

Capital Planning in the Digital Era

Contents

- 1 Introduction**
- 2 What is a Capital Improvement Plan?**
- 3 Why do capital improvement planning?**
- 4 Who should be involved in the CIP process**
- 5 Steps in creating a Capital Improvement Plan**
- 8 Adopting and implementing the CIP**
- 9 Financing capital projects**
- 11 Capital Planning Best Practices**
- 16 Leveraging cloud software to improve CIP**

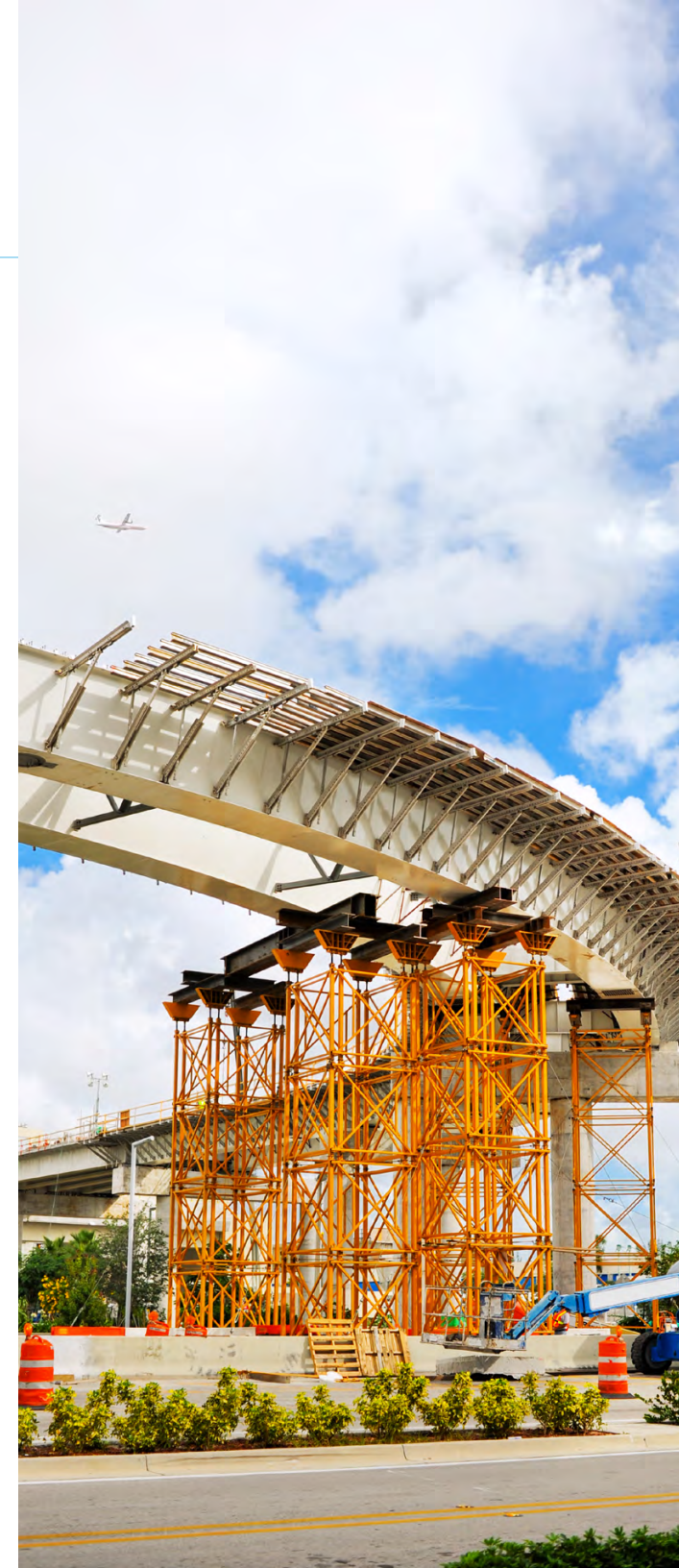
Introduction

Capital Improvement Planning is one of the most important responsibilities of every government. From roads and bridges to new buildings and facilities, Capital Projects are perhaps the most visible and tangible output of Government. Residents, Government Employees Elected Officials, Media are all aware and impacted when a project is a success or failure. Through this comprehensive plan, your communities' infrastructures are maintained and sustained over time -- with adequate funding allocated for it.

