

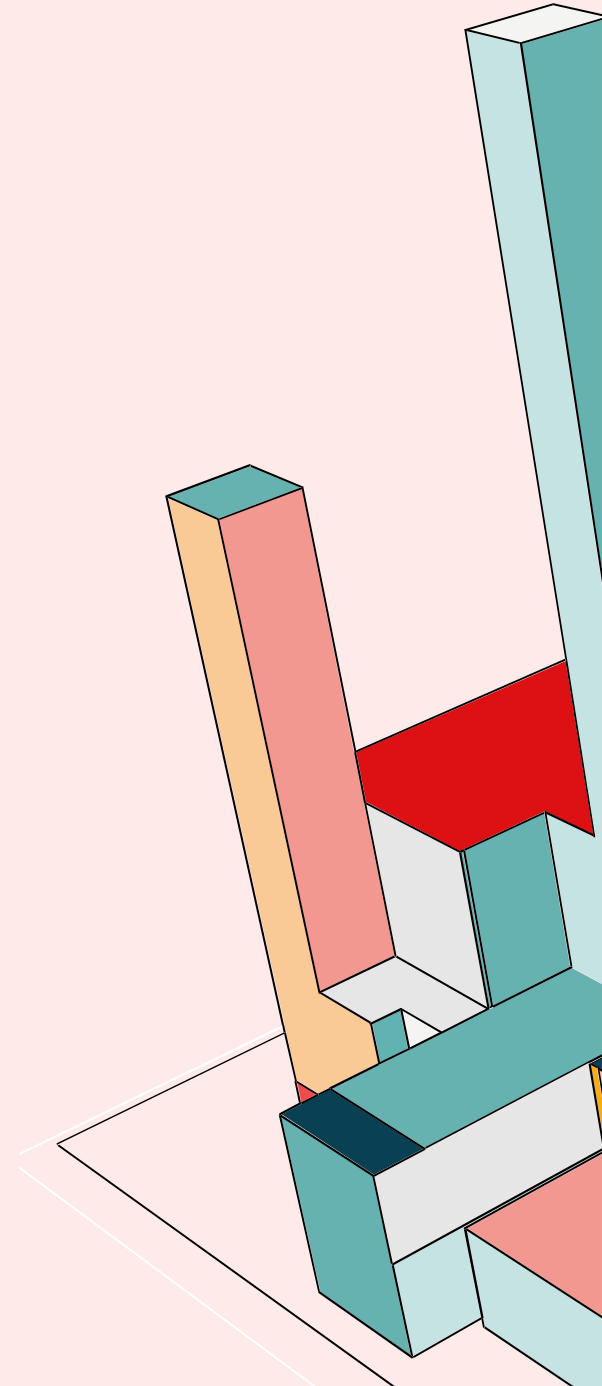
# **CIP BEST PRACTICES**

**UGFOA SPRING CONFERENCE  
APRIL 9, 2024**

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UTAH COUNTY CHIEF DEPUTY-AUDITOR**

# AGENDA

- Introduction
- What is a CIP and why is it important?
- Multi-year Capital Planning
- Establishing a CIP and Replacement Reserve Policy
- Prepare and communicate a capital plan and capital budget
- Lessons learned, final tips & takeaways
- Additional Resources from GFOA

