standard construction contract language
4. Establishment of responsibility for approvals by and fees for related agencies (e.g., Police Department procurement of building permit)
5. Construction contract administration/ payment procedures
   a. Standardized structure/ content of cost breakdown/ invoices
      - American Institute of Architects ("AIA") Chart of Accounts
      - Construction Specifications Institute ("CSI") structure
      - Other
   b. Promulgation/ enforcement/ verification of compliance with contract requirements
      - Inspection responsibilities of design professional
      - In-house/ contracted inspectors/ title companies
      - Construction progress meetings/ reviews
      - Frequency and reporting requirements
      - Role in payment approval process
   c. Compensation
      - Compensation structures frequently associated with specific contract types
      - Financial rewards for early completion/ under budget; penalties for being late/ over budget
      - Retainage
   d. Coordination of multiple prime contractors

   e. Conflict resolution/ resolution of issues/ challenges
      - Prevention: "Partnership" model of project management/ implementation
      - Memorandum of Understanding ("MOU") stating how disputes are to be resolved
      - Arbitration
      - Third party evaluations
      - Litigation
   f. Scope control
   g. Payment approval process

   h. Contract change orders and amendments
      - Procedures for evaluating/ verifying proposed change order amount
   i. Termination provisions/ processes
6. Default conditions and procedures
7. Project completion
   a. Substantial completion requirements
   b. Punch list
   c. Contract close-out requirements
   d. Building commissioning
   e. Client sign-off/ release of retainage/ bond
   f. Items to be transferred to the owner
      - Stock of replacement materials
      - Warranties
      - Equipment/ system manuals
   g. Evaluation of contractor performance
   h. Evaluation of project success
      - Client needs
      - Budget conformance
      - Financial impacts
      - Ease of operation and maintenance

H. Issues with specific project types
   1. Economic development
   2. Water/ sewer
   3. Transportation
   4. Roads
   5. Schools
   6. Other buildings
   7. Parks and recreation
   8. Information technology

IX. Reporting and Monitoring the Capital Program

A. Goals
   1. Accountability
   2. Taxpayer confidence
   3. Credit quality
   4. Improved management
   5. Planning
   6. Prevent “sticker shock” or other negative reactions among citizens, legislature members or others about changing scope, cost, schedule, etc.

B. Uses of information
   1. Self-evaluation of project manager performance
   2. Supervisor evaluation of project manager project team
   3. Identification of problems
   4. Establishment of goals and measurement of performance relative to goals (e.g., schedule and budget compliance)
   5. Development/ use of draw schedules, cash flow monitoring, debt issuance planning
   6. Reporting to stakeholders (see C.2. below)
   7. CAFR (debt issuance, spending)
   8. Grant reporting
   9. Foundation for next year’s CIP
   10. Development of strategic and financial plans

C. Definition of information needs
   1. Requirements
      a. Relative to referenda
      b. Relative to bond issuance/ credit rating process
      c. Internal requirements
      d. Other
   2. Who needs the information
      a. Project managers & supervisors
      b. CIP managers
      c. Budget management staff and management
      d. Other participants in joint initiatives (e.g., local-state, regional authorities)
      e. Auditors
      f. Clients/ end users
      g. Operations and maintenance personnel/ facility managers
      h. Chief executive and otherelected officials
      i. Steering or oversight committees, citizen groups, and general public
      j. Credit rating agencies
      k. Press/ media
   3. Frequency of reports
   4. Groupings/ levels of detail
      a. Individual projects
      b. By project management team/ project manager

   c. By client/ department
   d. By funding source
   e. By project phase
   f. By financial status (e.g., authorized, encumbered, expended, etc.)
   g. Entire CIP
5. Needs may be different for different sizes of capital programs

D. Data to be reported
1. Financial information
   a. Budget
   b. Funding source
   c. Change orders/ amendments
   d. Projected/ actual draws
   e. Financial performance (actual vs. target)
2. Contract status
3. Schedule performance (actual vs. target)
4. Project status (physical progress)
5. Problems
6. Performance of participants
   a. Project managers
   b. Design consultants
   c. Contractors

E. Data collection/ entry
1. Data sources
   a. Budget/ financial staff and systems
   b. Design professional
   c. Contractor
   d. Construction inspector
   e. Third party (e.g., construction manager, title company)
2. Means/ frequency of data entry
   a. Use of limited access websites for individual projects
3. Quality control and standardization

F. Report production processes
1. Data entry (frequency, data types, quality control)
2. Logistics
   a. Printing, copying, and distribution
   b. On-line availability

G. Dedicated/ project specific monitoring
1. Meetings for project monitoring
2. Citizens' advisory committee

Project Activity: **Definition of Comprehensive Plan**
Relationship to Outline: I, A

Project Description:

The Comprehensive Plan is a multifaceted document used to guide the fiscal, operating and land use needs of the community.