Governments today are turning to the power of cloud tools to support and enable easier, more efficient processes in budgeting, performance, communication, and reporting.

Today's citizen and government employee expects governments to be able to offer the same level of ease and simple workflows available in the private sector and in their personal lives. Aware of this, you can harness the power of digital tools in your capital improvement planning process that will deliver on these expectations.

In this ebook, you'll review the fundamentals of creating a capital improvement plan (CIP) (particularly helpful if you need to explain CIP to someone else), who should be involved, financing options, and how digital tools can make CIP easier, more collaborative, and transparent.



What is a Capital Improvement Plan?

A Capital Improvement Plan (“CIP”) is a working blueprint that details how your government will sustain and improve your community’s infrastructures and core assets. It is a central priority for Planning, Public Works, and Finance departments. CIPs are also statements of the objectives of capital programs and the relationship of capital programs to your government’s long-range development plans.

The CIP contains a plan for all individual capital projects, equipment purchases, and major studies for your government; as well as construction, completion schedules and financing. Typically, a CIP covers a five- to 10-year span and outlines the current and upcoming priorities for capital spending.

Included in a CIP are:

- Lists of capital projects, equipment, and major studies
- Ranking of each project
- Financing plan
- Timetable for construction or completion for each project, also known as project phases or cost elements
- Data to support justifying the project
- Classification, itemization, and explanation for project expenditures
- Statement of the objectives of capital programs and the relationship of those programs to long-range development plans

The Importance of Capital Improvements

Capital Projects:



There are many benefits to developing a comprehensive CIP, including:

- Synchronize capital and operating budgets including accounting for debt service and any ongoing operating budget impacts accrued by Capital Projects
- Systematically evaluate competing demands for resources based on a prioritization matrix that reflects the entity's long-term goals and objectives
- Identify, prioritize, and optimize financing of capital projects
- Link strategic and comprehensive plans with fiscal capacity
- Inform the public of the government's investment in infrastructure

It will also serve as a platform to engage the public and elected officials in open dialogue about community priorities and government spending. Equipped with a solid CIP, your government will be able to make sound decisions about spending, financing, and growth now and for years to come.

Who should be involved in the CIP process

Capital improvement planning is a collaborative process among multiple departments and personnel including engineers, financial and budget analysts, project managers, department heads, elected officials and more. It's important to foster this collaborative spirit while also designating a lead department -- this will typically be Finance or Public Works. Public Works has excellent multi-year programs that strategically examine capital projects, making them ideal for taking the lead on CIP.

You'll want to establish a central committee comprised of key managers from departments to provide centralized oversight on capital projects, as well as create a plan to inform and involve elected officials in the process. Digital tools can provide a single platform where all stakeholders can easily access the CIP anytime, online.



Steps in creating a Capital Improvement Plan

Like any planning process, the more organized you are upfront, the better your results will be. To create your capital improvement plan, follow these steps:

1. Start with an inventory of properties and assets.

You need to know what is capital vs maintenance, and before you can determine that, you need to know what you own. Ask your insurance provider for a list of insured assets as a place to start. Then conduct a formal inventory of all properties and assets, including deferred maintenance, condition assessments, and documentation of any needs for all physical assets.

This inventory should include information on the need for renewal, replacement, expansion, or retirement of all physical assets. It should also include the year the facility was built or acquired, date of last improvement, condition, extent of use and scheduled rebuild or expansion.



2. Develop your process, forms, criteria, and schedule.

Determine a CIP budget calendar with the milestones and dates for your process that includes involving citizens and stakeholders.

You will need a prioritization and decision-making matrix that will enable you to evaluate and select capital projects. Prioritization is set by your elected officials goals, sustainability, cost, public benefit, environmental impact and more. Additionally, prioritization should be defined based on clear standards such as emergency, severe problem, potential health/safety risk, long-term growth, etc.

You will also need project request forms that include links to program objectives, master plans and the entity's strategic plan. Capital Budget requests and changes should include a detailed justification on any project modifications, new project requests and any slippage or acceleration in expenditure and funding.



3. Decide what defines a capital project.

Every government has its own definition of capital projects -- typically these are broad in scope, such as land acquisition, construction, equipment purchases, tech infrastructure and major systems, major renovations, and special studies such as Infrastructure Master Plans covering categories like Transportation, Public Safety, Education, Health and Human Services, and Parks and Rec. There are also additional criteria like minimum expenditure thresholds, minimum useful life (in years), and non-recurring nature, etc. Additionally, Capital Projects are often tracked through different phases or cost elements that make up a project's life cycle, including planning, design, and construction.

