

Capital improvements: What's in your plan?



Believe it or not, your township's master plan can actually help develop the annual operating budget! A capital improvement plan (CIP) serves as a bridge between the long-term vision of your community, and the more immediate need of running your government on a daily basis.

It's no surprise that townships across the state are constantly seeking opportunities to better manage public resources. With limited tax revenues and growing demand for services, township officials must consider long-term capital investments in light of shorter-term budget constraints. Not only are long-term planning goals more likely to be met, but township finances will benefit as well.

CAN A CAPITAL IMPROVEMENT PLAN IMPROVE TOWNSHIP FINANCES?

Yes! As proof, look no further than the Michigan Townships Association, which recognizes the value of a capital improvement plan in its "Township of Excellence" award. The Financial Stewardship (FS) category of the award criteria requires a completed CIP:

The township capital improvement plan or other document that describes planning for public improvements and capital asset purchases, depreciation and replacement.

If that's not a strong enough argument to convince you of the financial merits of a CIP, consider these other benefits:

- **The township budget is likely to be more stable** if a long-term, comprehensive capital budget is included. Taking the time to plan and manage capital outlays is a sounder budgeting technique than the hit-or-miss approach used in some communities.
- **Your bond rating may improve.** Investors like predictability, and a CIP provides assurance that your township is taking a measured approach to major expenditures.
- **You get more for your money.** Having a long-range plan in place gives you time to seek grant funding, identify opportunities for cost sharing, and negotiate early for better prices. With a CIP, townships have a better chance at winning grant dollars, as grantors often favor projects that clearly meet a community need, such as one identified in a master plan.
- **Scarce resources are more properly allocated.** Governments are under immense pressure to use resources more efficiently. A well-executed CIP process enables township leaders to evaluate community needs across all functions and develop a plan for maximizing available resources.
- **Timing, coordination and quality of capital projects are enhanced.** A township with a CIP is better prepared to identify opportunities for more efficient project coordination, both internally and with other government agencies. In addition, plans that are thought through over the course of several years are more likely to meet the true needs of the township.

A VALUABLE TOOL DURING DIFFICULT ECONOMIC TIMES

In Michigan’s current economic climate, it is unfortunately common for local governments to experience budget and financial constraints while simultaneously fielding a challenge to maintain and/or expand public services. To link long-term community planning with the budgeting process, financially prudent communities are utilizing the capital improvement planning process. A CIP is a blueprint for coordinating community planning, financial capacity and physical development.

As opposed to projects and improvements listed annually in the operational budget, a capital improvement plan is a long-range plan that typically spans over six years. A typical CIP includes a priority ranking of proposed capital improvement projects as well as project descriptions, implementation schedules, funding sources, and estimated costs. Townships and communities that utilize a well-developed CIP generally uphold efficient government administration and will more often receive state and federal grants and maintain a sound financial program.

While a capital improvement plan may seem straightforward, it is important to distinguish expenditures and physical items that fall into the category of capital improvements from those that do not. Capital improvement is commonly defined as any major expenditure or any expenditure for physical facilities of government that are long term in nature and typically cost \$10,000 or more. Still too broad? The table below should help distinguish capital improvement projects from typical operational expenditures and identify those projects that may be on the fence, depending on the community.

THE VALUE OF CAPITAL IMPROVEMENT PLANNING

Whether a township is experiencing growth, decline or stability, it needs to budget for capital items to maintain the current asset base and meet future needs. It is in this regard that a CIP serves as a valuable tool to ensure that choices are made wisely. A well-constructed CIP enables the township government to set priorities and make the proper long-term decisions that benefit the community as a whole, from the perspectives of both financial capacity and quality of life. From a planning and community development perspective, an effective CIP provides important advantages to townships that utilize the process.

“The Government Finance Officers Association (GFOA) recommends that state and local governments prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets. A prudent multi-year capital plan identifies and prioritizes expected needs based on a community’s strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more.”