Issue Description:

State statutes frequently require local jurisdictions to prepare a comprehensive plan with various elements to guide the growth of the community. The Comprehensive Plan usually includes a series of plan elements relating to factors such as land use, conservation, housing, transportation including parking, traffic circulation and mass transit issues and capital improvements. Economic development goals/strategies may also play either a direct or indirect role in the preparation of a Comprehensive Plan. Capital improvements are the focus of this master outline.

Issue Resolution:

The capital improvements element identifies the need for public capital facilities utilizing inventories of existing public infrastructure networks (sewer. water, street, underground electrical, etc), public buildings and other structures. In addition, level of service (LOS) standards, population and other demographic projections are developed, leading to estimates of anticipated capital needs based upon those standards and projections. These elements form the basis for a multi-year capital plan which in turn becomes an integral part of the Comprehensive Plan.

NOTE: In some states, metropolitan or regional planning entities have been created to promote an area-wide approach to the above issues. Often such entities carry some decision-making authority in the distribution of Federal or State transportation, housing or other grants in aid to local governments.

Advantages:

Having an effective Comprehensive Plan for a community -
(1) Creates an integrated relationship between project proposals and the comprehensive planning process.

(2) Improves communication between the planning and budget/finance departments.

(3) Establishes a framework in which project proposals should be evaluated.

Disadvantages:

The effort required to develop a meaningful Comprehensive Plan is substantial. Both the technical and communication challenges among various departments and between the

government and the general public may pose a substantial obstacle to its endorsement. Some may see the coordinating effort between the comprehensive elements as unnecessary and creating more work.

Examples:

Madison, Wisconsin, Comprehensive Plan, December, 2005
www.madisonplan.org

Lynwood, Washington, Comprehensive Plan & Map, May 25, 2005.
www.ci.lynnwood.wa.us/Content/business.aspx?id=88

Beaverton, Oregon, Comprehensive Plan, Various elements completed 2000 to 2004
www.beavertonoregon.gov/departments/CDD/ComprehensivePlan/vol1/compplanvol1.html

Return to Outline: Section I, A

Project Activity: **Definition of Capital Plan or Capital Improvements Program (CIP)**
Relationship to Outline: I, B

Project Description:

A Capital Plan is a multi year (usually 5-6 years) listing of projects and capital programs planned for the community and the revenues and other financing sources identified to pay for those projects. Often included are policies regarding long range capital improvement priorities and capital financing policies. These may include statements regarding infrastructure preservation, debt capacity, etc.

Issue Description:

A major – and often separate – component of government budgeting is the annual capital budget. This budget authorizes both the spending and the necessary financing for that year's capital projects. Most governments are also required to include a capital plan as part of their budgeting activity. Capital Plan development/update normally precedes the annual capital budget preparation. It is important for persons to gain an appreciation for the role of the capital plan in fashioning a capital budget.

Issue Resolution:

The Capital Plan allows for the programming of both projects started and completed within the same year as well as those funded over multiple years. The capital plan is a financial blueprint that sets forth the public infrastructure needed to support development in conjunction with the capital improvements element of the comprehensive plan over multiple years.

Advantages:

A Capital Plan -
(1) Creates an integrated relationship between project proposals and the comprehensive planning process.

(2) Results in improved communication between the planning department and budget/finance departments.

(3) Promotes a more meaningful annual capital budget by permitting evaluation of the multi-year project and fiscal impact of annual capital authorizations. Also, the capital plan often provides a statement of service and financial priorities the government applied in its development of the annual capital budget.