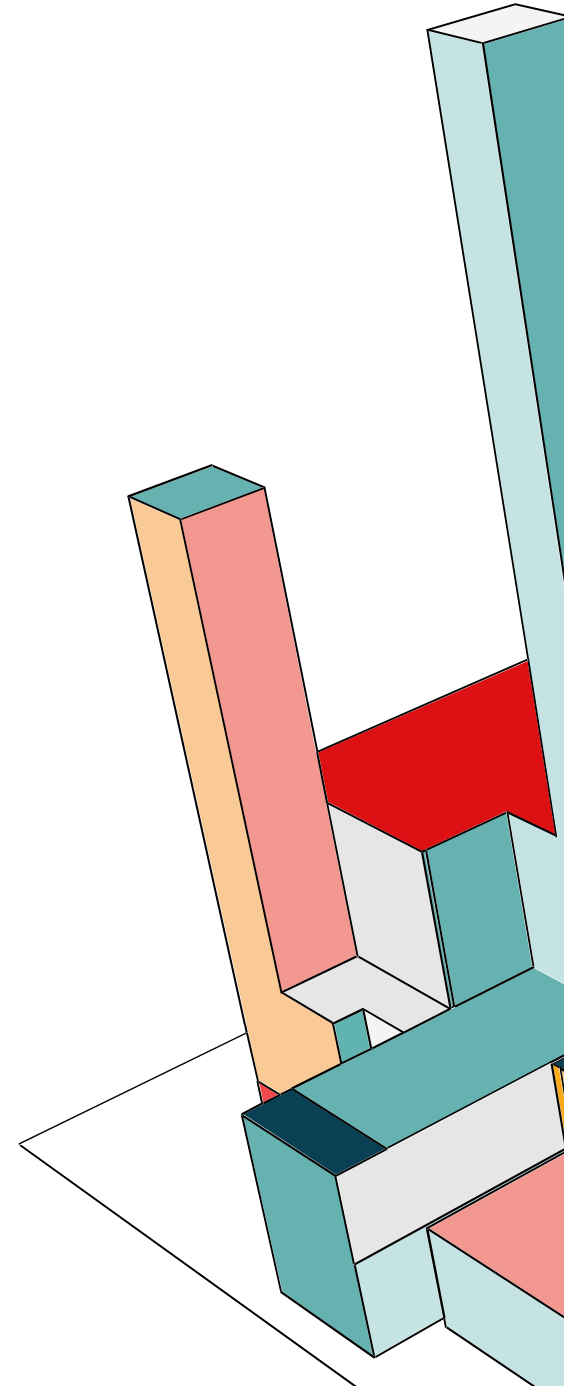


# WHAT IS A CIP & WHY IS IT IMPORTANT

- CIP is an acronym for Capital Improvement Plan, sometimes called a Capital Plan.
- Multi-year plan for capital improvement projects.
- Defines what is considered a capital project eligible for the plan
- Lays out the projects, timeline, location, and funding source.
- Includes a capital budget, often multi-year, and annual operating budget impacts
- Allows strategic planning for infrastructure, community growth, and financially sustainable capital needs

# WHY IS A CIP IMPORTANT?

- Governments of all sizes can benefit from capital planning
- Effective, well-defined CIP plan –
  - Substantial investment in capital assets
  - Sustainability of infrastructure & maintenance
  - Support proactive financial management
  - Strengthen borrowing position
  - Stakeholders understand roles & responsibilities
  - Promote sound, long-term operational & financing strategies
  - Annual updates to reflect changes to needs, priorities, estimated costs
- GFOA Best Practices provide sound guidance (See Additional Resources below for links to resources)

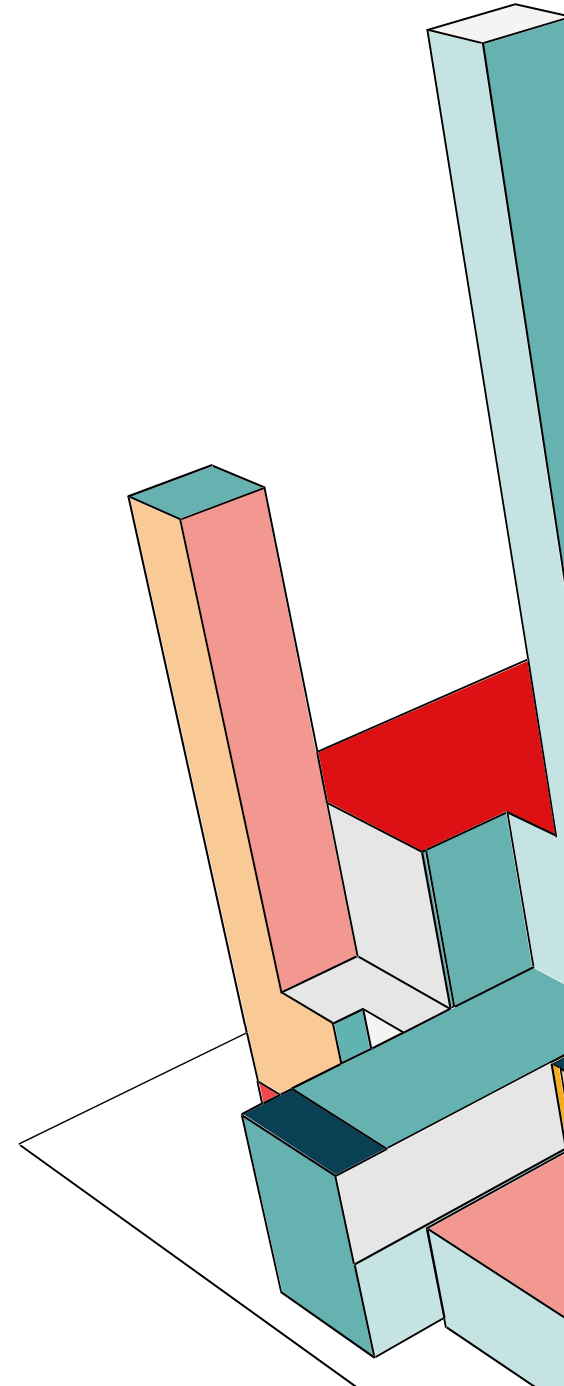


# A WELL-DEFINED CIP POLICY IS IMPORTANT

- The government entity's needs should be incorporated into the policy
- Policy sets the "ground rules" on how entity approaches capital planning
- Includes items such as:
  - Clear definition of capital projects,
  - What "deferred maintenance" will be allowed,
  - Role of stakeholders in the process,
  - Financing policies (debt vs. pay as you go),
  - Funding sources,
  - Multi-year requirements,
  - Legal requirements,
  - Monitoring oversight, and
  - Capital reserve policy.

