STUCK IN A FINANCIAL RUT?

Get Moving in the RIGHT DIRECTION with a CAPITAL IMPROVEMENT PLAN

BY **JILL ERCOLINO** / MANAGING EDITOR

EVERY TOWNSHIP HAS THE SAME CONCERN: Too many needs and not enough money. There is, however, a way — a calculated way — to get out of that financial rut. It's called capital improvement planning. Using this approach, townships are preparing and saving now so that when it's time to buy or replace the costly assets that make a township tick — buildings, technology, infrastructure, and equipment — they have a strategy and, more important, the money to pay for it.

BIG-PICTURE BUDGETING

Every month, officials in Antis Township, Blair County, gather around a table, papers in hand and documents spread out in front of them. As they pore over the data, the figures, and the requests from this department and that, their sole purpose is to look at the big picture: the future.

Welcome to a typical meeting of the capital improvement committee.

Three of the township's five supervisors are appointed to the group, which discusses what the township needs and how to get it. This isn't about buying pens and paper clips for the office, though; the committee has bigger aspirations than that, like replacing aging bridges and equipment.

Kenneth Hostler, who chairs the committee and the board of supervisors, says the group was formed three years ago because elected officials wanted to quit being reactive and start being proactive with taxpayers' dollars. Eventually, a forward-thinking plan emerged out of that desire for some direction.

Today, the committee oversees a $2.5 million fund that provides the vision and seed money for a wish list of major projects and purchases over the next several years.

"Before, we would just look at each other and ask, 'Can we afford this?'" the supervisor says. "Now, there's no question. It's all there in black and white. There are no hiccups because we know we have the money for what we want to do."

Where there's a will, there's a way

The official term for what Antis Township and others are doing is capital improvement planning and budgeting. A long-range, money-management approach, the concept started in the business world and has since taken root in the public sector, where the needs are great — and often expensive — and cash is tight.

“There is **this temptation** in local government **to think in the short term,** but we can’t keep kicking the can down the road. **We have to look forward.** It’s the responsible thing to do.”

The thinking is that township supervisors don’t have to be weighed down by the fact that needs often outpace dollars. In fact, where there’s a will, there’s a way — a calculated way — to get things accomplished.

Therefore, township supervisors are making the strategic decision to prepare and save now so that when it’s time to add, fix, or replace the many costly assets that make a township tick — buildings, equipment, technology, infrastructure — they have a plan of action and, more important, the money to pay for it.

In Upper Providence Township, Montgomery County, for instance, the supervisors are worried about the future of their volunteer fire company. Already, the board has had to hire a small crew of paid firefighters to cover daytime emergencies when volunteers are unable to leave work.

Seeing the handwriting on the wall — volunteerism has declined here like everywhere else — the supervisors have started setting aside funding for a building to house a paid department and to hire additional staff when and if that becomes necessary.

Township Finance Director Richard Livergood says this project is part of a systematic effort to keep pace with the needs of a growing community. Other capital expenditures, financed primarily through reserves, have included a new police station and recreation center.

“We realized a long time ago that we’ve got to plan,” he says.

Meanwhile, in West Lampeter Township, Lancaster County, the supervisors have $65,000 in reserve, which is earmarked for the construction of a new fuel depot this year. And in West Bradford Township, Chester County, the supervisors are faithfully allocating $320,000 a year to cover anticipated repairs to the sanitary sewer system.

The cornerstones of all this planning and saving are a multi-year capital improvement plan (CIP) — usually spanning three to five years — a corresponding budget, and policies that establish roles, responsibilities, and procedures.

Separate from a township’s annual operating budget, the CIP works alongside the general fund and other planning tools, such as a municipality’s comprehensive plan, to coordinate the timing and financing of capital improvements, defined as major, nonrecurring expenditures. *(Think big-ticket items like new municipal buildings, dump trucks, and bridges.)*

Developed after a municipality has done a detailed inventory of its assets and calculated their life expectancy, a CIP includes a description of the proposed projects ranked by priority, an estimate of each project’s costs and potential financing sources, including user fees, grants, and loans, and an annual funding schedule.

Meant to be a fluid, evolving document, the CIP should be reviewed and updated every year to reflect your township’s changing needs and priorities, experts say.