Disadvantages:

The effort required to develop a meaningful Capital Plan is substantial. Competing project priorities among the various government departments must be resolved. Both the technical and communication challenges among various departments and between the government and the

general public may pose a substantial obstacle to Plan endorsement. Some may dislike the additional work effort to coordinate multiple years including the allocation of expected revenues and expenditures

Examples:

Hillsborough County, Florida – Adopted Biennial Budget for FY06 & FY07, September 22, 2005
www.hillsboroughcounty.org/managementbudget/budgets/adopted/fy0607/
(Click on "Capital Improvement Program")

Lee County, Florida, Annual Budget, Fiscal Year 2005-2006, October, 2005.
http://revize-dev.leegov.com/lee_county/BudgetServices/uploads/FY05_06BudgetBookBOOK.pdf
(Go to Internet Page 223)

Montgomery County, Virginia, Planning: Capital Improvement Plan
www.montva.com/departments/plan/cip/cip.php

Return to Outline: Section I, B

Project Activity: **Definition of Capital Budget**
Relationship to Outline: I, C

Project Description:

A Capital Budget is the annual authorization to expend funds for specified capital projects and programs and to provide the financing delineated in the Budget. In governments having a capital plan, the Capital Budget is the "current" or first year of the Capital Plan. This is the year that will actually be funded in conjunction with the operating budget. Some communities adopt two year capital budgets.

Issue Description:

Most governments are required to include a capital plan component as part of their budgeting activity. The capital budget year is sometimes included as the initial year of the capital plan. Opportunities to examine varying capital budgets are useful to those preparing the budget.

Governments must establish criteria as to how to classify expenditures as either "capital" or "operating" items, for only capital items are to be included in the capital budget. These criteria normally require all capital items to be assets that will last more than a single budget year and have a cost or value that exceeds some minimum dollar threshold.

Also, governments should explicitly consider the future impact of a new capital facility on the annual operations budget once that facility is completed and placed in service.

Issue Resolution:

Create by local ordinance or state statute the local government requirement to produce an annual capital budget, defining its mandatory components. Indicate that such a budget is separate from the government's annual operations budget and must address the requirements identified in "Issues Description" above.

Provide a collection of capital budgets from different communities. With easy access to the information, government officials can quickly develop an acceptable format and guidelines for preparation of annual capital budget.

Advantages:

A Capital Budget promotes separate consideration of the major public capital investments/ expenditures being considered by the government in the coming budget year. Promotes multi-year capital planning by highlighting the important financial and facility commitments of the government each year.

Capital budget examples are readily found via the internet.

Disadvantages:

Separating the capital and operating budgets – particularly for smaller governments – may seem like adding work with little observable benefit. Some may dislike the additional work to prioritize capital needs and coordinate with the operating budget.

Examples:

Hillsborough County, Florida – Adopted Biennial Budget for FY06 & FY07, September 22, 2005
www.hillsboroughcounty.org/managementbudget/budgets/adopted/fy0607/
(click on "Capital Budget")

Nashville, Tennessee, Metro Nashville's Capital Budget, Fiscal Year 2005-2006.
www.nashville.org/finance/Management_and_Budget/Capital_budget.htm
(click on "An Overview of the Process")

Return to Outline: Section I, C

***Project Activity*: Responsibility for Coordinating the CIP Process**
Relationship to Outline: I, D, 1

Project Description:
The *Capital Improvement Plan* (CIP) preparation process is a multifaceted effort in which success depends upon the coordination of many departments within a clearly defined timetable.

Issue Description:
Developing the CIP is complicated and its preparation can be intimidating to one trying to understand the process or improve existing procedures. Some of the projects may involve various governments at the Federal, state and local level that must be integrated to make the project effective.

The organization must designate the person(s) responsible for coordinating preparation of the CIP. In some communities, the Finance Officer has the major role while in other governments, there is a budget department or division charged with CIP development. Everyone needs have a clear understanding of role responsibilities.

Issue Resolution:
Using internet access, provide information regarding the various methods used by governments. Most communities as part of their CIP document include a discussion of the roles and responsibilities of various departments and how they relate to one another.

Advantages:
Providing availability to examine different CIP procedures:
(1) Allows the reader to get information from various communities regarding CIP preparation.

(2) Improves the flow of ideas within the organization to make improvements.

(3) Gives stakeholders (citizens in the community) a perspective on future expenditures and benefits from the capital improvements.

Disadvantages:
The effort to possibly change procedures is time consuming and may become secondary to daily responsibilities.

