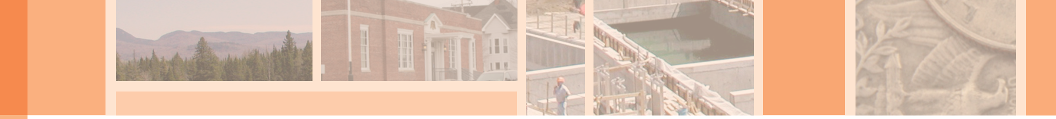
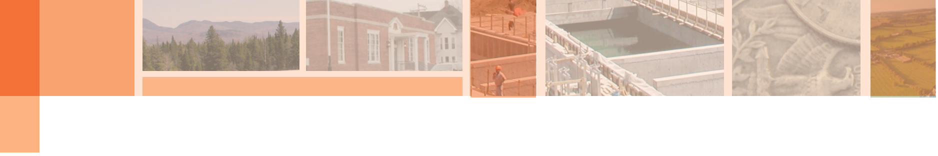


NEW YORK STATE CAPITAL IMPROVEMENTS PROGRAM DEVELOPMENT

A Guidebook for Local Officials

Environmental
Finance
Center
Syracuse University



PREFACE

This guidebook was created to aid local officials in understanding the development and implementation of a Capital Improvements Program (CIP). Information for this guide was tailored and consolidated from various sources to meet the needs of small, rural municipalities. This guidebook begins with an introduction to developing a Capital Improvements Program, followed by a more in depth look at the major components of the CIP, mainly the capital plan and the capital budget. Examples are provided throughout this guide, with helpful forms attached at the end.

This tool was created by the Syracuse University Environmental Finance Center (Syracuse EFC), with support from the USDA Rural Development. Located at the Syracuse University Center for Sustainable Community Solutions (CSCS), Syracuse EFC enhances the administrative and financial capacities of state and local government officials, nonprofit organizations, and private sectors to make change toward improved environmental infrastructure and quality of life.

Syracuse EFC facilitates the development of sustainable and resilient communities across US EPA Region 2 (New Jersey, New York, Puerto Rico, the US Virgin Islands, and eight tribal nations), across the US, and internationally. More information can be found at efc.syracusecoe.org/efc.

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CAPITAL IMPROVEMENTS PROGRAM OVERVIEW

Local governments are tasked with maintaining a significant portion of public infrastructure pertaining to transportation networks, drinking water, and education. Critical to maintaining these essential public services, a multiyear capital improvements program, or plan (CIP) identifies and prioritizes expected community needs, establishes project scope and costs, and details revenue streams. A CIP has two major components; the capital plan and the capital budget. The capital budget flows from the capital plan and lists proposed capital projects and the means to finance them for the upcoming fiscal year.[1] Some capital programs also project their effect on key financial variables, such as the real property tax rate.[1]

Capital Plan

The capital plan is developed to maintain and improve local government's capital assets by monitoring priorities and expenditures over a set time period. Governments typically develop multiyear plans. The capital plan provides a link between a municipality, school district, parks and recreation departments, other local government entities, comprehensive and strategic plans and the entity's annual budget. This link is therefore a way to involve the public in opportunities to be involved in comprehensive and strategic planning for the municipality, and to invest directly into the community. Furthermore, involving the public in CIP development will promote transparency within the municipality as they will be informed of what the municipality owns and how assets are financed.[2] The plan will address legal and policy requirements, and will be flexible to respond to new needs and deal with emergencies.

The creation of a plan is a preemptive fiscal approach for maintaining local infrastructure; its creation demonstrates responsibility on the behalf of the municipality, as it presents the municipalities attempt at efficiently utilizing public funds, as well as exhibiting "cooperation among departments and an ability to inform other units of government of the entity's priorities." With this plan, future costs can be predicted, therefore allowing managers time to prepare for these costs; whether this is to increase down payments, wait to find the best purchase price, or seeking alternative financing sources (i.e. grants).[1] A capital plan may also call for spreading large costs over several years so as to not overburden any one given year with expensive capital purchases.

Failure to create a capital plan may result in degradation of infrastructure, possibly leading to heavy spending to fix or replace essential infrastructure. Emergency purchases have the potential to disarrange operations, budgets and tax rates.

