Background

Cities and other local governments often make significant capital expenditures, including issuing bonds, without first analyzing the impact such expenditures may have on future operations and expenditures for other important capital projects. A capital plan is intended to assist municipalities in making choices about which projects should be implemented, how they should be financed and when.

What Is A Capital Plan

A Capital Improvement Plan is a tool to assess the long-term capital project requirements of a government entity and to establish funding of high-priority projects in a timely and cost-effective fashion. Development of a Capital Improvement Plan is intended to ensure that policy makers are responsible to residents and businesses of the community with respect to the expenditure of public funds. A Capital Improvement Plan also promotes the provision of continuous efficient services. The written plan identifies and describes capital projects, the years in which funding each project is to occur and the method of funding. While a Capital Improvement Plan may be designed to forecast any period of time, it generally extends beyond the current operating cycle and usually covers a three to five year time frame.

Developing The Capital Plan

Development of a capital improvement plan generally involves the following steps:

Organizing the Parties Involved

Inventorying Assets

Establishing Priority Ranking Criteria

Preparing Financial Forecasts

Preparing Project Requests

Prioritizing Projects

Drafting the Plan

The following is a brief description of these steps:

Organize the Parties Involved: The first step in the capital planning process is to determine who will be involved in the planning process and to establish their respective responsibilities. One person, such as the chief administrative officer for the governing unit or an outside consultant, generally manages the capital planning process (the "Planning Manager"). The Planning Manager organizes, directs and assists all other parties involved in the capital planning process. In addition, the Planning Manager determines the content of the plan and oversees drafting of the plan.

The other parties involved in the capital planning process are typically department heads and elected officials. Citizen involvement is desirable and their responsibilities are set forth in the capital planning policies established by the governing body. Consulting engineers may also be involved to assist in evaluating project needs and in providing project cost estimates.

Once the parties to the planning process have been determined, meetings are conducted by the Planning Manager with the other parties to outline the purpose of the capital planning process and define responsibilities. Follow-up meetings are held to assist the parties in completing forms and for the purpose of prioritizing projects.

Inventorying Assets: The purpose of this step is to assess the condition of capital assets already owned, controlled or maintained by the governing unit. While larger units of government may have asset managers, most units of government will rely on department heads and consulting engineers to complete this step. The Project Manager generally prepares forms setting forth the information to be provided. Information derived through the inventory process should include a description of the capital asset being inventoried, the name of the department controlling the asset, the location of the asset, purpose or use of the asset, when the asset was acquired or constructed, expected life of the asset, a description and date of any major renovations, and a description of the condition of the asset. The description should include a discussion of any renovations or upgrades which will be required over the period covered by the capital plan and the year in which the asset should be replaced.

Establish Priority Ranking Criteria: Criteria must be established which will be used as a guideline for prioritizing project funding. The criteria should be put in writing and distributed to each party involved in the capital planning process. The criteria established should facilitate ranking projects on a high, medium or low priority basis. High priority projects may be those which are (i) required by law or specific court order, (ii) required by contract, (iii) improve public safety, (iv) reduce current operating, maintenance or contractual expenses, (v) increase revenues, (vi) contribute to job retention or (vii) benefit all or a majority of the residents. Medium priority projects may include those which (i) prevent deterioration of assets, (ii) improve delivery of services to the public, (iii) contribute to job creation, or (iv) are non-essential but have a high degree of public support. Low priority projects may include those which (i) support delivery of a service for which there is a declining demand, (ii) enable the provision of a new service not currently provided, or (iii) improve the quality of life but are non-essential.

Prepare Financial Forecasts: The purpose of this step is to determine the level of capital expenditures which the governing body can make over the period covered by the capital plan. The analysis is made for each fund or account from which a capital expenditure will be made, taking into account historical operating results and future additional revenues or expenditures. Projections are made to determine net income (revenues, less expenditures, less existing debt service). Net income is the amount which will be available each year for payment of capital projects (pay-as-you go funding) or for payment of debt service on newly issued bonds.

Financial forecasts should also take into account proposed new revenue sources including taxes, bonds, or user charges. Since bonding is often used as a funding source for capital projects, forecasts must also consider debt capacity and the impact bonds will have on tax rates or user charges.

Prepare Project Requests: This step involves the preparation of forms to request capital funding for the repair, renovation, upgrading or replacement of assets identified through the inventory process. Requests are also made for the construction or acquisition of new capital assets. This step is typically completed by each department within the governing body and submitted to the Project Manager. The Project Manager or a committee reviews the requests for completeness. The requests provide an opportunity to present to the governing body all capital projects deemed by departments to be desirable. Since project requests represent all projects desired, without consideration for financial capacity, compilation of the requests is often similar to a wish list.

The information included in the requests should facilitate the prioritizing of projects. Accordingly, the requests should include the following information:

Project Description: A description of the proposed construction project or the vehicles or equipment to be acquired.

Existing Condition: A description of the existing condition to be alleviated by the project.

Goals And Benefits: The goals and benefits to be derived through the construction or acquisition project.

Funding Schedule: The estimated cost of the project and the timing for funding are set forth. Project timing is based on the assessment of need by the department manager and may be changed through the prioritizing process.

Project Funding: Should identify whether the project will be funded by the governing body's own resources, through an intergovernmental grant or loan, or a combination of such sources.

More sophisticated plans also account for the impact the capital acquisition or new facility will have on the overall budget. This analysis would generally include:

Annual operation or maintenance costs

Annual reductions in current operation and maintenance costs

Additional staffing, particularly when a new service is involved

Benefits of a Five Year Plan

A five year capital plan prioritizes projects, sets timing goals and sets forth funding options. This results in several benefits including the following:

1.	Terminates the ad hoc policy of allocating resources to capital projects without regard to long-term impact on the government's available reserves.
2.	Assures that the most important projects obtain funding.
3.	Integrates budgeting for day-to-day services and activities with budgeting for capital improvements. This insures that construction and acquisition needs are addressed.
4.	Assures that the most appropriate method of funding is selected (e.g. pay-as-you go, privatizing or bonds. Also insures that when bonds are used the most appropriate type is selected.)
5.	Improves project planning and timing sequence. (e.g. Allows sufficient time to arrange and promote bond or tax referenda. Allows sufficient time to accumulate cash for pay-as-you go projects.)

https://www.munibondadvisor.com/capitalplan.htm