Examples:

Lee County, Florida, Annual Budget, Fiscal Year 2005-2006, October, 2005
http://revize-dev.leegov.com/lee_county/BudgetServices/uploads/FY05_06BudgetBookBOOK.pdf
(Go to Internet Pages 224 and 225)

Longmont, Colorado, Capital Improvement Program, 2004
www.ci.longmont.co.us/finance/cip/cip.htm

Return to Outline: Section I, D, 1

Project Activity: **Annual Schedule/Cycle of Steps in CIP Planning & Implementation**
Relationship to Outline: I, D, 3

Project Description:
Preparation of the CIP is an intricate process involving many people in various departments. The CIP timetable creates the framework for CIP Budget preparation.

Issue Description:

Understanding the interrelationship of responsibilities in the CIP preparation process to deadlines can be quite complicated. However, it is very important for all participants in developing the CIP to be aware of everyone's tasks and completion dates.

Issue Resolution:

Provide access to the schedules and activity flows from various communities. Most CIP documents include a visually based timetable. This information is very useful in helping the CIP staff fashion task assignments to meet their own government's requirements.

Advantages:

(1) Allows information to be available through this CIP outline that can illustrate various schedules. The CIP process is usually displayed in an understandable visual format with boxes and lines that set forth the process in the completed document.

(2) Eliminates the user's need to spend time searching for examples of the CIP schedule because they will be grouped together as part of this outline.

Disadvantages:

(1) Requires the allocation of time to examine various alternatives and design /amend a schedule to meet the needs of the locality.

Examples:
Lee County, Florida, Final Budget, Fiscal Year 2005-2006, October, 2005.
http://revize-dev.leegov.com/lee_county/BudgetServices/uploads/FY05_06BudgetBookBOOK.pdf
(Go to Internet Page 229)

Baltimore County, Maryland, Capital Improvement Program, December, 2005
www.co.ba.md.us/Agencies/planning/public_facilities_planning/cip.html
(click on "chart of the County Budgeting Process" – PDF)

Savannah, Georgia, Capital Improvement Program.
www.ci.savannah.ga.us (Under "City Services" click on "budget"; click on "Budget Archives"; click on "Capital Improvement Program")

Return to Outline: Section I, D, 3

Project Activity: **Timing of CIP development relative to Operating Budget development**
Relationship to Outline: I, D, 3, a

Project Description:
Understanding the relationship of the Capital Budget to the Operating Budget

Issue Description:

In many jurisdictions, the Capital Budget and CIP are presented as a section within the overall budget document which is usually dominated by the operating budget section. However, the capital budget process frequently precedes the operating budget preparation by several months. Some of the questions that a finance officer and/or other persons responsible for budget preparation should consider are:

How does the budget document explain the interrelationship between capital and operating?

If a project depends upon funds from various governments (especially Federal and state) which may have different funding cycles, what are the coordinating issues to allow the project to be developed and function effectively?

Issue Resolution:

Examine various documents and provide examples describing various explanations regarding the interrelationship of both kinds of budgets. Most explanations are contained in the budget document.

Advantages:
Eliminates the user's need to spend time searching for examples of the operating and capital budget interrelationships because they will be grouped together as part of this outline.

Disadvantages:
Requires the allocation of time to search for the information.

Examples:

Prince George's County, Maryland, Approved Budget, Fiscal Year 2006 – Guide to the Budget Document
www.co.pg.md.us/Government/AgencyIndex/OMB/
(under "Select an Agency" choose Management & budget; choose Approved Budget FY2006; Select "Budget Guide")

Riverside County, California, 2005-2006 Budget
www.riversideca.gov/finance
(select Accounting – Reports – BUDGET05-06 – Capital Improvement Summary)

Return to Outline: Section I, D, 3, a

Project Activity: Types of Projects to be included in the CIP
Relationship to Outline: I, D, 4

Project Description:

Identification of the kinds of projects that should be included in the CIP.

Issue Description:

The heart of the Capital Improvement Plan is the vast array of projects that are included. What types of projects should be included in the CIP? What is the criteria for selection? How should projects be represented – each individually or in the aggregate as a program or function (ex. Light pole replacement program) without project specific designation?

Issue Resolution:

Establish various criteria from which projects can be identified. The criteria set priorities such as provision of health and public safety or the preservation of existing facilities.

Advantages:

(1) Allows those responsible from each department for determining CIP projects to use the same selection processes.