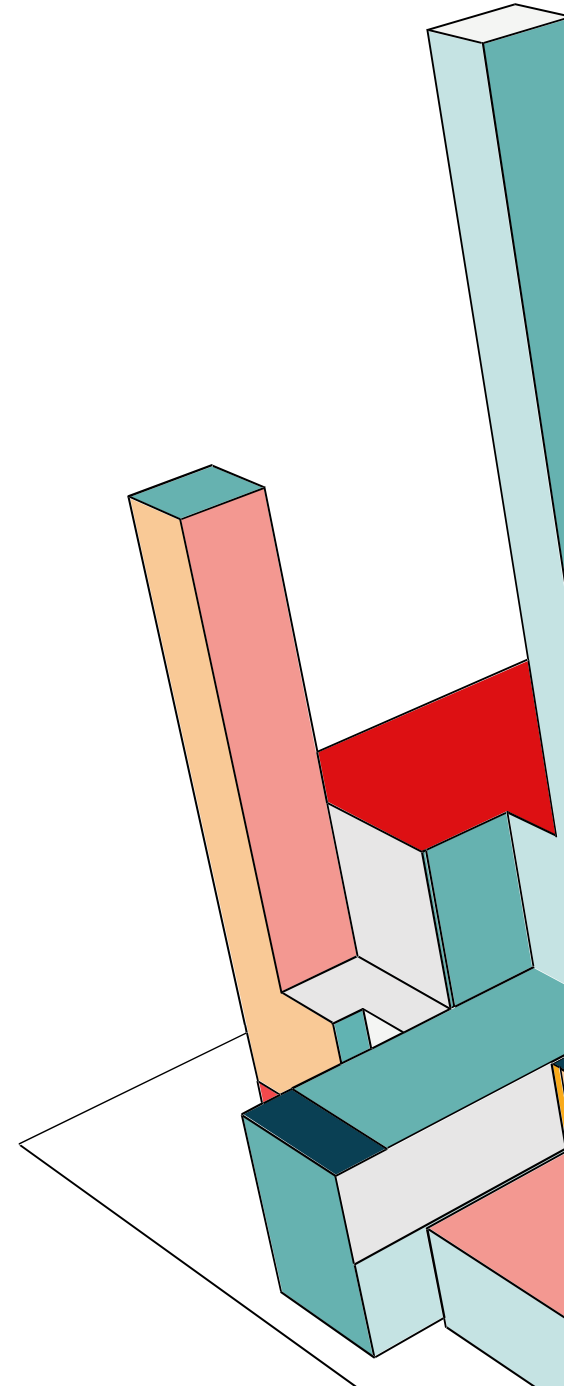


Governments should adopt a written policy addressing capital asset reserve for renewal and replacement. The establishment of a capital asset reserve provides governments additional flexibility in a strong capital asset management program.




# CIP COMPONENTS

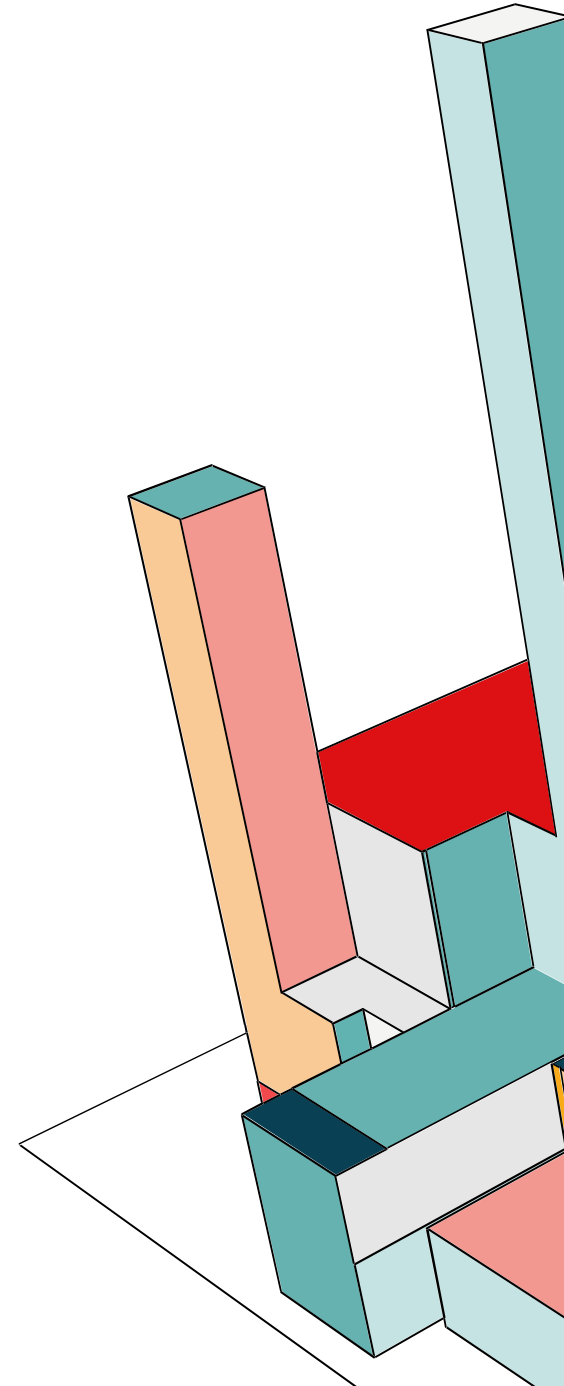
- All individual capital improvement projects
  - New construction
  - Major Renovations
  - Qualifying Equipment purchases
  - Estimated construction and completion timelines
- Capital Budget
  - Planned capital expenditures by year
  - Funding sources for each project by year using one or more of:
    - Capital reserves
    - Other funds operating budgets
    - Grants
    - General taxes
    - Specific taxes
    - Debt financing
    - Other source