“Municipalities have to plan ahead for large projects and purchases,” says Dr. Jane Beckett-Camarata of Penn State University, who specializes in public administration and financial management, “because if they don’t, they’re always going to be in crisis mode, putting out fires as they go, rather than taking a rational, organized approach.” ➤

A long-range, money-management approach, capital improvement planning got its start in the business world and has since taken root in the public sector, where the needs are great — and often expensive — and cash is tight.

BIG-PICTURE BUDGETING

Time, energy, and discipline

Sounds like a lot of work, though, doesn't it? Well, you're right; it is.

"You don't just wake up one day and say you're going to do a capital budget," says William Rivenbark, co-author of *Capital Budgeting and Finance: A Guide for Local Governments*. "It takes time and energy."

West Bradford Township Manager Tommy Ryan, who teaches budgeting workshops at the Annual PSATS Conference, would add another requirement to that list: discipline.

Why? Because capital improvement planning requires townships to buckle down and get serious about their finances, he says. And tough, unpopular decisions may be necessary to implement your municipality's goals. Ryan calls it "honest budgeting" and uses his township's sewer reserve fund as an example.

To build revenues for future repairs and upgrades, the supervisors are requiring sewer customers to pay slightly more for the service each quarter. This year, for example, sewer rates increased by nearly 18 percent — or about $14 more per month — primarily to support anticipated costs.

Some grumbling and angry phone calls followed the decision to raise rates, but Ryan says most residents understand the supervisors' reasoning.

"We could trim those rates and make do with a budget that meets our immediate needs," the manager says, "but that's not how we operate here. We've chosen to prepare an 'honest budget,' and that's one that builds reserves today for the needs of tomorrow."

Ryan concedes that asking current residents to help pay for a purchase they may never benefit from may make some township officials queasy. However, he says, that's where discipline comes into play. Local leaders must have the fortitude to do what it takes to prepare for the expected and unexpected.

"There is this temptation in local government to think in the short term, but we can't keep kicking the can down the road," Ryan says. "We have to look forward. It's the responsible thing to do."

Beckett-Camarata agrees: "The capital improvement plan is the time to take a hard look at where the money is going to come from. Townships really have to be hard-nosed when formulating their strategy."

Capital improvement planning: Who needs it?

Really, though, is capital planning and budgeting for every township?

Many experts and at least one professional organization, the Government Finance Officers Association, believe it is.

In fact, here's what the GFOA has to say about it: "Capital facilities and infrastructure are important legacies that serve current and future generations. It is extremely difficult for governments to address the current and long-term needs of their constituents without a sound multi-year capital plan."

Marita Kelley, a local government policy manager with the Governor's Center for Local Government Services, sums up the need for capital planning this way: "You have to have a strategy — a mechanism — or else you're just shooting from the hip."

Of course, experts say, these long-range strategies and their complexity will vary from township to township.

Larger municipalities, like Upper Providence and West Bradford town-

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ships, will likely have several capital improvement plans and reserve accounts, covering such assets as buildings, stormwater and wastewater systems, and equipment. Smaller townships, on the other hand, may only have a one-page spreadsheet that maps out their plan and budget for a major purchase, such as a bulldozer or a new garage.

"There are a lot of misconceptions about capital planning," Rivenbark says. "People think it's a burden or that they'll be spending money on things they don't need.

"It helps, however, if you look at it as a tool for replacement and maintenance," he notes. "You're investing in your municipality like you would invest in your home."

"A well-thought-out capital plan makes for really good management," Beckett-Camarata adds.

A sense of security

Just ask Cindy Miller, a supervisor for Lehigh Township in Northampton County, who believes so strongly in capital planning that she worked with the staff to inventory the township's assets, a project that had to start from scratch, and develop a 10-year plan.

The hardest part, though, was convincing her fellow supervisors that a capital improvement plan would help them understand what the township has and what it needs, Miller says. Turns out, road improvements, new equipment, and a maintenance building are at the top of the list.

"There was some fear of change," she says, "and I would hear things like 'Why are we doing this when we could be doing something else?' But if you don't have your money and finances in order, you don't have anything. You can't run the community."

Now, instead of simply spending, the township is spending with a purpose.

"This process gave all of us a better understanding of our finances," Miller says. "We know what's ahead and what we'll need. That's something we never had before, but now we're able to set aside money each year for projects."