(2) Provides public with the opportunity to understand the basis for inclusion and gain an appreciation for the process that led to specific project inclusion in the capital budget.

(3) Resolve different priorities from various jurisdictions that have an interest in the same project.

Disadvantages:

(1) More work for administration to select appropriate criteria and maintain it when selecting projects.

Examples:

San Francisco Municipal Railway
North Central Texas Council of Governments

Return to Outline: Section I, D, 4

Project Activity: Policies for CIP Preparation and Implementation
Relationship to Outline: I, D, 5

Project Description:

Preparation of Manual to provide guidelines for departmental fiscal officers to prepare capital budget requests.

Issue Description:

Various individuals from departments within government are responsible for gathering information and preparing the CIP budget request.

Issue Resolution:

Create and maintain a standard set of policies and procedures for use by the departmental fiscal officer. The policies should address both the capital budget and program years.

Advantages:

(1) Allows those responsible from each department for preparing CIP projects to use common guidelines.

(2) The project requests will require fiscal officers to use a common methodology as set forth in the budget preparation manual.

(3) Results in the same kinds of information provided for each project request.

Disadvantages:

(1) Fiscal officers must adhere to guidelines set forth in the policies.

(2) Budget office staff who review the project requests must be certain that the procedures set forth in the budget preparation manual have been followed.

Examples:

Lee County, Florida

Return to Outline: Section I, D, 5

Project Activity: Information Presented for CIP Requests
Relationship to Outline: I, D, 6

Project Description:

Development of Capital Project Identification Forms

Issue Description:

A standard Capital project request form should be developed.

Issue Resolution:

Establish a form to be completed for each project that will address a description of the project, location, justification, estimated project cost by various elements (land, professional services, construction, project management, furnishings), funding sources, operating impact and projected benefits.

Advantages:

(1) Allows those responsible from each department for determining CIP projects to use the same format.

(2) Promote a fair comparison of the merits of the projects.

(3) Helps to keep “legitimacy” in putting forth fiscally responsible plans.

Disadvantages:

(1) Involves more work for the preparer since he must address each element on the project request form.

(2) Budget office staff who review the project requests must be certain that the procedures set forth in the budget preparation manual have been followed.

Examples:

Greene County, Virginia
Missoula, Montana
Lee County, Florida

Return to Outline: Section I, D, 6

Project Activity: CIP document(s)
Relationship to Outline: I, D, 7

Project Description:

Development of the CIP Document

Issue Description:

The CIP includes both a capital budget and a multi year program. Ideally, the capital budget should be adopted by the governing body in a legal format such as an ordinance or resolution. The multi year program portion of the CIP may or may not be part of the adoption process. A budget book may not always be a legal requirement. However, it is the best way to convey the information.

Issue Resolution:

Establish a set of CIP guidelines to assist in the objectives and preparation of a useful CIP document.

Design and produce a book(s) that describes the CIP budget and Program on an annual basis or combine the document as part of a Fiscal Year Operation and Capital Budget/Program as an information tool for the public.

Advantages:

(1) Allows information about the CIP Budget and Program to be made available to the public in a more readable format than the required legal documents in both book and internet format.

(2) The GFOA through its distinguished budget award program provides a standardized review process for budget documents and has made available examples of presentations it deems to be of high quality.

Disadvantages:

(1) Requires the budget office to have personnel available (frequently the budget analysts) to gather the date and produce the book containing the budget information.

Examples:

San Antonio Water System
Chicago Transit Authority

Return to Outline: Section I, D, 7

Public/Private Partnership –
Example 1: **Historic Redevelopment Project (below)**
Example 2: **Taxable Financing for a Hotel Conference Center (follows)**

Historic Redevelopment Project

Project Type: Public/Private Partnership
Project Name: Ellis Square Redevelopment
Project Location: City of Savannah Landmark Historic District
Approximate Cost: $30 million Garage, $1.5 million public square, $46 million private hotel/retail/office/condo development
Alternative Technique Names: Not Applicable
Relationship to Outline: Section II, B, 15

Project Description:

Background. Savannah, GA is known for its landmark historic district originally designed around 24 public squares. Over six million tourists visited Savannah in 2005, most drawn to the community because of the historic district. Ellis Square was one of the six original squares laid out by General James Oglethorpe in 1734. Up until the 1950's it served as the public market for the community. In 1954 the City signed a 50 year lease with a private firm to construct and operate a 500 space private parking garage, hoping that this would help revitalize the downtown area.

