PRIORITIZING
Capital Improvement Planning

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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.

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.

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.

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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 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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>Rating Scale (1-9)</th>
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| 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 |

A centralized agency-level process replaces decentralized processes.
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...
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