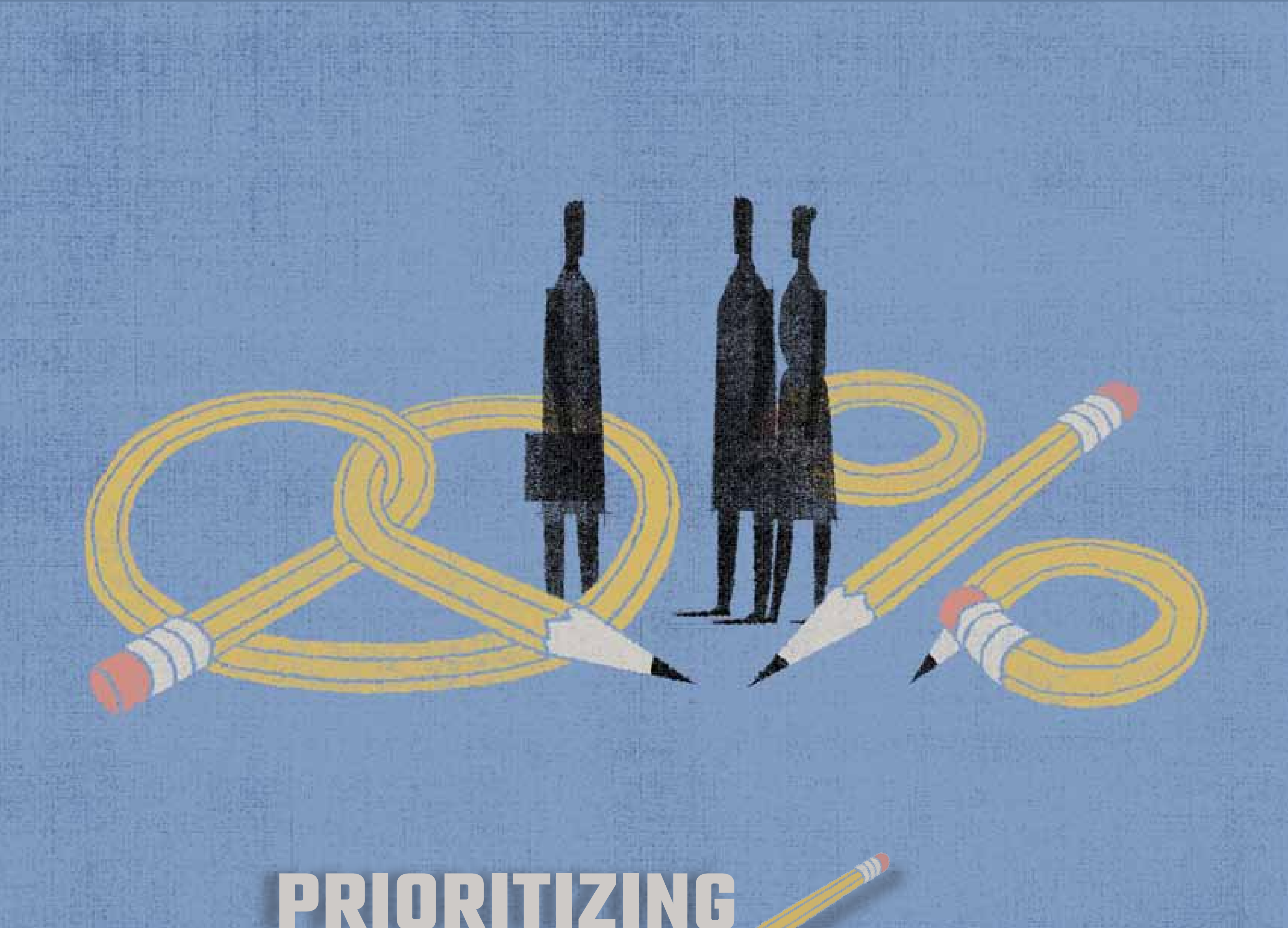

PRIORITIZING

Capital Improvement Planning

BY GARY DONALDSON

The nation's backlog of infrastructure construction and repairs, which was last estimated at $2.2 trillion, is a primary challenge for state and local governments. U.S. roads, streets, bridges, and fixed assets are critical components of future economic development and growth. Tangible and intangible benefits (such as individual and institutional confidence in a government's infrastructure capacity and return on investment) are important considerations in the deliberation and formulation of a well-planned and prioritized capital improvement program (CIP).