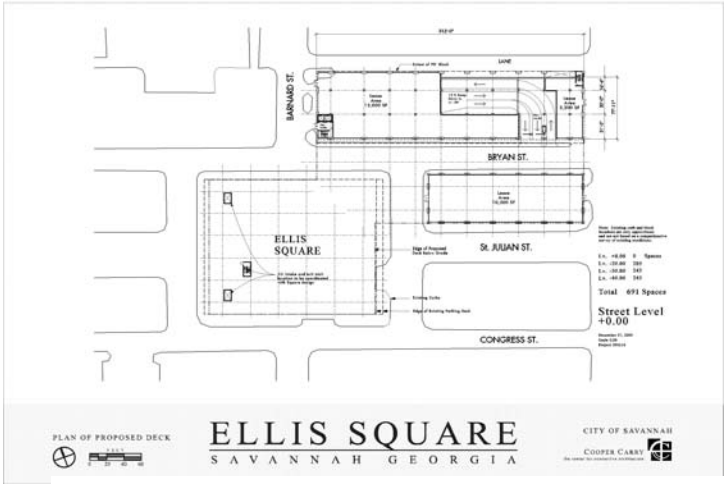
With the lease expiring in 2004, the City of Savannah had the opportunity to restore one of the lost squares of Savannah, but with a 2,000 space peak parking deficit in the downtown, simply leveling the existing garage and constructing a square was not a viable option because it would add to the parking deficit. The project described in this example provided the opportunity to recreate Ellis Square, address the downtown parking deficit and catalyze private development through a public/private development partnership.

City Market Parking Garage, 2003

In 1998 the City hired an engineering firm to study the possibility of providing a parking garage under the existing City Market Garage. This possible solution, at a cost of over $40,000 per space proved to be cost prohibitive because the footprint was not large enough to provide a sufficient number of parking spaces. Without at least replacing the existing parking spaces, it was unlikely the City would be able to restore the square.

Before abandoning this opportunity, the City contracted with another firm to look at other options for underground parking. They found that by combining the existing parking garage area with two adjacent vacant lots, the cost per parking space could be reduced to approximately $30,000 per space, an amount that seemed marketable.

Soon after determining that the project was feasible, a major developer interested in Savannah approached the City with a proposal to redevelop an entire block of historic buildings adjacent to the proposed underground parking garage site and including one of the vacant lots needed for the project. The developer was impressed with the work the City had already done on the project, and agreed to work with the City on the underground garage that would help make their development more viable.



Garage concept using adjacent private lots

In the end, the City agreed to invest $30 million to construct a four level, 1,075 space parking garage under the square and two adjacent private lots. The city also agreed to recreate the square on top of the underground garage. The private developer agreed to invest $46 million to restore the existing historic buildings and construct a new building that included hotel, retail and office space. The private developers also donated land under their projects where the City will construct the parking garage and guaranteed to buy or lease 250 spaces in the garage at the full cost of construction. The City did what it does best: built a parking garage and restored a historic square. The private developer took all the risk on the mixed use development above a portion of the garage.

The project, when completed in August 2007, will provide:

- $46,000,000 in private development
- 190,000 square feet in private development
- $500,000 in annual tax revenue to the City
- 150 hotel rooms with 30,000 square feet of retail
- 50 residential units
- 210 new jobs
- $7,000,000 in contracts to minority firms
- $1,600,000 in contracts to women owned firms

The project agreement provided that:

- The developer conveys subterranean rights of their property to the City for the purpose of constructing an underground parking garage. To compensate, the garage project provides foundations to support buildings planned for sites.

- The City contracts for the design and construction of the garage with a design-build firm.
- The developer and its sub-developers re-develop the property into a mixed use development which will include a hotel, offices, retail space, and condominium residential units.
- The City restores Ellis Square as an attractive public space.
- The developer and its sub-developers contract for the use of 250 spaces in the garage under terms that cover the full cost of the spaces. The City manages the remaining spaces as a public garage as part of its downtown public parking system

The economics of the underground garage project are summarized in the attachment.

Issue Description:

With limited funds, and the need to obtain subterranean rights for two adjacent private lots, it was unlikely the City of Savannah could proceed with this important public project without significant private sector involvement.