Capital Budget

The main purpose of a budget is to estimate the anticipated revenues and expenditures over some period of time. Capital budgets include a spending limit which is set by the local governing board through the adoption of the capital plan and through the authorization of select capital projects. Multiyear capital budgets are favorable as they fiscally plan for long term projects that will take years to accomplish, therefore lessening the burden of large expenditures in one year. The budget shall list the projects to be funded, the funding source for those projects, and a future projection of expenditures. In addition, "the capital budget is generally adopted at the same time as the local government's annual budget and may either be a section of that budget or attached as a separate document."[1]

GETTING STARTED ON THE CAPITAL IMPROVEMENTS PROGRAM

Factors to keep in mind when starting to develop the capital improvements program include the assets that the municipality currently owns, immediate and future needs as well as the priority of those needs, costs associated with needs, and the ability to fiscally provide for addressing those needs.

Considerations

Special consideration should be given to affording the development of the capital improvement program. While the CIP itself is extremely valuable once prepared, it will take time and resources to develop the program. A coordinator or planner should be assigned to develop the program, or the municipality may hire a professional.[1] In lieu of developing a new CIP, all that may be required is to update an existing program. Regardless of this factor, input should be sought from many sources, including the governing board members, department heads, local agencies and the public. Community members may also be resources as they may have valuable skills; they may be engineers, lawyers, or business leaders.[1] Other municipalities may also be contacted for advice.

Goals for the community may already exist in the municipality's comprehensive or strategic plan. To incorporate these existing goals, they should first be agreed upon by all parties involved in the CIP process. Capital projects and priorities should align with existing and agreed upon goals. Should a strategic plan not exist, goals should be developed with the involvement of those parties listed above. Items to address when developing community goals include visions for the community years down the road, infrastructure needs, and population changes.

Once community goals are established then project specific financial goals can be created. First and foremost, financial goals should consider operational effectiveness and efficiency to lessen operating costs.[1] Factors to consider when developing financial goals include debt limits, percent of budget to contribute to capital projects, and future capital projects and acquisitions effect on operating budgets.

Factors that lie outside of the municipality but are worth considering include the state of the economy, population composition, technology upgrades, state and federal goals and initiatives, and environmental issues.

CREATION OF THE CAPITAL IMPROVEMENTS PROGRAM

Development of the CIP begins with embracing asset management. The first step in asset management is determining the assets of the municipality; this action is referred to as an asset inventory. After the determination of the municipality's assets, this data and information will be consolidated for decision making and record keeping. Needs and priorities may be set based on the data and information collected. A timetable should be established for the development of the capital improvement plan as well as for the management of assets. Community members and others involved in the development of the capital program should be informed of the asset inventory and priorities in order to ensure community goals are to be met.

Capital Plan

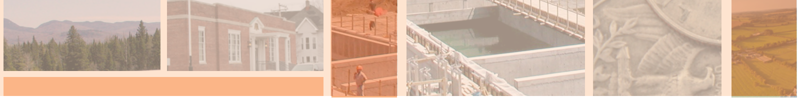
This plan contains a list of capital assets with their projected value to the municipality as well as costs associated with ownership of that asset. Capital projects may refer to maintenance or replacement of those assets as well as acquisition of new assets. These projects will be ranked in order of preference, or priority, for the municipality to accomplish them. The capital budget will flow from the capital plan, as the budget will reflect methods to finance capital projects.

Asset Inventory

Management of assets relating to public services is referred to as "asset management" since the infrastructure associated with these services are of value, or an asset, to the local government and require maintenance and attention. The goal of asset management is defined as "meeting a required level of service in the most cost effective way through planning, acquisition, operation, maintenance, rehabilitation, and disposal of assets to provide for present and future customers."[3]

An asset inventory will dictate the decisions to be made in the development of the capital program. Capital assets may be defined as having a useful life of more than one year and may also be referred to as fixed assets. An asset inventory should include all possessions of value the municipality owns along with all or some the following information: the location of that asset, an engineering description, physical dimensions, maintenance history and warranty information, condition, estimated useful life remaining, hours invested annually in repair and/or maintenance, record of interruptions and backlogs of services due to the aging or inadequate asset, health or safety code violations, and its value or replacement cost.[1]

Understandably, it may be difficult to make a comprehensive list of assets the municipality owns if this is the first attempt, as records may be old and incomplete. Regardless, creation of the best possible list is the goal, and a method for adding and improving this list over time may be developed. Department managers and insurance carriers may be valuable resources when conducting an asset inventory.[1] Also, if the government has been audited, a list should exist of all public-works related assets.[1] All parties involved in the development of an asset inventory should also agree on a system and timeline for reevaluation of the municipals assets which will help in this and future planning processes.