Definitions of capital projects need to be clearly and specifically spelled out in writing and included in municipal code, financial policies, and the CIP instruction manual. You may want to include a checklist or scorecard of the specific criteria you rate each capital project on.



4. Differentiate maintenance expenditures and designate maintenance funding sources.

It is important to differentiate major infrastructure maintenance expenditures and establish policies designating funding sources for these. This lets you preserve existing facilities while relieving some competition between maintenance needs and new capital projects. However, if you have included major maintenance in your capital project definition, then this will be included in your capital budget. Otherwise, maintenance is usually funded from the operating budget. You will also want to identify any ongoing operating budget impacts that will occur after a capital project is complete. This can be things like personnel and energy costs that you will have to account for after a new facility is in operation.

Also, identify capital projects not included in your CIP. The CIP often doesn't include projects from the government's enterprise fund -- so be sure to make this clear and include them in an annual capital budget document.



5. Standardize cost estimation methodology.

With each department preparing their individual capital project requests, there's bound to be a wide variation in how they determine estimated costs. Set a standardized cost estimation methodology and outline it in your CIP -- be sure to remind people that they must use this method when submitting capital project requests.



6. Identify and select capital projects.

A “capital needs study” is a way of pre-screening potential Capital Projects. With it you can do an up-front evaluation of any new Capital Project Request to review its validity, potential benefits, and chances to actually be approved for funding. While this will help you narrow down your pool of projects before any meaningful planning, without this you can still put together an effective CIP by using your project request forms that designate funding sources available for the project. After receiving the project proposals, your CIP committee evaluates and prioritizes each project, without regard to the funds available.

Next, your finance staff forecasts the amount of un-earmarked money available. Projects compete for general funds (un-earmarked money) and are re-prioritized based on available funds. The projects are then divided into priority groups according to urgency and funding available. We'll get into funding decision-making in a bit.



7. Prepare and recommend a capital plan and budget.

Compile the selected projects, plans, timelines, and financing summaries and present them for approval to elected officials. Be sure to include performance indicators and project milestones for subsequent reporting.

Adopting and implementing the CIP

Once the CIP is adopted, it becomes the first year of the capital budget (the long-term part of the CIP). There are typically three ways that projects in the capital budget get approved:

- Adopted as an annual capital budget: This method funds projects for only a year at a time with the funds needed for the project for that year.
- Adopted as the capital budget with the entire amount for every project approved in that fiscal year, regardless of whether it will be spent that year: In addition, carryover funds for capital projects from one year are usually put into the next year's budget and approved again by the elected officials.
- Approved as a bond financing and authorizing the project(s).

Once adopted, it's important to continue oversight and performance management of the projects. You'll want to keep the public and stakeholders informed by using reporting and transparency tools. The GFOA offers a best practice advisory paper called [Capital Project Monitoring and Reporting](#) that outlines sound steps to take.

It's also recommended to develop a policy for unspent project funds. You can incentivize departments to efficiently manage their capital project resources with a policy that allows them to retain unspent project funds within their department for future capital needs. However, it would also be fiscally sound to use any leftover resources to pay off debt service or aid projects that are in need of additional funding.

Financing capital projects

Crucial to any CIP is a clear understanding of how capital projects can and should be financed. Before choosing a financing method, it's important to answer the following questions:

- Is there an immediate need for the asset?
- What is the asset's expected useful life?
- What is the current availability of funds relative to the project's size?
- Are there multiple projects that need to be completed simultaneously?
- Is inflation expected to increase?
- Is the borrowing rate expected to increase?

There are three ways that most governments choose to finance capital projects: pay-as-you-go, debt issuance, or public-private partnerships (called P3s). Each has benefits and drawbacks as outlined below:

Pay-as-you-go (PAYGO)

This method of financing uses general fund revenues to pay for capital projects, allowing governments to place funds leftover after operating expenditures into a "capital reserve account" and essentially "save up" for capital projects.

Pros:

- Future funds are not tied up in servicing debt payments
- Interest savings can be put toward other projects
- Greater budget transparency
- Avoids the risk of default

Cons:

- Long wait time for new infrastructure
- Large projects may exhaust an agency's entire budget for capital projects
- Inflation risk

Debt Financing

For projects financed with debt, neither the bond maturity nor end of the debt repayment period should exceed the asset's useful life. By issuing long-term debt for costly infrastructure projects with long service lives, governments can increase equity between generations without disrupting the operating budget.