Issue Resolution:

Partnering with a private developer provided the City with subterranean land critical to building the underground parking garage. The developer also guaranteed to pay the full price of nearly a quarter of the spaces in the new garage, making the financing of the garage feasible.

Advantages:

The major advantage to this public/private partnership is that the City did what is does best: constructs and operates a public parking garage, and creates a beautiful urban square while the developer concentrated on what it did best: redevelop a historic property. The City took little to no risk in the private development, but the development would not have been possible without the underground parking garage and restored square.

Disadvantages:

Putting all the components of the deal together was extremely complex. Because time was critical to the developer, it required enormous effort by City financial and legal staffs (with assistance from a construction management firm) to work through all the details.

Note:

Construction of the Ellis Square garage began in October 2005 with a guaranteed completion date of August 2007.

Attachment: Garage Pro-forma

	1075 Spaces
Capital Costs:	
Total project budget	$ 30,485,296
Number of spaces	1,075
Capital cost per space	$ 28,358
Bond Sizing:	
Total project budget	$ 30,485,296
Less: City available cash	7,305,296
Less: Condo developer cash	1,350,000
Bond amount	$ 21,830,000
Assumed Rates per Space per Month	
Hotel spaces	$ 229
Condo spaces	$ 42
BDCD Retail/office spaces	$ 139
General public	$ 90
Assumed number of spaces leased:	
Hotel spaces	100
Condo spaces	50
Developer Retail/office spaces	100
General public	900
Annual cash flow:	
Revenue	
Public parking contracts	$ 972,000
Daily parking	100,000
Hotel spaces	274,800
Condo spaces	25,200
BDCD Retail/office spaces	166,800
Total revenue	1,538,800
Expenditures	
Operation and Maintenance	450,000
Debt service	1,067,640
Total expenditures	1,517,640
Net cash flow	$ 21,160

Additional Example Follows, or Return to Outline: Section II, B, 15

Public Private Partnership – Taxable Financing for a Hotel Conference Center

Project Type: Public Private Partnership – Hotel & Conference Center
Project Name: John Q. Hammons Renaissance Hotel & Conference Center
Project Location: Richardson, Texas
Approximate Cost: $9.6 Million (Conference Center Portion)
Alternative Technique Names: Taxable Financing
Relationship to Outline: Section II, B, 15

Project Description:

The project involved taxable financing of a hotel conference center with a private developer.

Issue Description:

The City of Richardson began developing the Galatyn Park Urban Center, a mixed-use development that includes a performing arts and corporate presentation auditorium, a two-acre public plaza, a Dallas Area Rapid Transit rail station, high tech office space and a public parking garage. The plans for the Galatyn Park Urban Center included a hotel to serve the business population in the general area as well as guests that attended events at the performing arts center. The City approached John Q. Hammons and began discussions about building a hotel. The City and Mr. Hammons both felt that a conference center attached to the hotel was an important component to make the hotel successful, but Mr. Hammons asked for assistance from the City in financing the conference center.

Issue Resolution:

Mr. Hammons agreed to construct a $40 million 330-room hotel and conference center. The City developed a financing plan for construction of the conference center that required the City to issue 20-year taxable certificates of obligation. Under this plan, the City would own the conference center for 20 years. Mr. Hammons would lease the conference center from the City and make monthly lease payments for 20 years to cover the debt service payments. At the end of the 20-year period, Mr. Hammons would own the conference center.

Advantages:

- The City was able to work with John Q. Hammons to construct a hotel and conference center at the heart of the Galatyn Park Urban Center.
- The debt service payments were self-supporting, or in other words, covered by the monthly lease payments from John Q. Hammons.
- John Q. Hammons benefited from lower interest rates compared to rates he could get from private financing.
- Mr. Hammons had the option to pay-off the debt early and take ownership of the conference center, which he did in 2005, five years after the initial financing.

- The City benefited from this early pay-off as it began receiving property taxes from the conference center earlier than expected.

Disadvantages:

- The major disadvantage or risk to the City was that John Q. Hammons would default on the lease payments.
  - To avoid this risk, the City created a Debt Service Reimbursement and Security Plan with John Q. Hammons.
  - The basis of this plan was a personal guarantee contract with Mr. Hammons that specified Mr. Hammons would not default on the lease payments and that the City would retain ownership of the conference center and land until the end of the 20-year repayment period.

