

# **Capital Improvements Planning and Budgeting**

by

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A Capital Improvements Plan (CIP) is basically a long range plan for the planning, scheduling, and financing of large construction projects and the purchasing of major pieces of equipment by the city. A capital improvement plan is a written document that links together the city's comprehensive plan and the city's annual budget. The CIP describes in detail the projects that need to be accomplished in order to implement the comprehensive plan or smart plan. A CIP can provide the blueprint needed to complete those projects that will be authorized in the city's annual budget.

## **A. REASON FOR PREPARING A CIP: "THE TOP TEN LIST"**

There are numerous reasons why a city should take the time and effort to prepare a CIP. The following are the top ten reasons why a CIP is an important element of the elected officials' decision making process and overall vision for the city.

### **1. SYSTEMATIC EVALUATION OF PROJECTS**

A CIP requires the systematic evaluation of all potential projects at the same point in time. It helps the elected officials to see the big picture and to judge and rank all projects at the same time, rather than on an individual or stand alone basis. It will clearly present trade-offs that may occur as elected officials assign priorities.

### **2. LEVEL DEBT STRUCTURE**

A realistic and complete CIP will help the city to stabilize the volume of expenditures and better manage the city's debt structure. It will hopefully remove the major peaks and valleys of the city's repayment of debt and thus eliminate any major fluctuation in the city's property tax askings and utility rates.

### **3. LOWER BORROWING COSTS**

A CIP will coordinate the financing of capital costs and hopefully lower the city's costs for borrowing money by consolidating projects and the financing of these projects.

### **4. PUBLIC RELATIONS TOOL**

A CIP can also be a valuable public relations tool that can be used to show local citizens how their special projects, requests, or suggestions fit into the city's overall plan for the future. A CIP will help reduce the political pressure to fund low priority projects suggested by a "vocal minority" of local citizens. Citizens can also be asked to judge each project based upon how it will fit into the city's overall plan of action or CIP.

### **5. PRESERVATION OF CITY INFRASTRUCTURE**

The CIP gives the city a workable plan to preserve the city's infrastructure - the publicly owned buildings, streets, sewers, water mains, equipment, storm sewers, parks, etc. It provides the city with a plan to identify and schedule the maintenance work that is needed to preserve these assets of the city.

### **6. ECONOMIC DEVELOPMENT TOOL**

A well-maintained community infrastructure and a level debt payment schedule will then make the city a better place to start a business or industry. In other words, a CIP will demonstrate to potential investors that the city has its act together and has a plan for the future.

### **7. EFFICIENT USE OF PUBLIC FUNDS**

A CIP will encourage the most efficient use of public funds. Since the city's financial resources are limited, a CIP will provide a plan to make the most efficient use of tax dollars.

### **8. FOSTER COOPERATION AMONG CITY DEPARTMENTS**

A CIP may promote a better understanding and help foster greater cooperation among the city departments and employees. If the city employees are allowed to comment and make recommendations regarding the CIP, it will also encourage them see the "big picture" of the city's projects and overall needs.

9. INFORMATION FOR OTHER GOVERNMENTAL ENTITIES

If the city shares the CIP with other governmental units, such as the county, school district, and surrounding cities, it may promote regional cooperation. These entities may have similar projects or needs and a CIP will alert them to the city's plans. It may then spark some interest in a service sharing, joint contracting, or joint purchasing project. The city in turn should request and review the CIP of other governmental entities to determine the potential for regional cooperation and sharing.

10. ACCOMPLISHMENT OF LONG TERM GOALS

The adoption of a CIP allows the mayor and city council to work towards long term goals and an overall vision for the community. These goals could include economic development efforts, opening up land for housing developments, and increasing recreational opportunities.

**B. LEGAL ASPECTS OF CIP: CODE OF IOWA REQUIREMENTS**

There are some legal aspects of capital improvements planning that need to be considered by the city.

1. PUBLIC HEARING

Section 384.15(3) of the *Code of Iowa* requires the city to conduct a public hearing prior to the adoption of a CIP.

2. CIP LEVY

The voters of the city can authorize a levy of 67.5¢ per \$1,000 of assessed value to establish a capital improvements reserve fund in order to fund capital projects. Section 384.7 of the *Code of Iowa* permits such a levy by referendum.

3. BID LETTING

Although the city has a CIP, it must still follow the contract bid letting requirements that are outlined in Section 384.95-384.103 of the *Code of Iowa*.

4. EMERGENCY LEVY

Section 384.8 of the *Code of Iowa* authorizes a 27 ¢ per \$1,000 of assessed valuation emergency fund levy that could be earmarked for capital projects. The 27¢ levy does not require voter approval and can be enacted by the city council, if the city has reached the \$8.10 property tax limit.

5. CONSTITUTIONAL DEBT LIMIT

Finally, the city needs to be aware that the Iowa Constitution restricts the overall general obligation debt limit to no more than 5% of the total assessed valuation of the city. For example, if the city's assessed value is \$65,000,000, the general obligation debt limit is \$3,250,700. This same limit does not apply to revenue bonds that are repaid from utility monies, such as water and sewer user fees. Cities are encouraged to use no more than 80% of the general obligation debt capacity.

