



## BEST PRACTICE

### **Incorporating Environmentally Responsible Practices in the Capital Improvement Program** **(2010) (CEDCP) (new)**

**Background.** Local governments are increasingly called upon to promote sustainability initiatives for the use of natural resources related to their capital improvement programs as a strategy for reducing long-term costs and liabilities (both financial and non-financial). Governments may look to incorporate environmentally responsible practices in programs revolving around the construction and management of a jurisdiction's infrastructure assets, including notable changes in transport and utility systems, new standards for building construction, and acquisition of energy-efficient equipment. While assets that are environmentally responsible may at the outset appear cost prohibitive, the combination of both financial and non-financial costs and benefits over the long term could prove advantageous.

Capital improvement activity that is environmentally responsible is recognized in a number of different forms. Probably the most common is the use of environmentally friendly materials and procedures when undertaking capital projects. Currently, the U.S. Green Building Council (USGBC) is a leader in offering standards for environmentally sustainable construction. Through the Leadership in Energy and Environmental Design Program, vertical building projects can now be accredited for their efforts in promoting environmentally sustainable construction. In addition, other organizations offer guidelines for vertical and horizontal building projects to improve environmentally friendly construction, operation, and maintenance.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that finance officers evaluate both the financial and non financial impacts of a project including environmentally-responsible measures that impact the jurisdiction in the long term as well as the local, regional, and global environment, changes to resource use and efficiency, and other areas that impact quality of life for the public. To accomplish this goal and develop a sustainable capital program, local jurisdictions should incorporate the following best practices into their capital planning and policy setting processes.

**Policy.** During the initial development of a capital plan, governments should consider environmentally-responsible principles that include the following:

- Identifying total economic costs and benefits of capital improvement plans
- Considering stewardship principles for new or upgraded assets to accommodate community goals and needs
- Examining environmentally-friendly projects for consistency within broader policy goals
- Considering the use of an environmental factor when scoring/prioritizing capital needs
- Extending the master plan to include environmental policies
- Prioritizing the environmental principles and goals of the master plan

**Financing.** To recognize and promote the non-financial benefits of economically sustainable environmentally-responsible capital improvements, a number of financial instruments and methods are available to help governments realize a benefit for green projects in local jurisdictions. These include state and federal grants, low interest loans, property leases, and certificates of participation. Many green-based projects are undertaken in partnership with private development, which can qualify for significant tax benefits and offer additional funding tools. Internally, many organizations are using funds that have been set aside in their capital programs to support environmentally-responsible efforts. For example, a revolving fund for alternative energy projects places recurring savings back into the program.

**Analysis.** Environmental stewardship analysis often measures the “triple bottom line” which refers to the effects on people, planet and profit. To promote environmentally-responsible management decisions, a multi-faceted evaluation approach to examine the full impact is recommended. This evaluation will quantify expected results, as well as consider the long-term environmental benefits of these decisions, so the evaluation will look at the following:

- **Financial Impact.** A financial impact analysis on environmentally-responsible projects or activities must take a long-term perspective. While start-up costs can prove to be higher, using environmentally-responsible practices and materials can help reduce costs over the life of the asset. With this in mind, financial analysis tools are used to identify the entire “lifecycle” cost of the decision. More sophisticated approaches such as a “return-on-investment” will recognize future cost efficiencies, as well as currently unmeasured impacts (avoidance of landfill fees, future cost of fossil fuels etc.).

As finance officers and project managers develop initial cost estimates and measure the operating impacts of a capital project, GFOA recommends the following measures be undertaken:

- Attempt to quantify expected energy savings or offsets over the life of the asset.
  - Recognize hidden costs for operating/maintaining green facilities.
- **Total Economic Value.** Actions to address climate change, water conservation and energy consumption, among others, promote long-term cost efficiencies are often difficult to quantify. Economists have applied a tool identifying the Total Economic Value of an improvement. Such tools often recognize the marginal benefit an improvement has on pollution emissions.

**Communication.** To be an effective steward, governments should educate and communicate with their citizens. Lack of engagement with the public can increase the risk of misperceptions of environmentally-responsibly-based initiatives. One method of communication for finance officers is through the capital planning document itself. Governments should be clear on how environmentally supportive projects directly relate to important environmental considerations and improve the quality of life for the public.

## **References.**

- GFOA Best Practice, *Sustainability*, 2002.
- GFOA Best Practice, *Capital Project Monitoring and Reporting*, 2007.
- GFOA Best Practice, *Public Participation in Planning, Budgeting, and Performance Management*, 2009.
- Environmental Protection Agency, *Environmental Stewardship*, <http://www.epa.gov/stewardship>.

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