The improved economy has allowed state and local governments to proceed with greater confidence in initiating CIPs. The prioritization of capital projects has taken on additional importance, given the limited availability of financial resources to meet the competing interests for infrastructure requirements.[1]

The importance of developing and annually updating a multi-year CIP cannot be overstated. As noted in GFOA's best practice guidelines, CIPs should be updated at regular intervals, generally corresponding with the government's annual budget process.

> U.S. roads, streets, bridges, and fixed assets are critical components of future economic development and growth.

OVERSIGHT COMMITTEES

The question of which projects get funded first when they are all important can be answered by a CIP oversight committee, which adds additional governance, structure, and accountability. (See Exhibit 1.)

The composition of the oversight committee generally includes representation from the executive and legislative branches, neighborhood and citizen groups, public works engineers, project managers, and finance officers. Regular standing meetings that are aligned with the government's fiscal year provide the framework for the iterative steps that follow. These steps should lead to the authorization of projects to be funded in the capital budget and any related operating budget requirements. The reporting and monitoring step is required for post-budget adoption.

Larger governments can deploy a two-tiered approach that acts as a filtering stage for project evaluation and ranking. Tier 1 consists of the director level or agency head, and the executive and legislative branches. Tier 2 consists of the level just below director and agency head, and includes neighborhood and citizen groups. Tier 2 would provide Tier 1 members with key analysis and reporting, as shown in Exhibit 1. The Tier 1 group would then provide final approval through the executive and legislative branches. The monitoring component includes budget review as opposed to actually managing cost, implementing the project and adhering to timelines, and reporting regularly to the executive and legislative branches. Monitoring and successfully executing the budget after it passes (including making sure projects are completed on time) help build stakeholder confidence.

As Exhibit 1 shows, the process entails updating existing CIP projects and submitting new projects. Including cost-benefits analyses and business cases is an important part of the decision-making process, as well as providing a level of fiscal discipline for the government and participants as they communicate to stakeholders. Return on investment (ROI) metrics provide an objective measure for determining and distinguishing the importance of a project. There are, however, capital projects that do not lend themselves to only ROI or quantitative consideration.

PRIORITIZATION

After all capital projects have been vetted by the oversight committee, they flow to the prioritization matrix, which provides structure, objectivity, and a multi-dimensional approach to ranking capital improvement projects. The matrix tool helps with achieving consensus among a diverse group by mitigating the subjectivity in the decision-making process while prioritizing complex issues.

These matrices range in complexity from simple Excel-based programs to more complex templates offered as part of CIP software. However intricate the matrix used, one of its most important components of is the list of criteria that have been agreed upon for rating projects. Exhibit 2 illustrates a criteria template and set of questions that governments can ask in the prioritization process.

