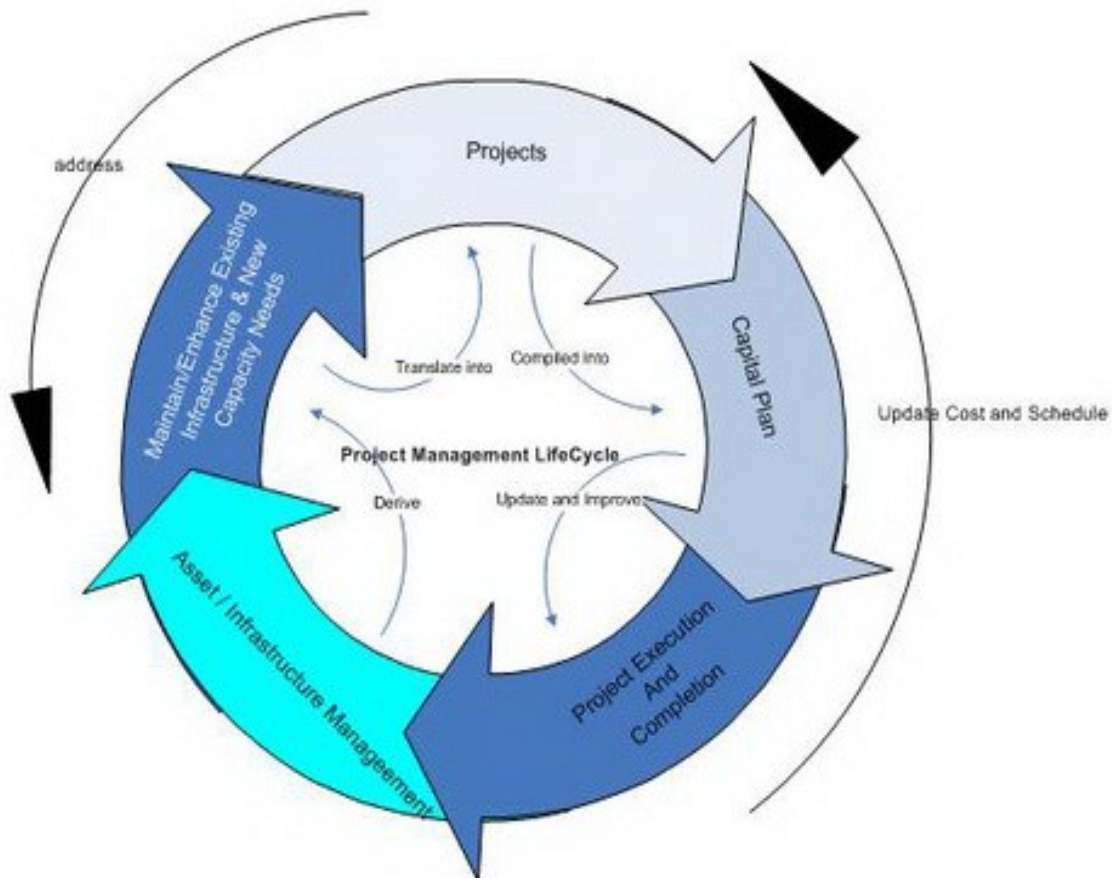


## Section 6 – Capital Planning

### The Capital Planning Cycle:



Capital Planning prevents scarce resources from being consumed in reaction to crises and provides for critical facilities, infrastructure, and equipment to be replaced as they deteriorate during normal use. The Capital Planning Process helps local officials think through complex infrastructure development and financial decisions, which could avert expensive mistakes that frequently result from crisis management. Lenders and bond raters expect local governments to ensure that inherited assets from prior administrations are preserved or replaced in a timely manner.

### Capital Planning Process

Local governments commonly adopt a 5-year Capital Improvement Plan (CIP) for proposed projects with costs totaling at least \$5,000 that have useful lives of more than one year. This CIP is typically updated annually during the local government's annual budgeting process. Major elements under consideration of the CIP process are:

(1) conducting an inventory of present physical assets (often generated by the Finance Department, physically verified/confirmed by all departments); (2) the completion of an asset maintenance and replacement schedule submitted by each operating department requesting capital items to be included in the budget; and (3) a project time-table containing project requests for future needs.

The Finance Department will then consolidate all requests filed by all departments under the CIP by completing a prescribed financial analysis of historical revenues and expenditures to evaluate all CIP proposals, and at the same time, correlate these proposals to pre-approved documents and ordinances (e.g., for compliance with the approved Comprehensive Plan). Priority rankings of proposed CIP projects are determined through special meetings among executive members of the local government.

### **Common Projects Included in the CIP**

Under the classification of Infrastructure, the most commonly proposed CIP's would be roads, sewers, storm sewers, sidewalks, bridges, curb and gutter, street lights, and other utilities that the local government owns and operates. Projects that fall under the Buildings category would be: administration buildings, libraries, museums, treatment plants, civic centers, and public swimming pools. Under Equipment would be fire trucks, police cruisers, generators, and IT equipment. Land would include parks, gardens, tree nurseries, waterfronts, industrial park land, and easements.

### **Funding Capital Projects**

Funding for capital projects could come from various sources, including the general fund or general revenue, grants (possibly with matching requirements), debt proceeds (general obligation or revenue bonds), special taxes or assessments, or impact or user fees.

### **References**

GASB Statement No. 34:

<http://www.gasb.org/>

GFOA Best Practice – Capital Project Budget | Government Finance Officers Association:

<https://www.gfoa.org/best-practices>

GFOA Financial Policy Examples – Capital Asset Management:

<https://www.gfoa.org/materials/capital-planning-policies>