Pros:

- Infrastructure is delivered when it's needed
- Spreads cost over the useful life of the asset
- Increases capacity to invest
- Capital investment's beneficiaries pay for projects

Cons:

- Potentially high borrowing rate
- Debt payments limit future budget flexibility, commonly known as "Debt Service," one of the most costly impacts on a government's operating budget
- Diminishes the choices of the future
- Generations forced to service debt requirements

Public-Private Partnership (P3)

P3s can be a good policy for governments seeking to cut costs, improve operational efficiency, fund capital costs, and reduce risk. Non-traditional, private-sector capital financing models, are generally more complex and less transparent. Although the costs and benefits of pursuing capital financing should be thoroughly analyzed in a transparent manner, P3s are a viable mechanism for the public sector to crowd in private capital in the delivery of public goods and services.

Pros:

- Risk transfer
- Accelerated project delivery
- External funding
- Lower operating costs, and higher revenues
- Improved user experience

Cons:

- Loss of operational control
- Changes in scope or performance standards delay project delivery or impose additional costs
- Certain non-transferable risks (change in laws, approvals by third party government agencies etc.)
- Potential Loss of Revenue (for example a public private partnership on a new toll road where the private investor gets all (or a substantial) part of the tolls.



Make sure your financial policies include a comprehensive debt management policy.

GFOA offers guidelines via its [Debt Management Policy](#). Carefully consider your entity's debt limits in accordance with the legal and practice recommended standards to ensure debt financing for capital projects does not impair your government's ability to meet future operating budget needs.

Be sure to incorporate your CIP into your budget book.

Capital Planning Best Practices

While you are creating your Capital Improvement Plan, securing financing, creating alignment, and implementing your projects, here are a few best practices to keep in mind throughout the process.

Set-Up Funding Guidelines

Set-up clear rules and guidelines on when different funding sources can be used on projects. For example, use all federal aid first before using bond funding.

Dept ▾	Cost Element ▾	Capital Funding Source ▾	2019 Mod (\$) ▾	2020 (\$) ▾	2021 (\$) ▾	2022 (\$) ▾	SY (\$) ▾	Total (\$) ▾
DPW	1 - Planning, Design & Supervisi...	State Aid	0.00	0.00	0.00	0.00	0.00	0.00
DPW	1 - Planning, Design & Supervisi...	Federal Aid	0.00	4,000,000.00	0.00	0.00	0.00	4,000,000.00
DPW	1 - Planning, Design & Supervisi...	Serial Bonds	0.00	1,000,000.00	0.00	0.00	0.00	1,000,000.00
DPW	3 - Construction	State Aid	0.00	0.00	1,875,000....	0.00	0.00	1,875,000.00
DPW	3 - Construction	Federal Aid	0.00	7,600,000.00	11,600,00...	11,600,00...	1,600,00...	32,400,000.00
DPW	3 - Construction	Serial Bonds	0.00	1,900,000.00	2,900,000....	2,900,000....	400,000....	8,100,000.00
DPW	5 - Furniture & Equipment	Serial Bonds	0.00	0.00	0.00	0.00	0.00	0.00
-	-	Total	0.00	14,500,000....	16,375,00...	14,500,00...	2,000,00...	47,375,000.00

Track Operating Budget Impacts

These are typically ongoing costs that can impact how much funding you have to deliver services to your residents.

Standardize the Capture of Project Information

This includes expenditure and funding schedules, narrative justification and description, status, location, and so on.

The screenshot displays the OpenGov Capital Planning interface, which is used for capturing project information. The interface is divided into a left sidebar and a main content area.