Exhibit 1: CIP Committee Process Overview

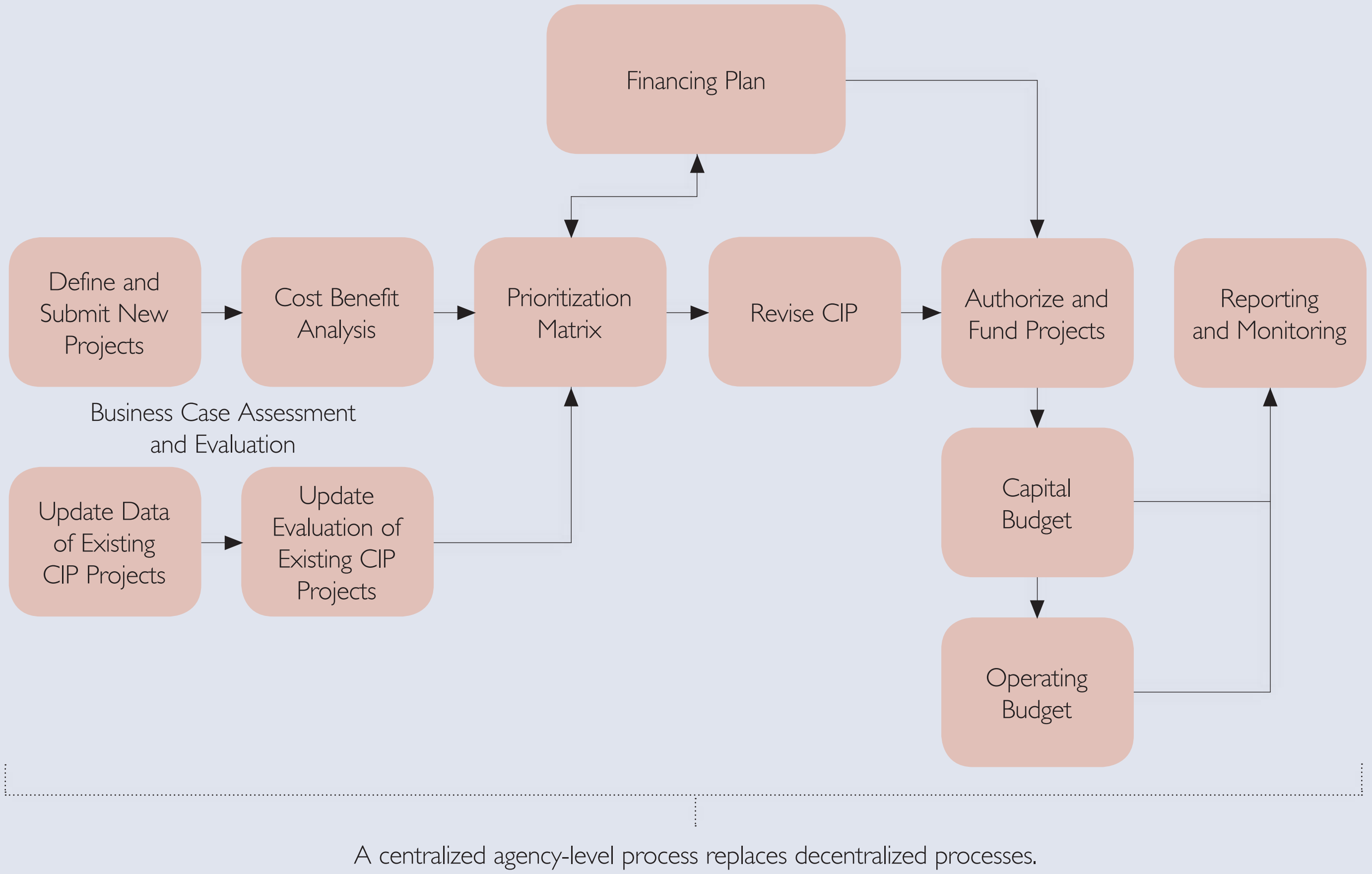

Exhibit 3 illustrates an expanded set of criteria for governments to consider for inclusion in their matrix. This matrix, provided by the White Bear Township, Minnesota, Finance Department, includes the project name, priority ranking, project type, useful life, and department/agency of purview. The matrix includes a line for revenues, expenditures, and operating budget impact. This example comprises 15 criteria and a weighting factor for each. The weighting factor is then