Other Issues:

- Outside consultants performed two separate studies:
  - The first study reviewed the features of the public-private financing plan to evaluate the public incentives and to evaluate return on investment for this project.
  - The second study examined the feasibility of John Q. Hammons to meet financial obligations of the monthly lease payment.

- Property Tax Impact
  - The City began receiving property tax revenue on the main hotel upon completion.
  - The attached hotel conference center would be owned by the City and would be tax exempt until Mr. Hammons assumed ownership of the conference center after the lease was paid (which could have been 20 years). Since Mr. Hammons assumed ownership in 2005, the City began receiving property tax payments five years after the conference center was completed.

Return to Outline: Section II, B, 15

State Infrastructure Bank Revolving Loan Fund Program Example

Project Type: Surface Transportation Infrastructure (or other construction projects)
Project Name: Rail depot rehabilitation and bus purchase
Project Location: North Carolina (but program is available in many States)
Approximate Cost: Variable, depends on State program
Alternative Technique Names: debt financing, direct loans
Relationship to Outline: Section II, B, 17

Project Description:

State Infrastructure Banks are discrete, project specific revolving funds that offer diverse credit enhancement products.

Issue Description:

Many transportation projects rely on grants for a portion of their financial plan. Transportation investments that involve Federal funds require a local match, usually equal to 20% of eligible project costs. Many communities lack the ability to raise matching funds and must accumulate the money needed to meet the match requirement, causing delays in project delivery.

Issue Resolution:

North Carolina capitalized a State Infrastructure Bank (revolving fund) by transferring public transportation Federal-Aid dollars to a transit account. The SIB subsequently loaned the necessary project match dollars to the community in order to accelerate project delivery.

Factors that enable a project to use borrowed money for project finance:

- The project has a future revenue stream that can be pledged to loan repayments, such as future grant money, user fees, advertising revenue, or sales taxes.
- No legal impediments prevent the use of long term debt

Advantages:

- Accelerates project delivery by removing financial plan impediments
- May reduce total project costs by avoiding inflation based project cost increases
- Many SIBs offer below market interest rates and flexible repayment terms

Disadvantages:

- Loan programs may be harder to administer than grants, since repayments must be tracked and marketing efforts must be used to educate and solicit applicants
- This option is not available in all States, although changes in the law (SAFETEA-LU) enable all States to participate in this program.

Return to Outline: Section II, B, 17

Owner Controlled Insurance Program Example

Project Type: Surface Transportation Infrastructure (or other construction projects)
Project Name: Central Artery Tunnel Project
Project Location: Boston, Massachusetts, USA
Approximate Cost: 15 billion US dollars
Alternative Technique Names: Wrap-up Insurance
Relationship to Outline: Section VIII, A, 6a

Project Description:

The project involved a major surface transportation investment and included several bridges and tunnels in the metropolitan Boston area.

Issue Description:

Contractors and subcontractors hired for this project must carry various form of liability insurance including worker's liability, general liability, and professional liability.

Issue Resolution:

The Central Artery Tunnel project met their insurance obligations by purchasing an OCIP (owner controlled insurance program). An OCIP is a program in which all the contractors and subcontractors working on a project are covered by a single master policy procured by the project owner, thereby avoiding the redundancies and inefficiencies that would result from numerous policies purchased individually from different insurers.

Project characteristics that favor the economies of scale offered by an OCIP program include:

- Large dollar project costs, generally in excess of $75 million dollars
- Many different contractors or subcontractors performing work on the project
- Unique, complex or unusual project risks such as the application of new construction techniques with uncertain hazard potential

Advantages:

- The OCIP program enabled smaller contractors to become eligible bidders without worrying about insurance expenses
- The project owner imposed and diligently enforced stringent safety rules on the project work site in order to meet risk containment requirements
- Overall, the OCIP program lowered insurance costs and provided better and broader insurance coverage
- Claims are centrally processed

Disadvantages:

- There is a potential to underestimate risk and therefore under fund the risk exposure, leading to legal liabilities; in 2004, CA/T contractors sued the program for failing to meet their professional liability obligations
- Multiple underwriters may add to the complexity of the program, requiring additional administrative, recordkeeping and sophisticated risk analysis resources

Other Issues:

Investment of premiums in risk bearing securities
Need to monitor program to ensure adequate coverage through the project life

Return to Outline: Section VIII, A, 6a