Left Sidebar (Navigation Menu):

- HEADER (toggle on)
- 1 - GENERAL DESCRIPTION
- 1A - APPR TABLE
- 2 & 3 START / END YEARS** (selected)
- 4 - CP LOCATION
- 5 & 6 - DESCRIPTION AND ...
- 7 & 8 BENEFITS & OB IMPA...
- 9 & 10 - EXISTING AND 201...
- 11 & 12 - 2020 & 2021 FUN...
- 13 & 14 - 2022 & SY FUNDI...
- 15 & 16 - PHASE & STATUS

Main Content Area:

2 - Start Year

- 1 - Planning, Design & Supervision: 2016
- 2 - Land Acquisition: TBD
- 3 - Construction: 2023
- 4 - Site Improvements: TBD
- 5 - Furniture & Equipment: TBD

3 - Estimated End Year

- 1 - Planning, Design & Supervision: 2023
- 2 - Land Acquisition: TBD
- 3 - Construction: 2025
- 5 - Furniture & Equipment: TBD

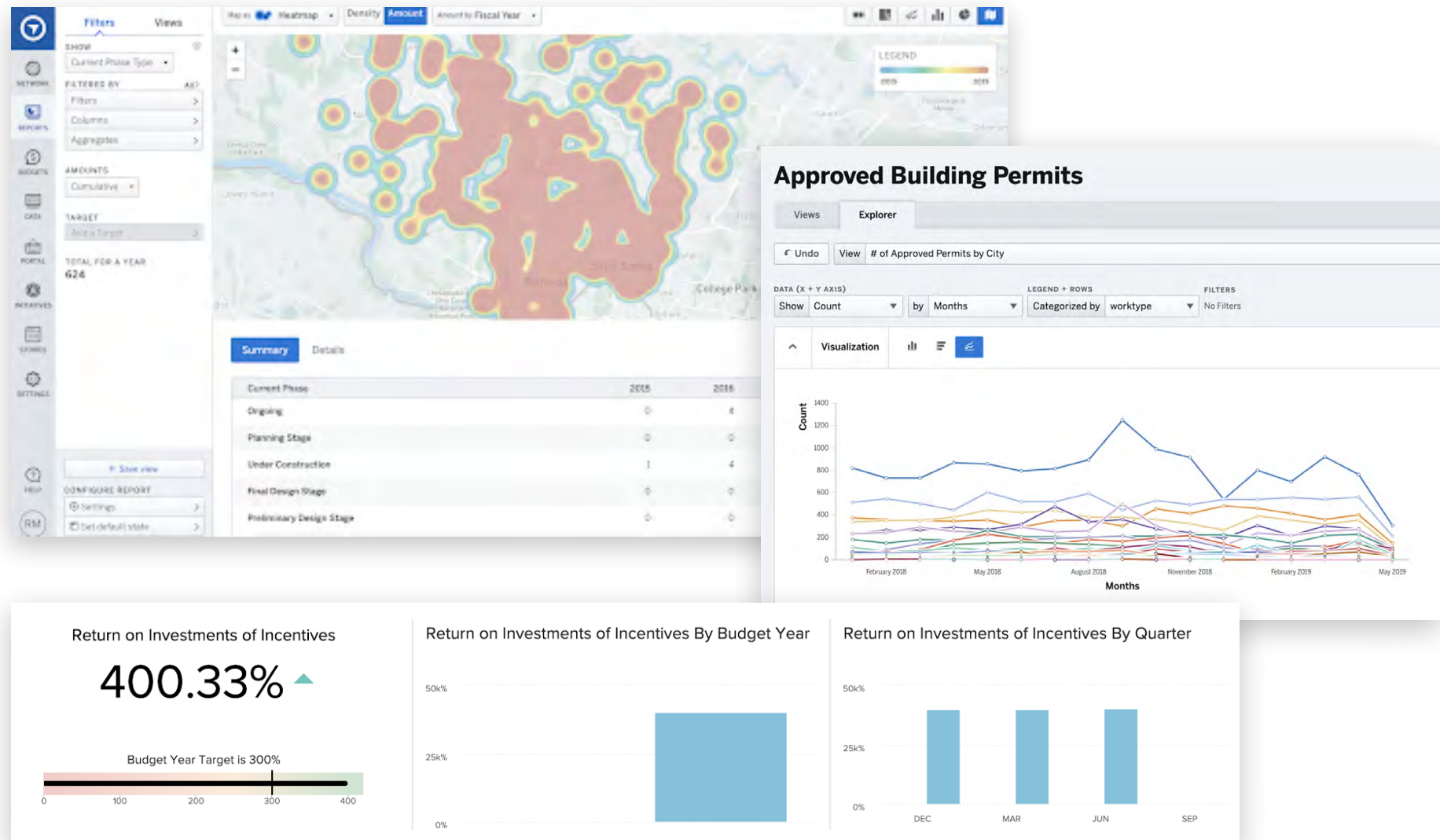
4 - Capital Project Location (GPS Coordinates and Street Address) If countywide capital project, identify the primary site or initial location site of the capital project.