# CIP COMPONENTS

- Major Components of CIP Include

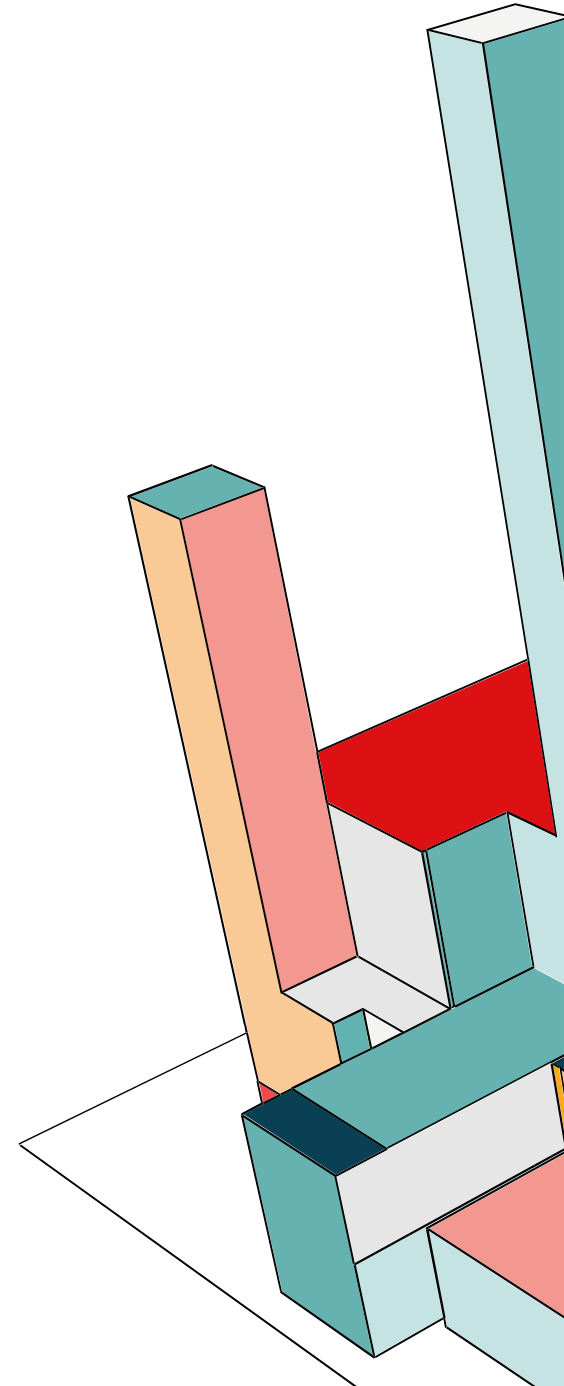
- Estimated overall cost of each capital project,
- Justification for the project
- Estimated operational and maintenance cost for a project - beware of puppies, 
- Estimated project timelines,
- Estimated revenues from project, if any,
- Funding sources
- Project ranking and prioritization



# CIP COMPONENTS

- **Examples of capital projects:**

- Improvements to community facilities or public spaces such as restrooms, parks or playgrounds.
- Street and sidewalk construction and repairs.
- Public building construction, additions, and major renovations.
- Construction or improvements to assets like streetlights, accessibility ramps, skate parks, and other things on public property.
- Work on public infrastructure like water plants & systems, airports, debris basins, or communications systems.



# MULTI-YEAR CAPITAL PLANNING

BEST PRACTICES



## Multi-Year Capital Planning

State and local governments should prepare and adopt comprehensive, fiscally sustainable, and multi-year capital plans to ensure effective management of capital assets.

# WHY IS MULTI-YEAR CAPITAL PLANNING NEEDED

- Per GFOA, a properly prepared capital plan is essential to the future financial health of an organization and delivery of services to citizens
- It is difficult for governments to address the current and long-term needs of their citizens without:
  - a sound multi-year capital plan,
  - that clearly identifies capital needs,
  - funding options,
  - and operating budget impacts.



GFOA recommends that state and local governments prepare and adopt comprehensive, fiscally sustainable, and multi-year capital plans to ensure management of capital assets. A prudent multi-year capital plan identifies and prioritizes expected needs based on a 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 five to 25 years or more.



