

CHAPTER 11 – CAPITAL IMPROVEMENTS PLAN

Broadly, capital improvements encompass such items as buildings, land, sewers, streets, parks and fire stations. The definition of capital improvement includes the following four practical characteristics:

- ◆ They last a long time;
- ◆ They are relatively expensive;
- ◆ They usually do not recur annually; and,
- ◆ They result in fixed assets.

The distinction between a capital expenditure and an operating expenditure is not always precise. Capital projects tend to be relatively expensive and are often financed by borrowing. They are non-recurring and they usually have a life expectancy of several years.

Planning for capital improvements and maintenance is sound development and business practice. A rational, carefully planned program of capital improvements is necessary in order to:

- ◆ Attract new business development that will increase tax revenues and provide jobs;
- ◆ Ensure that public investments in new or improved facilities are made in locations that make the most sense for service and maintenance; and,
- ◆ Preserve and enhance the quality of life for citizens of Stephenville.

What Is A Capital Improvement Plan (CIP)?

If a city constructs a new building, it will probably be there for a long time. So will the bonds that paid for it. Because the characteristics of capital improvements tend to be physically and financially visible, it's especially important to provide a careful plan when the community is thinking about undertaking them. This process of planning is usually called "*capital improvement planning*".

In its simplest form, a CIP is merely a schedule listing capital improvements in order of priority, together with estimates of their costs and the proposed means for financing them. Even a simple CIP involves four principal types of information:

- ◆ Specific capital improvements projects;
- ◆ Estimated costs for those projects;
- ◆ Proposed sources of funding for each of them; and,

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- ◆ The year during which each project will be undertaken.

It is important to note that the CIP is not merely a list of desired projects – although every city can think of plenty of these – but rather a schedule of desired projects encompassing both realistic costs and financing elements.

Of course, a CIP is not intended to be cast in concrete – costs change, emergencies arise, and even the priorities of a community can change over time – all of which can modify the contents of a CIP. Adoption of the CIP does not, by itself, commit a city to any particular set of projects. Every year the entire CIP is reconsidered and three types of actions are taken:

- ◆ The first year is eliminated because it has been implemented;
- ◆ Another year is added; and,
- ◆ Projects are re-examined and updated, including changing priorities.

In order to plan for capital investments as part of its comprehensive planning process, a city must first plan for the maintenance and replacement of its existing capital facilities. Then, it must plan the major investments needed to replace and build new community facilities.

Sufficient public funds must be budgeted for the upkeep and preventive maintenance and repair of existing public buildings, streets, drainage, parks and other facilities. Future maintenance and repair requirements must also be taken into account when planning and designing new community facilities.

The phrase “capital improvement cost” usually includes more than the cost of the land or other actual tangible physical assets. The total cost also includes legal, financial and engineering fees, site investigation and preparation costs and inspection fees and other costs necessary to get the facility into actual operation.

General Procedure for Capital Improvement Programming

The Mayor and City Council work with the City Administrator to develop CIP goals, a fiscal policy, and an administrative process.

The City Administrator instructs Department Directors to submit capital project requests upon pre-designed forms according to a timetable or calendar.

The City Administrator reviews all requests, in consultation with the Department Directors.

A Capital Improvements Advisory Committee appointed by the Mayor and City Council reviews the recommended capital project priorities. The Manager and City Council should consider recommendations and comments of the committee in the development of long-range expenditure plans.

On the basis of this review, some requests are deferred indefinitely, some are given high priorities and scheduled early in the CIP and some are scheduled for later. The City Administrator submits the recommended CIP to City Council, along with recommendations from the Capital Improvements Advisory Committee. Upon its tentative approval, the City Council schedules a public hearing.

After providing prior public notice, the City Council conducts a public hearing on the CIP. After making such modifications, as it deems necessary, the CIP is adopted by resolution.

The first year projects are implemented.

After a year passes, the process is repeated. Year Two of the first CIP now becomes Year One, Year Five becomes Year Four, and an additional year added as Year Five. Of course, individual projects within any of the years may be modified, added, or deleted. Approval of a project scheduled for Year Two, for example, doesn't mean that the project will receive automatic approval the next year.

Capital Funding Sources and Financing Methods

Financial planning to meet capital requirements includes consideration of a number of important objectives:

- ◆ Changes in the ad valorem property tax rate;
- ◆ Changes in sales tax revenue received by the City;

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- ◆ Maintaining a balance between debt redemption; capital outlays and current expenditures;
- ◆ Maximizing use of available Federal and State aid;
- ◆ Trends in future revenues and expenditures; and
- ◆ Funds available to finance new capital projects.

The various potential funding sources and methods of financing for capital improvements are as follows:

- ◆ General funds;
- ◆ Federal and State financial assistance grants and loans;
- ◆ Pay-as-you go from current revenues;
- ◆ Issuance of long term debt instruments such as Certificates of Obligation, Revenue Bonds and General Obligation Bonds;
- ◆ Property Tax;
- ◆ Sales Tax;
- ◆ Hotel/Motel Occupancy Tax;
- ◆ Special assessments;
- ◆ User Charges;
- ◆ Impact Fees; and,
- ◆ Innovative Financing methods such as Tax Increment Financing, Lease-Purchase Financing.

Role of the CIP in Implementation

The CIP is a mechanism for analyzing the City's major capital facility needs in the near future. By undertaking a financial analysis as part of the CIP, the City is able to predict, with reasonable accuracy, its capacity to finance capital improvements after it has paid its basic operating expenses. Once this capacity has been identified, a fiscal program is developed. The financial analysis also estimates the impact that capital expenditures will have on the operating budget.

Capital improvements include facilities such as utility systems, public buildings, land acquisition, parks, streets and sidewalks, drainage, libraries and major equipment. These are items that may have a significant impact on the community and are often too expensive to be financed in the annual operating budget.

Preparation of a Capital Improvements Program involves difficult decisions. Often there are more worthwhile projects to consider than there are dollars to fund them.