—GFOA Recommended Practice, Multi-Year Capital Planning (2006)

A CIP:

- Focuses attention on community development goals, as well as public infrastructure needs
- Facilitates coordination between long-term goals and operational budgets
- Allows for better scheduling of public improvements and regional cooperation
- Guides future growth and development
- Keeps the public informed about future needs and projects

A critical asset of the CIP process is its relationship to the township’s master plan. It is vital that the township’s developed CIP be consistent with the master plan in order to ensure that future developments and projects coincide with the township’s long-term goals for community development.

Projects and developments mentioned in the CIP should be consistent with local land use and future land use plans. As with a township’s long-term development goals, it is important that capital improvement projects fit in with present and future zoning and land use plans. Areas identified for future growth and development will require future expenditures and capital

<u>These ARE capital improvements:</u>	<u>These MAY BE capital improvements:</u>	<u>These ARE NOT capital improvements:</u>
Township halls	Fire trucks	Office furniture
Land purchases	Police and fire radio systems	Pothole repairs
Street lighting systems	Street and road repairs	Library books
Storm sewers	Minor building remodeling or additions	Fire hoses
Park land	Computer systems	Lawn mowers
Water and sewage treatment plants	Playground equipment	Road gravel

investment for utilities and services. Capital improvement projects that are not efficiently planned to suit future land use risk the possibility of inefficient use of resources. Planning capital improvements in a proper manner, however, such as designing roads or water/sewage utilities that are consistent with local land use elements, is a direct step toward efficient township management and a stable budget.

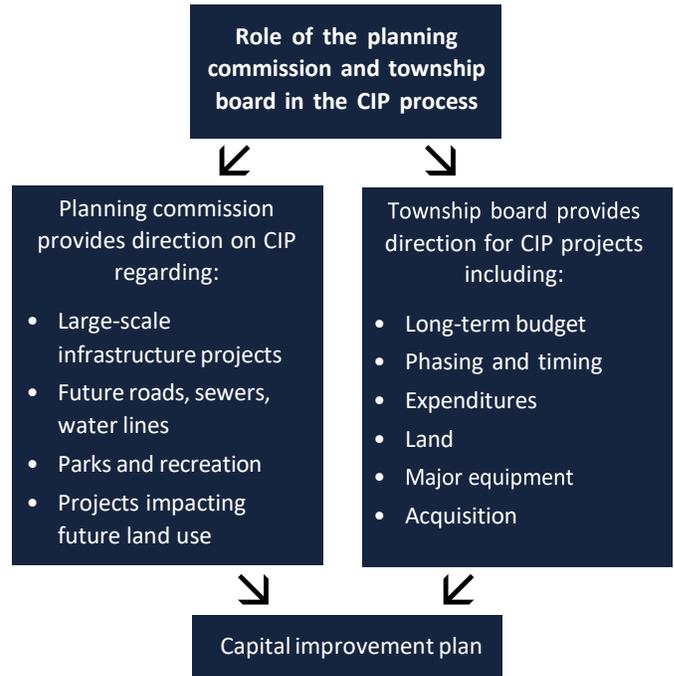
PROCEDURAL ISSUES FOR CIP PLANNING

With the passing of PA 33 of 2008, the Michigan Planning Enabling Act, planning commissions were given a larger and more inclusive role in the CIP process. Simply put, MCL 125.3865 states that, unless exempted, the planning commission is responsible for organizing and preparing an efficient capital improvement plan for the township. Given the planning commission’s vital role in pursuing community goals, and their knowledge of demographic information, land use patterns and master/comprehensive plans, township planning commissions have a distinct advantage in facilitating processes and researching implementation methods for the CIP.

Despite the large role that the township planning commission plays in the CIP process, capital improvement planning requires budgetary input from the township board. It is the board that controls the township budget and authorizes capital expenditure. In this sense, development of the CIP should be a shared responsibility between the planning commission and township board. The planning commission provides input on capital expenditures regarding long-term land use and infrastructure, while the township board is responsible for budgetary detail, scheduling, acquisition and physical improvements. Without a CIP, township boards and departments will lack coordinated management and may not meet the goals of the community as a whole.