Some common municipal assets include: equipment, infrastructure, property such as land or rights to land, utility and sanitation assets such as sewer and water systems and electric and lighting systems, highways, roads, bridges, public buildings and assets within, vehicles.

Office of New York State Comptroller's tutorial on capital planning and budgeting provides a sample inventory sheet to get started. To access this resource, visit: http://www.osc.state.ny.us/localgov/academy/modules/capplan/one/inventory.pdf

Needs Assessment/Setting Priorities

After developing an asset inventory, current and future needs can be determined. These needs will be prioritized to determine how to provide for the municipality in the most efficient and effective way possible. Ranking the needs may be accomplished by developing a ranking spreadsheet or list.

Organizing the Asset Inventory

A condition ranking system can be used to organize assets in terms of priority for maintenance or replacement for the municipality. Maintenance priority lists can be created by and for each department; these lists will reflect the urgency of need from an operational perspective. See the table below for an example.

Table 1 *Example of condition rating for municipal assets.*[4]

Condition Rating	Condition/ Description	Maintenance Required
0	New	Normal
1	Perfect/Excellent Condition	Normal
2	Minor Defects Only	Minor
3	Minor Maintenance Required	Significant
4	Major Maintenance Required	Renew
5	Almost Unrepairable	Replace

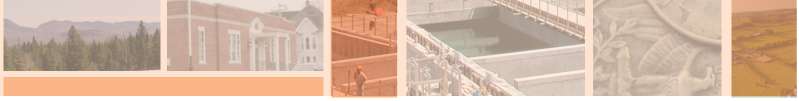
A table of this kind can be made for many different parameters, such as cost, community support, and health and safety issues. After applying ratings to each project or issue, a total rating value can be calculated; the highest rating will receive the greatest priority.

However, a municipality may decree that some criteria are more important than others. Criteria for capital acquisitions are largely dependent on the goals and objectives of the community, which may be found in the comprehensive or strategic plan.[1] Therefore, it may be favorable to categorize capital projects based on their relative importance. The use of rankings should be justifiable, possibly with reference to community surveys, cost/benefit analyses, or engineering studies. For this method, a spreadsheet, or paper, calculator and pen will be all that is needed. Priorities should be developed at several levels including the departmental, fiscal, and executive.

Once the asset inventory and project priorities are set, "capital project acquisition requests can be submitted by the departments to the planner, along with information on the degree to which each criterion is met."[1]

If each department is completing the asset inventory and setting criterion itself, then they would submit a capital acquisitions request form. The Office of the New York State Comptroller, Division of Local Government and School Accountability provides a template of this form: www.osc.state.ny.us/localgov/training/modules/capplan/one/request_form.pdf

However, if there is a single person, or maybe just a few in charge of developing the asset inventory, all capital projects should be well organized and criteria agreed upon by department heads prior to submission to the governing board.[1] The board may prioritize the projects, or priorities may be reviewed at many levels including the departmental, fiscal, and executive levels.



Project Prioritizing Case Study

The following is an example of setting criteria, determining criteria weight, and prioritizing projects, which is provided by the Office of the New York State Comptroller's tutorial on capital planning and budgeting. Three criteria will be used for this example: Cost, Health and Safety, and Community Support. Each criterion should be weighted based on importance; health and safety issues are of the utmost importance in this example and therefore receive the greatest criteria weight. Health and safety will receive a weight of 10. Since both cost and community support are not as important in this respect, their weight will be relative to the weight of health and safety. Cost will receive a weight of 7 and community support a weight of 2.

Scores, or rankings, as shown above in Table 1, are then assigned to each project/ issue to address. Using a score of 1-10 is reasonable, but a different scoring scale can be used, with respect to consistency. See the table below for an example of scoring projects based on the criteria we determined.

Table 2 *Example project criteria scores.*

	Safety	Cost	Community Support
Project 1	3	1	7
Project 2	4	8	2
Project 3	9	6	2

With assigned scores (rankings) to each project in terms of our criteria, the next step is to calculate the total score for the project based on the weight of each criterion. **Remembering that health and safety is worth 10, cost is worth 7, and community support is worth 2.

For each project, multiply each assigned score by the respective weight of the criteria, then add each criteria up to get the total score, using the following formula: (Weight of criteria 1 * score for project) + (Weight of criteria 2 * score for project) + (weight of criteria * score for project) = Total Project Score.
For example, the scores assigned to the criteria for Project 1 in the table above produce this total score: (10 * 3) + (7 * 1) + (2 * 7) = 51.