# HOW TO DEVELOP A MULTI-YEAR PLAN

Identify needs including, but not limited to:

- Develop a life cycle for major assets
- Perform a needs assessment for infrastructure and major assets
- Identify the cost to operate, maintain, renew or replace an asset
- Consider community needs
  - Population growth (additional roads, water, health facilities),
  - Community desires (historic buildings, community center, new water park, etc.)
- Identify needed additional buildings or infrastructure needed now and in future



# HOW TO DEVELOP A MULTI-YEAR PLAN

Identify fiscal impacts, including:

- Well defined scope and potential scope creep
- Appropriate projection of project costs and revenues
- ***Adjust cost impacts based on inflation***
- Clear list of major components (design, land acquisition, construction, close out)
- Identify ongoing life cycle costs & operating budget impacts (plus or minus)
- Include check points to reevaluate project timing & costs



# HOW TO DEVELOP A MULTI-YEAR PLAN

## Prioritize Capital Requests

- Develop a rating system & revise if needed,
- Comply with legal requirements and/or mandates first,
- Health and safety should be next highest priority,
- Asset preservation – considering project life cycle,
- Service needs, asset additions, asset expansion
  - Support the entity’s policies, plans, and strategic plan,
- Coordination with other entities
  - Example -Lay fiber optic when water/sewer lines are dug up,
- Stakeholder priorities should be considered,
- Operating budget impact of doing or not doing project.

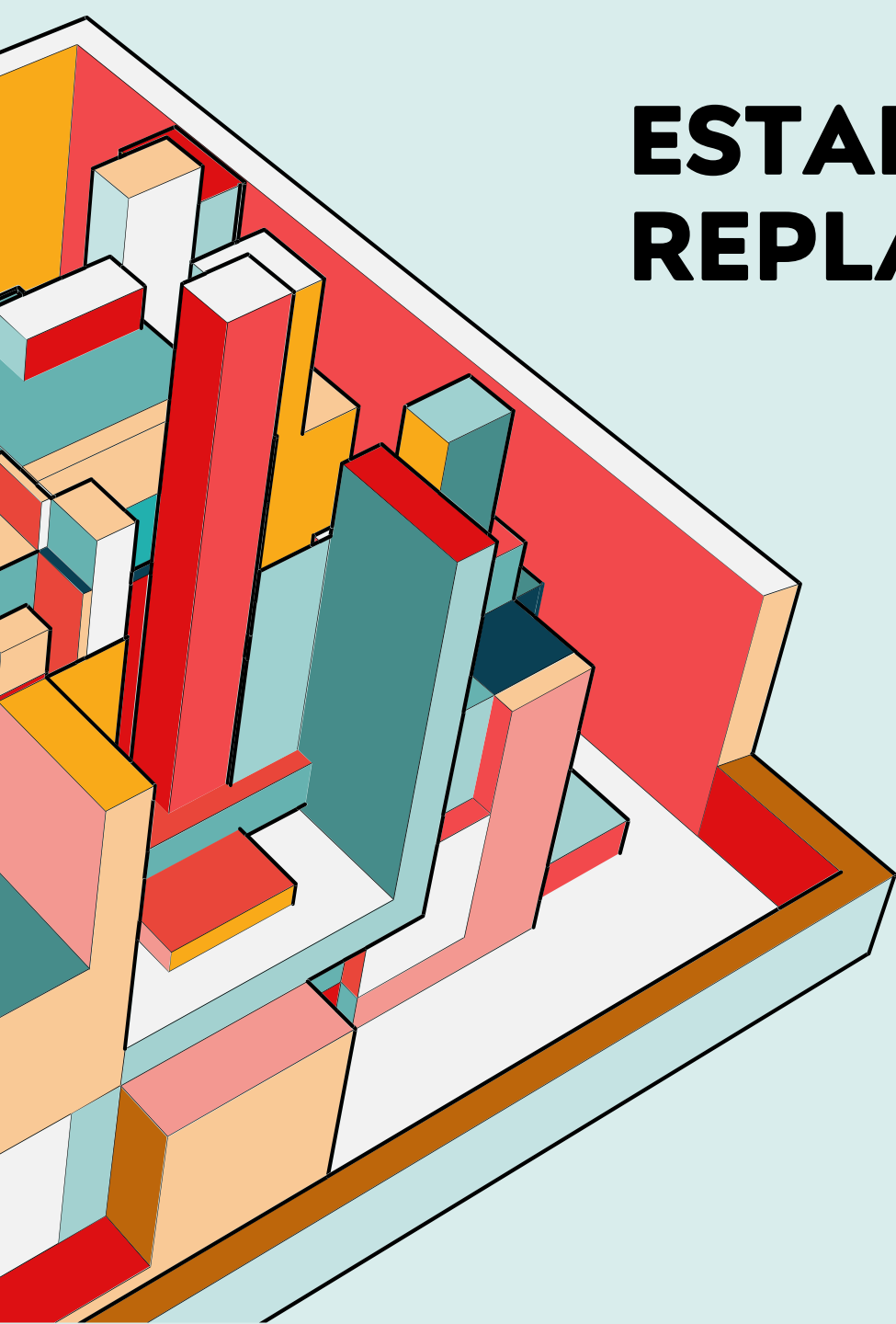


# HOW TO DEVELOP A MULTI-YEAR PLAN

Develop a comprehensive financial plan including items such as:

