

## VIII. Capital Improvement Plan

Capital improvement plans (CIP's) are the financial timetables for community facility investments. These facilities are typically one-time investments, although sometimes they will need to be reconstructed or replaced several decades later. Capital improvements often include water and sewer lines, roadways, fire and law enforcement equipment, government buildings, and parks or recreational facilities, and water and wastewater treatment facilities. Capital improvements plans are budgetary tools to help a community schedule major investments in a manner that fits their anticipated income. But they should also function as construction management tools to plan the order and timing when facilities should be constructed. For example, the ideal time to install or replace water and sewer lines in city street rights-of-way is before the street is constructed or reconstructed. Reversing the order almost ensures a community will spend more money because they will have to tear up and replace part of the roadway in order to complete the water and sewer line installation. The capital improvements plan should not be treated as an independent document. The comprehensive plan should be consulted to determine what the plan intends for development of a particular area. For instance, it would be a waste of money to install large sized water and sewer mains where the anticipated level of use would only require medium sized facilities.

### A. Function

The CIP is essentially a balance sheet showing proposed expenditures by project and year; and anticipated revenues by source and year. Thus, the keys to a successful CIP process are "good individual project proposals,"<sup>36</sup> and careful projections of revenues. Individual project proposals may have several different elements, but they should always include:

- descriptions of the project location and limits,
- relationships to any other projects which are dependent on the project in question,
- anticipated starting date and length of project,
- details about the actual activities to be undertaken, and
- the cost estimate, and the basis of the cost estimate.

Revenue projections should include all sources of income available for capital projects and bonding capacity. Potential sources of income may include:

- property tax revenues,
- bonding capacity,
- enterprise fund revenues,
- reserve funds set aside for capital projects,
- revenues from development projects such as impact fees, and
- sales tax earmarked for capital improvements.

The balance sheet format should allow one to determine that there is a positive ending balance for each year in the proposed plan.

## B. Distinctions

Some helpful points about capital improvements plans include:

- Outlying year project estimates should be on the high side in order to ensure that there are sufficient funds for a project when its turn comes. Construction costs always seem to increase. Estimates are usually less certain years in advance.
- It is important to include all the costs associated with a particular project in the estimate. For example, engineering fees and attorneys fees, contingency funds, appraisal fees, and bonding fees are all often costs associated with a major infrastructure project.
- The number of years included in a CIP should be determined by when projects will need to be completed, and when they are anticipated to be funded. At a minimum capital improvement plans should extend out five or six years, because projects may need to be on the “radar screen” that far in advance in order to complete all the necessary steps prior to construction. Engineering, right-of-way, and property acquisition may occur up to three years prior to the year of construction. If feasibility studies or environmental studies are needed, it is best to start them at least two years prior to the start of engineering. A detailed short term capital improvements plan is essential. However, a longer range and less detailed plan is also useful in order to properly consider project prioritization, and the order in which projects should be programmed. This allows for timing of related multiple year projects to be fit into the broader scheme of other community priorities.
- It is important to consider operational costs of new capital improvements as well as the original expenditure. It does little good to build a new facility if the community does not have the annual funds necessary to operate it after construction.
- The CIP ought to be a constantly evolving document. Project information should be updated as new and better information becomes available or as the scope of a project changes. Circumstances within the community may cause priorities to change and the order of planned improvements may shift. Revenues may increase or decrease from the projected amounts. Interest rates may change.
- It is important to document the details of proposed projects and anticipated revenues, but a simple balance sheet should show the overall plan with year by year planned projects, projected revenues, and anticipated net capital fund balance. For larger communities, this simple balance sheet will likely need to be more complex to show annual projects and available funds by project area such as streets, water and sewer, public safety, parks and recreation, and others.
- One final note should be made about the relationship of the capital improvement plan and the official “street plan.” The NDCC specifies that the planning and zoning commission may prepare an official street plan. Certain constraints are placed on development once this official street plan is filed. No improvements of any sort can be made to any street nor can a building be erected which requires access to the street unless it is accepted as a public street by the local

jurisdiction or corresponds with a street shown on the official master plan or adopted street map. It is recommended that an attorney be consulted on the interpretation and application of this provision of the NDCC and how it relates to other requirements of the NDCC.

### C. Components

Capital improvement programs or plans typically have three components: 1) an overview of the CIP process and benefits from the process, 2) a presentation of financial data showing the historical and projected revenues and expenditures, and 3) listing of projects recommended for funding within the timetable of the CIP. This third section should identify how proposed projects relate to the comprehensive plan, and how the project should be financed.<sup>37</sup>

### D. Procedures

There are many ways to prepare a CIP. The following ten steps are suggested by Michael Chandler:<sup>38</sup>

1. Design the Process. This is the step where a local government decides who will be involved in developing the CIP and what each person's role will be. Key players may include people involved in managing public works, engineering, planning, finance and administration.
2. Establish CIP Procedures. This step determines how project information will be collected, what kind of timetable is needed to complete the CIP process, and how the data will be evaluated to compile the CIP.
3. Establish Criteria for Capital Expenditures. A distinction between a capital expenditure and an operating expenditure must be made. Typically the key criterion is whether or not it is a one-time or long term investment. However, the size of a planned expenditure is also a factor. For a small community, a \$2500 expenditure may require careful budgeting and must be part of a capital investment plan. Capital expenditures may include other costs besides infrastructure investments.
4. Inventory Existing Capital Facilities. Often the capital investment involves the replacement or repair of existing facilities. These types of investments should have their age, condition, and original cost determined to help project future costs and define priority.
5. Determine Status of Previously Approved Capital Projects. Actual funds expended in previously approved capital projects may vary from projected funds. The actual expenditures will determine whether more or less funds than projected are available for future projects.
6. Prepare Project Requests. Various local government departments may each have their own needs. These should be based on the criteria for capital expenditures

established earlier. It is beneficial for the requests to all follow the same format in order to be sure the same kind of information is obtained for each request.

7. Perform the Financial Analysis. This step identifies the funds available for capital investment by estimating the projected revenue over the life of the CIP and subtracting the estimated operations expenditures over the same time period. This may actually be very complex because of different revenue streams and variations in operational expenses.
8. Review the Proposed CIP. This step reviews project requests for completeness, accuracy, and consistency with CIP guidelines, and then, assesses their feasibility and consistency with the comprehensive plan. This is where the prioritization of projects is done to fit the funded projects to the projected level of capital funding.
9. Adopt the CIP. Typically this step involves a public hearing by the planning commission and/or governing body, prior to official adoption by the governing body.
10. Monitor the CIP. Monitoring the revenue streams and capital project costs can help by responding early to opportunities or needs for additional adjustments.

While these ten steps are a useful approach, for small communities it may be overkill. Many small communities are not able to handle more than a few capital investments in a year, and while not easy decisions, the choices are much more limited.