This method will help determine the which capital projects to begin first, as well as to help choose between alternatives for completing capital projects, as cost may be different between each project. Other criteria which may be considered to rank capital projects upon may be found in the strategic or comprehensive plans of the local government (for example, one strategic plan goal may be to achieve resiliency), and may include return on investment, savings on maintenance, time frame for project completion, urgency, environmental, aesthetic, or social value, revenue generating potential, technology changes, regional impact and project risks.[1]

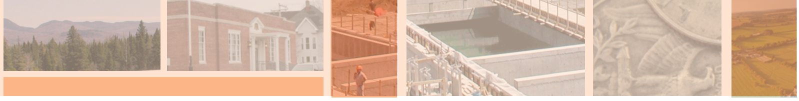
Process Participants

An important part of planning is determining who will be participating in the planning process (elected officials, department heads, etc.) and at what points in the process.

Once a draft plan has been made, public input should be sought. Decide when public meetings or hearings will be held to elicit public participation. The proposed plan may require adjustment in response to public input.

Capital Budget

"A multiyear capital plan should provide accurate, reasonable estimates of each project's budgetary impact, including debt service costs, impact on capital reserve fund and fund balance, and future operating



expenditures."[2] Each plan should provide information of the following types of fiscal data should they be used to finance capital projects: Current and future debt service costs, lease- or installment-purchase contracts, pay-as-you-go costs, reserve funds, future operating costs, impact on revenues, and new costs and/or savings associated with new capital assets. As a reminder, the budget should also reflect increases in staff labor, as staff workloads must be accounted for.[1,2] Projects where implementation is not immediate, estimates may be made more accurate as project implementation dates come closer as many costs fluctuate.[1,2] The budget should also include the projects statement of purpose and a schedule for completion.[2]

Current and Future Debt Service Costs

Debt service is the cost associated with borrowing money to finance large capital projects. Debt is repaid over a set time period along with any interest incurred because of the borrowing. It is important to provide estimates for using this type of financing, as well as to consider the impact on future borrowing potential.

Lease or Installment Purchase Contracts

This term is in reference to the use of property for a period of time in exchange for scheduled payments. Often, this results in the ownership of property at the end of the lease or installment purchase term. This should also be tracked, as it is a long-term expenditure.

Pay-As-You-Go Costs

This method of financing avoids interest payments and may therefore be less costly. Also, if this type of financing is used for a public service, it may be paid for by community members if applicable with their use of a service. "Local governments should estimate the impact on cash flow and fund balances when planning to use current appropriates for the partial or total funding of capital acquisitions."[2]

Reserve Funds
Reserve funds are a way to save money to finance part of or all of a future expenditure.

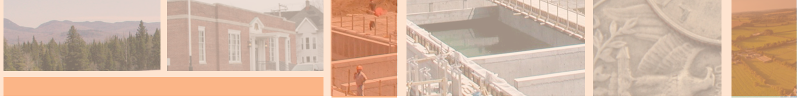
Future Operating Costs
Estimate of future operating costs necessary to utilize the capital asset.

Impact on Revenues
Prices change due to certain capital expenditures. These increased fees of changes in charges for services should be estimated and communicated as part of the capital budget.

New Costs and/or Savings associated with New Capital Assets
"Construction of new capital assets often results in new operating costs", but "it can also produce savings if the investment improves efficiency."[2] Savings of this nature should be part of the capital budget.

An operating budget presentation may be required by some local governments.[2] This presentation will help decision makers and community members understand how the capital plan will operate from a fiscal standpoint. The following should be included in the presentation:[2]

- Capital expenditures for the pertinent year; displayed as fund, category, priority, strategic goal or geographic location.
- Detailed account of corresponding revenues.
- Display capital budget data and trends using graphs and/or tables for easy understanding.