- Develop a viable plan for financing the project until completion within expected resource constraints
- Analyze cash flow requirements (i.e. grant reimbursement vs cash & timing of outflow)
  - **Critical for small entities & those with small reserves**
- Financing plans should align with project requirements while maintaining financial health
- Project expected revenue and expenditure trends
- Compliance with established financial policies,
- Source & use of debt service
- Evaluate affordability & impact on debt ratios, taxes, or fees
- Impact of federal requirements & policies

# **ESTABLISHING A CIP AND REPLACEMENT RESERVE POLICY**





## DEVELOP & ADOPT THE PLAN

- Involve governing body, Attorney, Elected Auditor, Manager/Administrator, and Finance Director in every step of the process
- Develop a CIP and Capital Reserve Policy
- Governing body adopts the policy
- Designate a lead department or CIP Committee to manage the annual CIP process



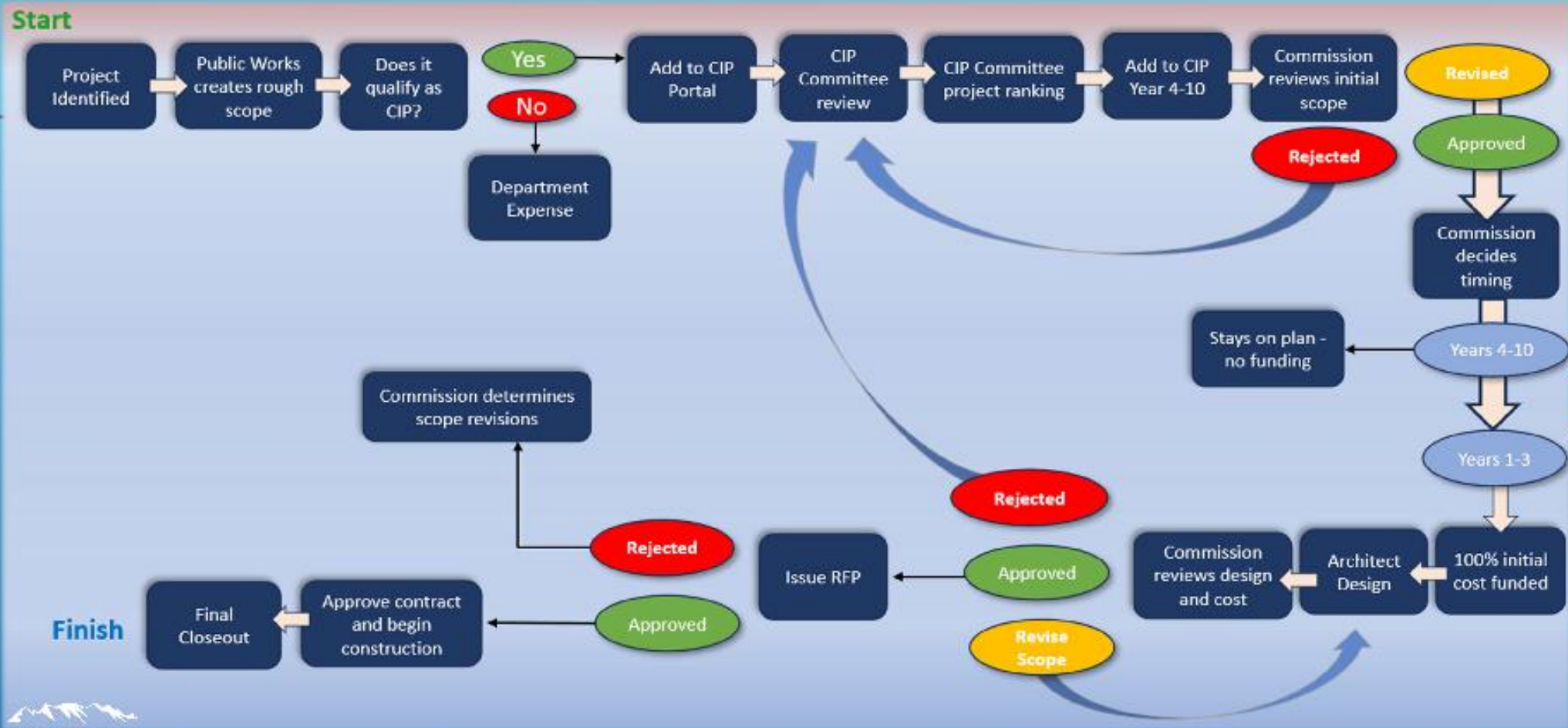
# DEVELOP & COMMUNICATE THE CIP PROCESS

- Develop the CIP process
  - Establish a CIP calendar with important dates for submission, review, and milestones
  - Establish project submittal requirements
  - Provide the method for project submittal
  - Establish a prioritization and decision-making matrix for evaluating submittals
  - Determine method and format to communicate CIP to governing body (don't always need a fancy software but it can help)
- Document the process
- Create a flow chart for the process
- Clearly communicate process to all stakeholders