Towns Of Islip And Brookhaven

Map: A map showing the location of the H Lee Dennison Building, marked with a red pin. The map includes labels for "H Lee Dennison Building", "Health Department", and "Blydenburgh". A "View larger map" link is provided.

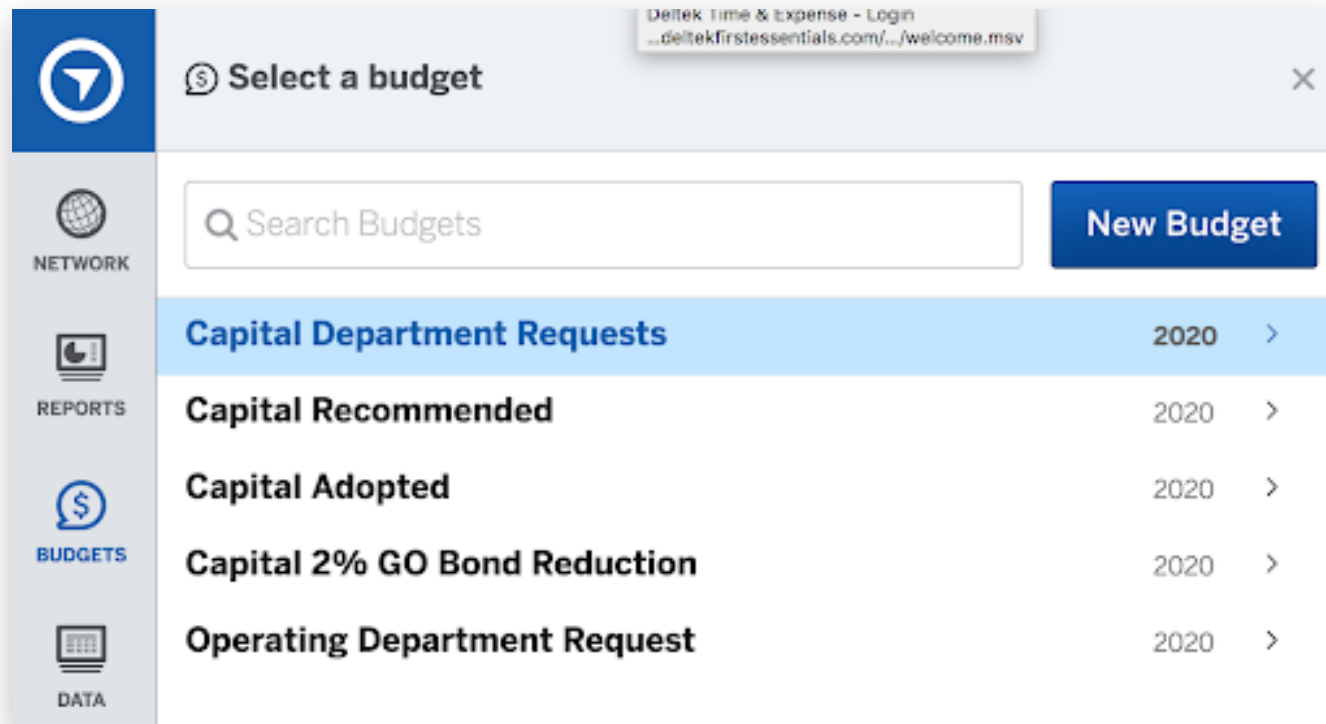
Measure Impact In The Community

Track initiatives like economic development against capital project status, and any other measurements that would be meaningful to internal and external stakeholders.



Keep Separate Versions of Your Capital Budget

This can be immensely helpful throughout the process as it enables scenario planning.



Deltek Time & Expense - Login
...deltekfirstessentials.com/.../welcome.msv

Select a budget

Search Budgets [New Budget](#)

Capital Department Requests	2020	>
Capital Recommended	2020	>
Capital Adopted	2020	>
Capital 2% GO Bond Reduction	2020	>
Operating Department Request	2020	>

Share Your Project With Your Residents

Keep your residents informed on the status of the projects that they care about. Plus, if you are using modern budgeting, reporting, and communications software you can even track what they are looking at!