Financing

Overall, taking the time to create a capital plan and budget can improve the likelihood of getting capital projects funded. Creation of a capital and financing plan demonstrates "strong management to capital market participants such as rating agencies and municipal bond investors."[2]

Indicators used by rating and other municipal markets when evaluating municipal debt include:

Adequate Operating Position
Essentially, demonstration that the municipality can pay its bills on time is a good sign. Also considered here are the municipality's reserves.[2]

Designated Capital Reserves
Demonstrating that the municipality is planning for future expenditures is important. For example, if new equipment will be necessary to purchase years down the road, the municipality is "saving" for that now. "Through resolution, in some cases subject to referendum requirements, the governing board can establish capital reserve funds to earmark resources for the future acquisition or improvement of essential capital assets."[2]

Mix of Pay-As-You-Go and Debt Financing
The ratio of reserves versus debt should be monitored, as maintaining a balance of these two types of financing is beneficial. "Generally, when economic and fiscal times are good, more capital financing should be done with pay-as-you-go cash resources."[2] Alternatively, if the tax base is declining, "debt financing should be used cautiously for high priority projects only."[2]

Local Debt Capacity

The debt burden on members of the municipality should be monitored. Many metrics have been developed to measure this burden and include ratios of "the value of outstanding debt to the full value of real property within a local government's borders, debt outstanding per capita, and debt service expenditures as a percent of total expenditures."[2]

Local Finance Law provides information on the restrictions and issuance of municipal debt. "Third parties such as bond counsel, financial advisors, and rating agencies" may be helpful for guidance.[2]

A good plan will allow governing boards to examine each of these funding options and pursue the combination that best works for the local government.

Sources of Funding

Local governments have a number of options for financing capital projects and purchases, especially when they have several years to arrange for the funding:

- **Local Sources**- Such as taxes and user fees, reserve funds, and through the sale of assets or trade-ins.
- **State and Federal Assistance**- Grants, low or zero interest loans, or non-cash assistance. Grant information is updated on the New York State Citizen Guide or municipalities can prepare grant applications to be submitted to the Consolidated Funding Application (CFA). Federal assistance information is obtained from the Catalog of Federal Domestic Assistance (CFDA) website; this includes financial and non-financial assistance programs.
- **Private Funding**- Businesses, private firms, or even individuals may contribute money, gifts, or labor towards a capital project.

- **Cooperative Agreements**- "Intermunicipal cooperation on capital projects is often used for promoting economic development, but is not limited to that area."[1] Agreements, such as shared equipment or facilities between adjacent municipalities may lead to lower costs.
- **Issuing Debt**- Issuing debt is "subject to Constitutional Debt Limits" and Local Finance Law provisions, including considerations for the need for the capital project and the communities financial condition.[1] Consultation of a financial advisor is favorable when dealing with the issuance of debt as there are many types of debt and many methods for determining the municipality's debt capacities, or affordability of debt.

PROGRAM ADOPTION

Once the plan has been developed, and all aspects addressed, the plan may be adopted. "Public interest groups, business leaders, and community residents" shall be allowed to review the plan and voice concern.[2] This may then lead to some adjustments to be made to the plan.

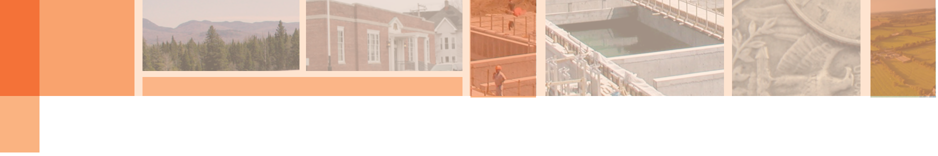
According to General Municipal Law Section 99-g, the capital plan may be modified at any time during the fiscal year for which the plan was adopted, by a two-thirds vote of the total membership. "No capital project shall be authorized or undertaken unless it is included in the capital program as adopted or amended."[5]

By adopting the CIP, all "decisions affecting the annual operating budget must be incorporated into that budget process."[2] The multiyear capital plan most likely needs to be renewed each year because the governing board's approval usually does not "extend beyond the first year."[2] "It is the adoption of that portion of the local government's budget relating to capital expenditures that provides the framework for capital projects to be undertaken in that year."[2]

MONITORING THE CAPITAL IMPROVEMENTS PROGRAM

Many aspects of the CIP should be monitored after adoption, and include capital projects in terms of being on schedule and on budget, as well as external financial information such as bond market interest rates and construction costs. Where costs have exceeded budgeted amounts, "the board should act to control spending or modify the budget."[2] Capital assets should also be monitored for their effectiveness.

The capital program should be updated annually. Therefore, any changes in technology or state and federal funding should be taken into consideration and planned for. A review of the planning process should also take place, and any changes to increase efficiency and effectiveness should be adopted.



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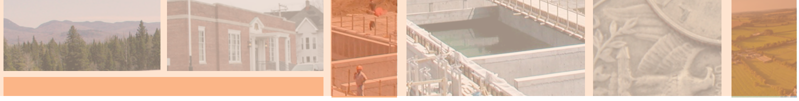

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