While PA 33 specifically delegates the responsibility of developing a CIP to the planning commission, the township

board plays a distinctive role in the CIP process. Once a CIP is formulated by the planning commission, a draft of the document should be presented to the township board for input and feedback. The board offers important directives on budgeting and scheduling for the projects listed in the plan. In addition, if a planning commission is exempted from organizing the CIP process, the township board may assume the important role of setting up the process. The role of the planning commission and township board is summarized in the following chart:



To create a CIP that meets the goals of the community as a whole, department directors (e.g., the police, fire, public works, parks and recreation, etc.), need to create an inventory of assets for their corresponding departments and identify anticipated capital improvements, as well as provide a status on previously approved projects. **Bill Ireland**, utilities director for **Orion Charter Township** (Oakland Co.), states that the township’s CIP was a tremendous help in planning for large-scale capital expenditures. The township planned for a water storage facility as well as the purchase of a new vector truck. Said Ireland, “Without capital improvement planning, the township would not be able to fund necessary improvements.”

MICHIGAN LAW REQUIRES CERTAIN TOWNSHIPS DEVELOP AN ANNUAL CIP

In addition to being a helpful tool to plan for capital investments in your community, PA 33 clearly states that certain township governments must develop a CIP:

Sec. 65. (2) Any township may prepare and adopt a capital improvement program. However, subsection (1) is only mandatory for a township if the township, alone or jointly with 1 or more other local units of government, owns or operates a water supply or sewage disposal system.



TEN STEPS TO DEVELOPING AN EFFECTIVE CAPITAL IMPROVEMENT PLAN

Admittedly, developing a CIP requires staff time, and may involve hiring outside help, to craft the initial framework and compile the information needed to create the CIP document.

However, the effort is not as daunting as it may initially seem, and the benefits are certain to provide significant value to the township. This fact is supported by **Spaulding Clark, Scio Township** (Washtenaw Co.) supervisor. Clark notes that capital improvement plans are especially important for ongoing financial analysis of utility departments. He said, "The CIP is a useful document to help establish utility rates as well as the requirements for cash reserves. Without a current CIP, communities will lack the necessary long-range financial analysis [to effectively manage utility finances]."

As with many large undertakings, it can be helpful to break the task into smaller steps. Listed below are the 10 primary steps a township can take to prepare a comprehensive CIP:

Step 1: Establish a CIP framework

The first step in developing a CIP is to establish fundamental policies that define "capital improvement," determine the length of the plan, outline a system of prioritization, and lay out the process and individuals that will be included in creating and updating the plan.

As noted earlier, for an expenditure to be considered a capital improvement, it should meet the following criteria:

1. A physical facility or asset, such as a building, equipment, land or improvements
2. Cost \$10,000 or more
3. Be long term in nature (a useful life of at least five years)

The length of time covered by a CIP should be at least six years. PA 33 sets the term at six years, yet some communities choose a 10-year timeframe, due to the sometimes complex and costly task of improving municipal infrastructure.

It's important to include the right mix of individuals when developing the initial framework for the CIP, as well as when preparing the comprehensive plan. At different stages of the process, townships may want to include the following individuals:

- Township supervisor
- Finance committee members
- Other trustees
- Township manager
- Public works director
- Department heads
- Planning commission
- Finance staff
- Outside consultants

Each of these individuals will contribute different perspectives, specific project needs, potential opportunities to coordinate with other local governments, knowledge of funding opportunities, and an awareness of how different projects fit within the larger goals and finances of the township. It may be helpful to put together a CIP committee, which would be charged with keeping the CIP process moving forward as well as reviewing and recommending the projects that should be included in the annual CIP document. Such a committee often includes members of the planning commission and township board, as well as finance and public works management staff.