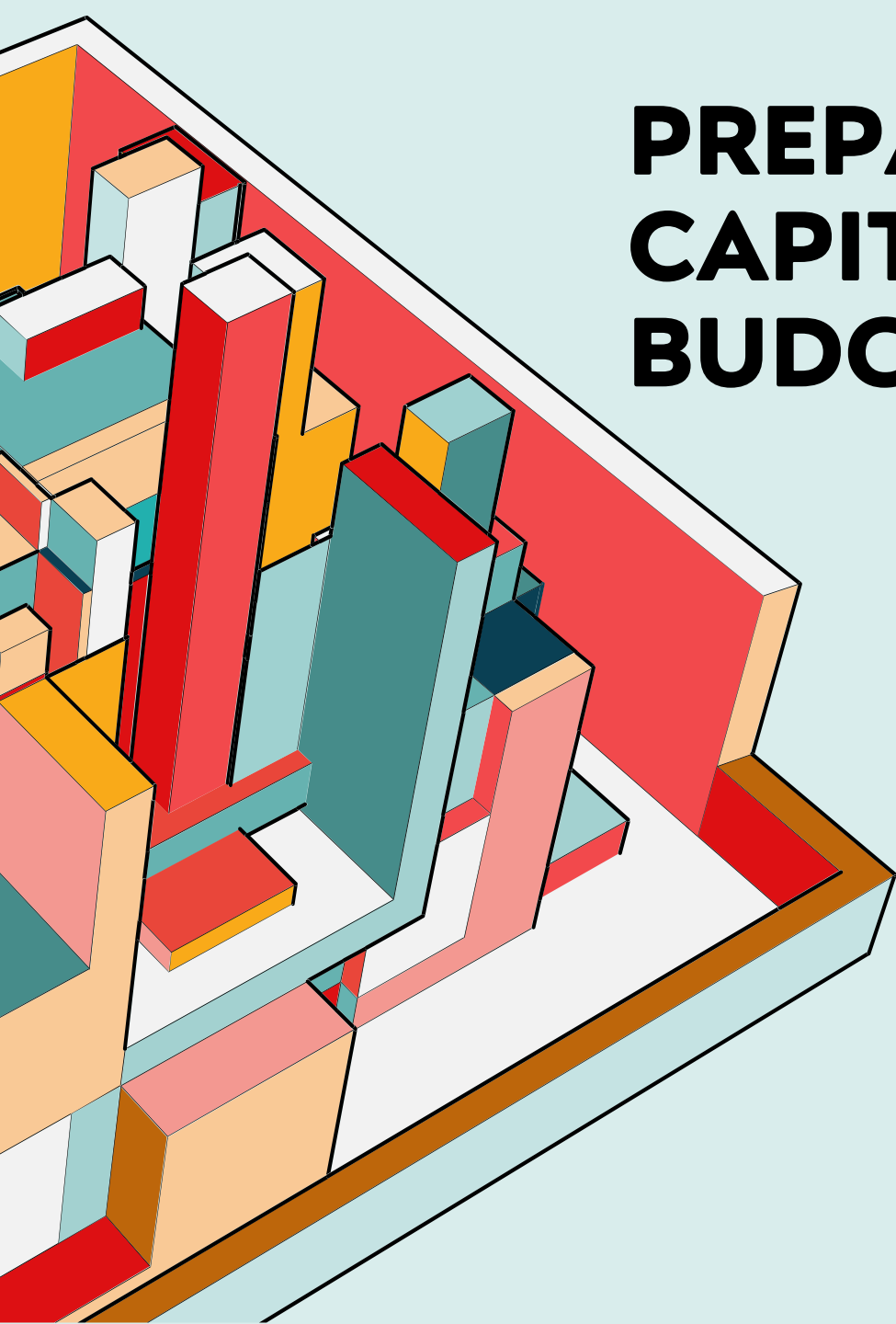
# DEVELOP A CLEAR ROAD MAP

CIP Policy Exhibit 1

## CAPITAL IMPROVEMENT PLAN PROCESS



# **PREPARE AND COMMUNICATE A CAPITAL PLAN AND CAPITAL BUDGET**






# PREPARING AND ADOPTING THE CIP

- Choose a method to show the projects, timelines, and financing
  - Excel & Word
  - Capital budget software
- Determine what will be presented
  - Schedules, maps, pictures
  - Costs
  - Timelines
  - Performance indicators & project milestones
- Conduct hearings, workshops, public outreach
- Adopt an annual CIP plan
  - Include proposed short-term (budgeted) and long-term projects (identified)
  - Adopt the CIP budget for all projects in the CIP
    - Adopt budget and funding for projects in the short-term plan
    - Adopt budget for projects in the long-term plan
    - Adopt next-year budget to be included in the operating budget to be adopted by elected board
- Include 1<sup>st</sup> year of CIP in the agency's operating budget