Exhibit 2: Criteria Template and Questions for the Deliberative Process

Criteria	Description	Rating Scale (1-9)
Project Requirements	Is the project required to meet legal, compliance, or regulatory mandates?	1 = not required or mandated 5 = pending requirement 9 = required or mandated
Strategic Alignment	To what extent is the project aligned with the government's overall strategies?	1 = no alignment with strategies 5 = partial alignment with strategies 9 = full alignment with strategies
Value to Citizens	How much value will the outcome of this project bring to our citizens?	1 = minimal value 5 = partial value 9 = high value

Exhibit 3: Expanded Matrix Criteria

Project Name:
Priority Ranking:
Project Type:
Useful Life:
Responsible Department:

Project Description and Justification:

Expenditures	2014	2015	2016	2017	2018	Total

Revenues	2014	2015	2016	2017	2018	Total

Operational Impact /Other Comments:

Operating Budget Impact	2014	2015	2016	2017	2018

Priority Ranking Criteria	Weighting Factor	Priority Factor	Score
Public Health and Safety	1.50		
Employee Health and Safety	1.25		
Regulatory Mandate	1.50		
Frequent Problems	1.25		
Availability of Funding	1.00		
Cost of Project	1.00		
Generates Revenue	1.20		
Generates Cost Savings	1.20		
Ongoing Operation Costs	1.00		
Age or Condition of Existing	1.00		
Public Benefit	1.10		
Public Demand	1.25		
Synergy with Other Projects	1.10		
Strategic Goal	1.05		
Comprehensive Plan Component	1.05		
Total Score			

Source: The White Bear Township, Minnesota, Finance Department.

multiplied by the priority factor to determine the overall score. This particular matrix is straightforward, cost-effective, and provides an expedient means of ranking capital projects.

The capital projects to be included in the revised CIP must then be aligned with viable sources of income as part of the financing plan. Identifying viable funding sources is a major factor in the process of determining and ranking capital projects. The matrix in Exhibit 3 assigns a weighting factor of 1 to "availability of funding." An example of a proposed project being ranked higher than existing projects would be one that is eligible for federal or state grant funding due to a viable and imminent funding award. In this example, however, the government would need to acknowledge the local match and any future recurring costs that could be increased — such as personnel, operations, and maintenance costs — after the sunset period.

The prioritization of capital projects has taken on additional importance, given the limited availability of financial resources to meet the competing interests for infrastructure requirements.

Additionally, many capital projects can be supported by a user fee or a tax on a commodity group (e.g., motor fuel tax that correlates to the beneficiaries of that asset). When aligning sources and uses, the exportability of an income source is important, or the government's ability to finance its costs through external means — for example, a convention or tourist jurisdiction can levy a lodging tax to pay for related capital improvements.

Exhibit 3 also shows projects that generate additional revenue for the government. For example, tax allocation or tax increment financing projects that are generally secured by property tax revenues often generate additional sales tax, business or privilege taxes, and other sources of income. Capital projects that are supported by tax allocation or tax increment financing may be ranked higher than other capital projects because of the projected return on investment for the government from other sources of income generation. As the economy recovers and tax bases resume growth, a capital project funded by increment revenues could be a viable consideration.

The impact of a capital project on the operating budget must also be assigned a weighted factor. As discussed earlier, it is important that the prioritization process include an analysis and understanding of the recurring costs of the government. Quantifying how much additional cost governments will incur from a capital project is helpful for governments that use pay-as-you-go financing to support their capital improvement program. If the additional operating costs erode their pay-as-you-go financing capacity, the finance officer is thus alerted that subsequent measures will be needed — either revenue enhancements or cost containment — to close future and pending imbalances.

CONCLUSIONS

Governments can prioritize capital projects in a cost-effective and efficient manner. The examples and exhibits discussed in this article can be implemented in a relatively quick and expedient timeframe to help governments in deliberating and revising their capital programs.

Note

1. The Government Finance Officers Association (GFOA) Committee for Economic Development and Capital Planning has numerous capital planning best practices (see gfoa.org/best-practices).

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