The CIP policy should include an annual calendar, which includes many of the steps discussed below. Ideally, the annual CIP document should be completed prior to the township's operating budget, so it can be integrated with the capital budget portion of the larger township budget.

Step 2: Inventory existing assets

An integral step in determining future capital improvement needs is to understand the condition of assets currently in

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Sample CIP/Capital Budget Calendar

1st month of FY	Request for CIP estimates, calendar of dates, and other related information sent to departments.
2nd month of FY	Deadline for submission of CIP requests to planning or finance department.
3rd month of FY	CIP review committee and township supervisor/manager updated on status of CIP requests.
4th month of FY	CIP review committee provided with details and summaries of departmental CIP requests.
5th month of FY	Township supervisor/manager and the CIP review committee conduct reviews with departments.
6th month of FY	Supervisor/manager and the CIP review committee submits the CIP and recommended capital budget to the planning commission. Planning commission announces a public hearing on the CIP for the following month.
7th month of FY	Planning commission conducts public hearing and submits comments on CIP to the supervisor/manager.
9th month of FY	Township board conducts public hearing on the proposed capital budget. After public hearing, board adopts capital budget.

place. Township staff, or a qualified consulting firm, should develop an inventory of all existing facilities and other township-owned capital assets. These might include water/sewer treatment plants, lift station/pumping stations, township hall and other buildings, parking lots, park structures, pathways/sidewalks/streets, major computer hardware, significant rolling stock, and to the degree possible, underground water/sewer transmission, distribution and collection lines.

A determination should be made regarding the expected life of the asset, the expected timing of repair, replacement, expansion or retirement of the asset, as well as the associated cost of asset disposition.

Step 3: Identify current projects

In this step, the township should identify capital improvement projects underway or already approved but not yet begun. Make note of the potential need for additional funding, the status of the project, and whether excess funds may be available if the project is under budget or discontinued. The goal is to have a good understanding of township resources already committed, and determine the feasibility, both financially and from a staffing perspective, of undertaking the next capital project(s).

Step 4: Determine township's financial capacity

It is critical to understand the township's capacity to undertake new capital improvements in the coming five to 10 years. To gain this understanding, the township will need to determine the community's potential financial resources from property tax revenues, development fees, utility charges, special assessments and other sources. The degree to which debt financing will be required to fund the CIP must be measured before new debt is issued, to avoid relying too heavily on debt for capital improvements. On the expenditure side, the degree to which resources are already committed should be calculated for each year of the CIP. Such resources might include reserve funds, debt capacity, grant dollars, program revenues and annual capital allocations.



Townships that own or operate a water or wastewater system are required by state law to annually prepare and adopt a township-wide CIP.

The optimal approach to successfully measuring and estimating the township's finances is a multi-year financial forecasting model (see the November 2009 *Michigan Township News* cover story, "Tough times—Tips for stressed township budgets," available at www.michigantownships.org/mtn.asp). A well-designed model would include all relevant operating, capital, debt and reserve funds.

Revenues and expenditures, including operating costs, debt service and capital budgets, should be integrated into the model to develop a comprehensive financial picture in the years ahead. A model that includes the ability to easily change assumptions, expand for future years and revise capital improvement plans would be more useful than one that is a one-time estimate of revenues and expenditures.

Step 5: Identify all potential capital improvement projects A capital improvement program, like many plans, is only as good as the information on which it is based. To maximize the value of the plan, the township should include input from all departments, which may have a need for capital expenditures. Department heads should take time to contemplate the long-term needs of their operation(s), and prepare a capital project worksheet. Such a worksheet might include:

- A description of the project
- The justification and importance of the project
- Associated capital costs
- Potential increases in operating budgets
- Impact on other township operations
- The anticipated timing of the project

Step 6: Evaluate and prioritize projects

As noted in Step 1, the township should identify the process and criteria to be used to determine which projects are approved. Evaluation criteria could include:

- Impact on public health and safety
- Improving public services
- Promotion of economic growth
- Preservation of natural resources
- Optimization of external funding
- Coordination of cross-departmental projects
- Conformance to master plan
- Other criteria as identified in your community

Each project should be ranked relative to the selected criteria, to provide the township with a community-wide prioritization of capital projects.