# LESSONS LEARNED, FINAL TIPS & TAKEAWAYS

- A CIP must be sustainable
- Collaboration and transparency are critical, **provide multiple opportunities for governing board input**
- Establish a clear and sound policy
- Develop and communicate clear procedures and processes
- Review projects and projected costs at least annually
- Beware of “puppies” -  things that will continue to have escalating costs and upkeep as they mature
- Free isn't always good - balance grants with funding ability and cash reserves
- Keep in touch with community priorities
- Sunk costs don't matter

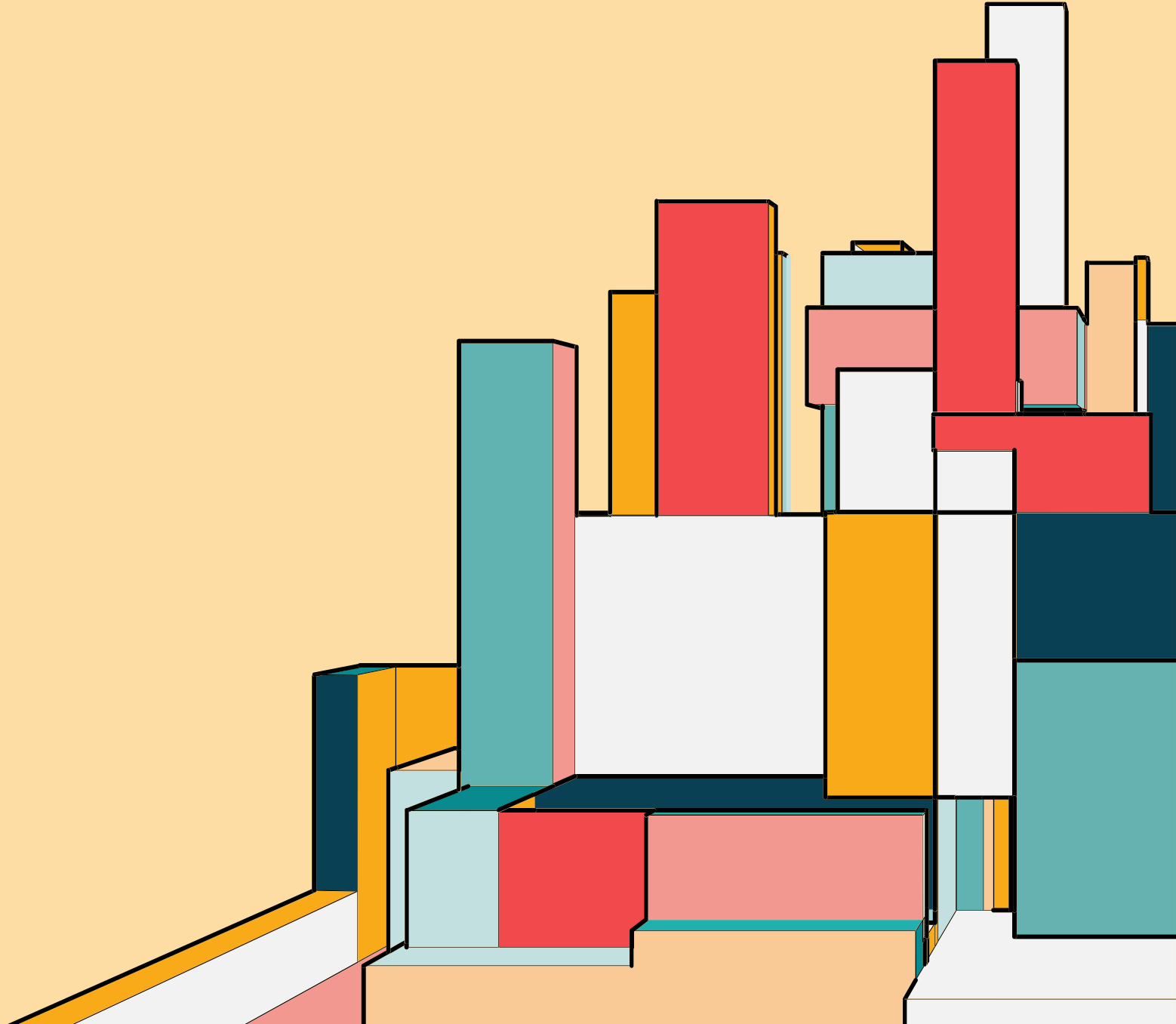


# THANK YOU

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# ADDITIONAL RESOURCES FROM GFOA

- **Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies** - <https://www.gfoa.org/materials/strategies-for-establishing-capital-asset-renewal-and>
- **Capital Budget Presentation** - <https://www.gfoa.org/materials/capital-budget-presentation>
- **Role of the Finance Director in Capital Asset Management** - <https://www.gfoa.org/materials/role-of-the-finance-director-in-capital-asset-management>
- **Multi-Year Capital Planning** - <https://www.gfoa.org/materials/multi-year-capital-planning>
- **Communicating Capital Improvement Strategies** - <https://www.gfoa.org/materials/communicating-capital-improvement-strategies>
- **Life Cycle Costing: Promoting Long-Term Thinking and Equitable Distribution of Resources in Asset Maintenance** - <https://www.gfoa.org/materials/life-cycle-costing-fff>