**C. THE PROJECTS IN A CIP**

The projects in a CIP will vary from city to city, depending upon the city council's policy and the size of the community. The typical CIP will contain such projects as land acquisition for public improvements, public building replacements or additions, major building repairs or renovations, street construction, storm sewer and drainage projects, wastewater facility improvements, watermain construction, water facility renovations, park developments, library projects, public works equipment, fire trucks, and police equipment.

**D. THE PROCESS OF PREPARING A CIP**

The process of preparing a capital improvements plan could include the following steps and actions:

1. Define a capital project or expenditure in terms of minimum costs and frequency of occurrence.

For example, a capital equipment expenditure might be something that costs \$10,000 or more and has a life expectancy of five years or more.

2. Organize the process by appointing one person, such as the city administrator or city clerk, as the overall coordinator of the process and establish a committee to oversee the process.
3. Develop basic city policies and criteria, such as the goal is to have all curb and gutter streets and all water mains of six inches or more.
4. Forecast the demand for services and infrastructure and project the growth and development of the city.
5. Do an inventory of the existing facilities and assess the overall condition by reviewing previous studies and plans and conducting inspections. Prepare a maintenance plan for buildings and facilities.
6. Prepare project proposals with the available information. The project summaries can include a name or title, brief description, justification, schedule for completion, cost estimates, priority, map or site plan, and pictures.
7. Seek the advice of department heads, employees, engineers, contractors, architects, and consultants as the project proposals are prepared.
8. Review and analyze the city's financial capacity by researching past financial reports, the revenue projections for the future, and current debt repayment schedules.
9. Prepare level of service and revenue scenarios and then schedule the high priority projects over a specified period of time, such as five years.
10. Present the CIP to the city council for review and comment. Make corrections and changes as directed by the city council.
11. Conduct a public hearing on a draft of the CIP and seek the comments of local citizens.
12. Make the final revisions, set the priorities, and adopt the CIP by council resolution.
13. Conduct an annual review or assessment. Continue to revise and update the CIP on an annual basis.

#### **E. TIME TABLE FOR THE CIP**

The implementation of a workable CIP does require time and a flexible schedule. A suggested schedule could be as follows:

- |                                                               |           |
|---------------------------------------------------------------|-----------|
| 1.Organize the process .....                                  | May       |
| 2.Develop policies and forecast the demand for services ..... | June      |
| 3.Inventory existing facilities .....                         | July      |
| 4.Prepare project proposals and analyze the finances .....    | August    |
| 5.Prepare a working draft of the CIP .....                    | September |
| 6.Conduct the public hearing .....                            | October   |
| 7.Final adoption of CIP by council resolution .....           | October   |
| 8.Include CIP projects in annual budget proposal .....        | November  |

#### **F. SOURCES OF FUNDING FOR CIP**

The single most difficult task in developing a CIP may be identifying the revenue sources to fund the proposed projects or capital expenditures. The city needs to be creative and consider many options or combination of options. The following is a list of potential revenue sources that may be used to finance capital projects:

1. Essential corporate purpose general obligation bonds for projects that do not require voter approval, such as streets, sanitary sewers, storm sewers, and water mains.
2. General corporate purpose general obligation bonds for projects that do require voter approval, such as city halls, libraries, public works buildings, parks, recreation centers, etc.
3. Utility revenue bonds for utility improvements such as wastewater plants, water plants, sanitary sewers, water mains, electric systems, natural gas systems, municipal cable systems, and storm water drainage districts.

4. Special assessment bonds for projects, such as street construction, when part of the costs can be assessed back to the benefited property owners within a specified area.
5. Loan agreements which allow the city to borrow funds, but subject to many of the same requirements as a general obligation bond issue.
6. Road use tax funds that can be used to fund specific projects such as street construction, sidewalk construction, storm sewer, street lighting and public works equipment.
7. Grants, loans, and donations for certain projects, such as swimming pools, recreation centers, wastewater plants, libraries and other facilities.
8. The Code of Iowa allows cities to enter into lease purchase agreements to finance such things as major pieces of equipment and even buildings. Cities have purchased backhoes, endloaders, and other major pieces of equipment through lease purchase agreements.
9. Tax increment financing (TIF) can be used to finance infrastructure improvements in specific areas, provided that there will be enough new private project building construction to generate the additional property tax revenues needed to repay the city's debt for these improvements.
10. Local option sales tax revenue is sometimes used for capital improvements, provided that the voters implement the one cent sales tax with that stipulation.
11. User fees can be used to partially fund some capital improvements for their respective departments. For example, a recreation center could be partially funded with revenues from fees paid by the persons using the center.
12. Special taxing districts can be set up to fund specific improvement, such as storm drainage systems and downtown improvements.

The important thing to remember is that many capital projects may require a combination of funding sources. Cities need to consult their financial advisers and legal counsel to make certain that what is being proposed is legal and will not jeopardize the city's financial condition.

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