Project Details

- Project Start Date: 1/2/19
- Submitting Department: Park Board
- Contact Person: Adam Arvidson
- Level of Need: Significant
- Estimated Project Completion Date: 12/30/20
- Department Priority: 8
- Contact Phone Number: 612-230-6470
- Website: Sibley Park

Project Location

Address: 1900 E 40th Street
City Sector: South
Affected Neighborhoods: Various
Affected Wards: Various.



Project Details

- Project Start Date: 02/04/2021
- Submitting Division: Facilities
- Contact Person: Adam Arvidson
- Level of Need: Significant
- Estimated Project Completion Date: 12/30/28
- Department Priority: 8
- Contact Phone Number: 612-230-6470
- Website: TDCJ
- Phase: Design



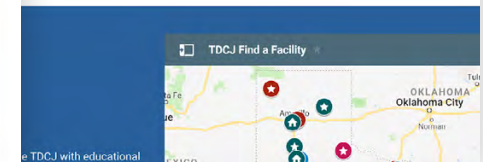
YTD Costs vs Budget



Funding Breakout



Dept.	Cost Element	Capital Funding Source	2019 Mod (\$)	2020 (\$)	2021 (\$)	2022 (\$)	SY (\$)	Total (\$)
DPW	1 - Planning, Design & Supervision	State Aid	0.00	0.00	0.00	0.00	0.00	0.00
DPW	1 - Planning, Design & Supervision	Federal Aid	0.00	4,000,000.00	0.00	0.00	0.00	4,000,000.00
DPW	1 - Planning, Design & Supervision	Serial Bonds	0.00	1,000,000.00	0.00	0.00	0.00	1,000,000.00
DPW	3 - Construction	State Aid	0.00	0.00	1,875,000.00	0.00	0.00	1,875,000.00
DPW	3 - Construction	Federal Aid	0.00	7,600,000.00	11,600,000.00	11,600,000.00	1,600,000.00	32,400,000.00



Leveraging cloud software to improve the CIP process

Governments are harnessing the power of cloud software to streamline budgeting and performance, and to improve communications and reporting. Capital Planning is one of the most visible and impactful functions of government, and it requires modern tools that meet the expectations for today's citizen and government employee.

Cloud tools, like OpenGov, can significantly improve the CIP process by providing a single online platform accessible to internal and external stakeholders. They also offer easy visualization tools to make presenting CIP data easy, understandable, and clear to the public. Capital Project management and performance tracking become transparent with OpenGov.

A CIP is a living, working document that must be reviewed and updated on a regular basis. Hosting your CIP in a tool like Opengov ensures that you can easily conduct evaluations, track real-time performance reporting, and make updates with the ease of a click, as well as send notifications to stakeholders.

With a comprehensive CIP process supported by online tools, your government can ensure that the planning process is smooth, easy, and focuses on the strategic goals that matter most to your community.