Step 7: Prepare a project schedule and associated financing plan

Having estimated the financial resources available to the township in the coming years, identified and articulated each project, and prioritized all projects across the township, it is time to pull the information together into a comprehensive project schedule and financing plan. An example of such a plan is included in the table below.

Step 8: Adopt the CIP

After compiling the requested projects into a comprehensive document, it is time for official board action to adopt the CIP. Typically, the CIP document is presented and discussed at a public meeting. Following appropriate public scrutiny and modifications, the board is asked to make a motion and take a vote to officially approve the plan. Once approved, the CIP becomes the basis for the capital budget for the upcoming year. Future year improvements and associated costs are then integrated into the financial forecast prepared in Step 4.

Step 9: Implement the plan

With funding approved, capital improvement projects can begin. Monitoring the progress of each project, relative to the planned timeframe, as well as with respect to anticipated costs, is critical to ensure public funds and other resources are utilized in the most efficient manner. Significant variations in timing, costs or impacts on operations should be reported to the CIP committee and/or township board to ensure open communication and provide a chance to take corrective action before the project deviates too far from the plan.

Step 10: Review and update the CIP annually

After completing the initial year of the CIP, annual reviews and updates are less intensive, but just as important. Maintaining a current CIP involves repeating Steps 2-9, outlined above. Any changes to the CIP process or policies developed in Step 1 should be deliberated and included in the next year's process, as a means of continuously improving the process in your

A USEFUL TOOL FOR ANY TOWNSHIP

A capital improvement plan is a requirement of PA 33 of 2008, for some townships. More importantly, a CIP can be a useful tool to any township, because it:

“The Government Finance Officers Association (GFOA) recommends that governments prepare and adopt a formal capital budget as part of their annual or bi-annual budget process. The capital budget should be directly linked to, and flow from, the multi-year capital improvement plan. ... Organizations should establish specific criteria early in the process to help prioritize capital submittals.”

—GFOA Recommended Practice, Capital Project Budget (2007)

- Helps focus a community’s goals
- Balances capital needs with operational budgets
- Provides a sound financial platform for township administration.

Developing a CIP need not be a daunting or time-consuming exercise, but rather can be efficiently developed by inventorying assets, and determining needs, priorities and project timing. A well-developed CIP is especially useful in the current environment of tighter township budgets, and is a demonstration of sound fiscal policy and administrative efficiency, which the public is increasingly demanding of township government. n

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MICHIGAN TOWNSHIP								
6-YEAR CAPITAL IMPROVEMENT PROGRAM								
PLANNED PROJECTS								
Project Rank	Importance	Title	Fiscal Year Ending December 31:					
			2011	2012	2013	2014	2015	2016
3	Important	Memorial Park Improvements	300,000	870,000	720,000	610,000	-	-
Project Description: Upgrade pathways, play structures and restrooms to current code requirements. New pavilion/picnic area. Additional safety lighting.								
Project Scope: Includes all public areas of Memorial Park.								
Coordination: Parks advisory committee (design), Friends of Memorial Park (fundraising), nearby residents and businesses (communication)								
Timeframe: Engineering work begins 2011. Target completion: 2014.								
Staff Contact: Sue Jones, Parks & Recreation								
Total Project Cost: \$2,500,000								
Funds Paid to-date: \$0								
Yrly Operating Cost: \$18,000 (year-round restroom maintenance, increased lighting costs, added cost of picnic area maintenance)								
Funding Sources: See below								
		State Grants		500,000	250,000			
		Friends of Memorial Park fundraising		40,000	40,000	40,000		
		Park Improvement Millage	50,000	80,000	80,000	200,000		
		Donations in kind (landscaping, picnic tables)				20,000		
		Private grants			100,000	100,000		
		CIP Fund	250,000	250,000	250,000	250,000		