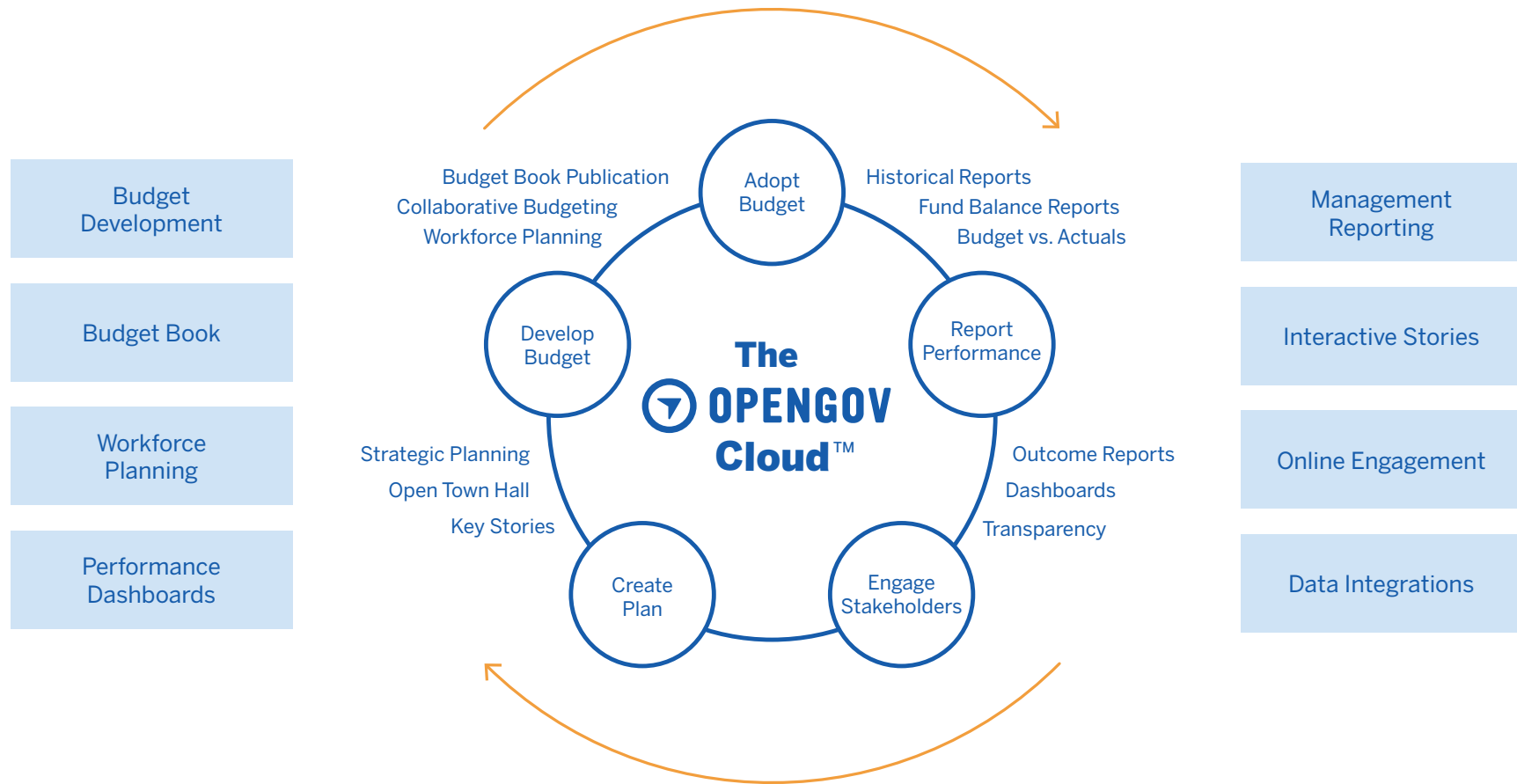
Benefits of OpenGov for Modern CIP

OpenGov is designed to streamline and transform planning and budgeting processes for governments undergoing digital transformation. The OpenGov Cloud™ allows you to:

- **Collaborate more effectively.** CIP requires collaboration across multiple departments. With an integrated, cloud-based solution, you can send and receive capital planning proposals, track performance on capital projects, comment on key reports, and engage with stakeholders across multiple teams.
- **Improve decision-making.** The OpenGov Cloud enables you to visualize capital project proposals, timelines, and progress reports. You can also view the impact proposed projects have on the community, budget impact, and provide context around CIP decisions. Capital planning participants can transform complex financial and performance data into actionable insights.
- **Save time.** Capital project proposal line items can be easily adjusted or added in real-time through a simple and intuitive user interface. You can also quickly create dashboards that are printer-friendly by default to streamline meetings.
- **Easily share your plans, progress, and impact with internal and external stakeholders.** The collaborative capabilities of OpenGov make it easy to solicit feedback across departments, publish your plans to all stakeholders, and keep everyone updated on the progress of current capital projects and the impact that those projects have had.



The OpenGov Cloud™ creates a powerful online platform that serves as a single source of truth for all involved in CIP.



About OpenGov

Opengov is the leader in cloud-based solutions for government. The OpenGov Cloud™ is the only integrated cloud solution for budgeting, performance, communications and reporting. This multi-tenant Software-as-a-Service (“SaaS”) solution connects stakeholders to the budget process, engages them for real-time feedback, accurately forecasts personnel costs, and integrates with key government systems, resulting in improved outcomes, enhanced internal efficiencies, and more time for strategic planning. More than 2,000 governments use Opengov to govern more effectively in the digital age.

Learn how Opengov can help improve your capital budgeting and planning processes.

For more information, view our on-demand webinar “Capital Planning in the Digital Era” featuring Eric Naughton, Budget Director at Suffolk County, and Scott Coble, Director of Product at OpenGov and former public servant with Montgomery County, MD, City of Frederick, MD, and the Department of Defense.

[View On-Demand Webinar](#)



(650) 336-7167

contact@opengov.com

opengov.com