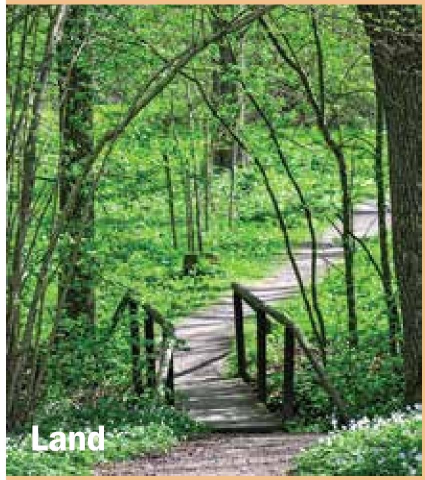
Experts say that beyond giving a community a sense of financial security, capital improvement planning has several other benefits, including:

- ensuring the timely repair and replacement of aging infrastructure;
- identifying the most economical means of financing projects;
- giving the public an opportunity to get involved in the budget and financing process;
- eliminating unanticipated, poorly planned, or unnecessary capital expenditures along with sharp increases in taxes, user fees, and debt to cover unexpected projects or purchases; and
- balancing public improvements with the township's financial resources.

Still, regardless of the benefits, capital improvement plans and budgets can be a hard sell. And it's not just a matter of convincing fellow supervisors that the effort is necessary. The public has to see the value, too, especially if you'll need to impose incremental tax or fee increases to cover a project or purchase that may not happen for another decade.

"With something like this, you have to manage people's expectations," Beckett-Camarata says. "You have to tell them, 'Here's what we're looking at doing, here's what we need, and here's what it's going to cost.' ➤


Equipment


Land


Buildings

What is a capital improvement?

MANY MUNICIPALITIES USE dollar amounts to define capital improvements. For example, a small community may set minimum project costs at $1,000 or $2,500, while larger communities may set the threshold at $10,000 or $25,000. Expenses below this level are considered "operational" and would appear in the annual budget, not the capital budget.

In addition, the Government Finance Officers Association recommends a useful service life of at least three to five years to qualify as a capital improvement.

Common categories of capital expenditures include:

- major equipment, such as playground equipment, snow plows, and computers;
- land for public purposes, such as a park, police station, or community center;
- construction, expansion, or major renovation of a public building, facility, or infrastructure; and
- related planning, engineering, design, appraisal, and feasibility costs.

BIG-PICTURE BUDGETING

"By educating the public and laying the groundwork this way, you'll help residents see the benefits."

Developing your plan

OK, you've considered the pros and cons and now you're convinced: A capital improvement plan and budget are exactly what your township needs.

So what do you do next and where can you find help?

Marita Kelley says townships can arrange technical assistance by calling her at the Governor's Center for Local Government Services, (888) 2-CENTER (223-6837). Kelley and the center's staff will connect local officials with field representatives, who will meet with them, review the township's needs, and offer recommendations.

Another good resource is the Gov-

Where to get a helping hand with your capital plan

Township officials don't have to venture into the capital improvement planning process on their own. Free help and information are available from the following sources:

• **The Governor's Center for Local Government Services —** Call Marita Kelley at the Governor's Center for Local Government Services, (888) 2-CENTER (223-6837), to arrange technical assistance for your township. Kelley and the center's staff will connect local officials with field representatives, who will meet with them, review the township's needs, and offer recommendations.

• **The Government Finance Officers Association —** Check out the GFOA's website, **www.gfoa.org,** where you'll find fact sheets outlining a number of capital planning best practices. *(Go to the "Best Practice" section, choose "CIP/Economic Development," and click on "Capital Planning" on the right side of the page.)*

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For example, the GFOA recommends that townships follow a four-step process to ensure that they develop a comprehensive capital improvement plan.

Step 1: Identify your needs. Using information, including development projections, plans *(strategic, comprehensive, facility master, and regional)*, and input from citizens, township supervisors should identify current and future needs that require capital infrastructure or equipment. In this process, pay attention to the following:

• capital assets that require repair, maintenance, or replacement that, if not addressed, will result in higher costs down the road;

• infrastructure improvements that would support new development or redevelopment;

• projects with revenue-generating potential or that support economic development; and

• changes in policy or community needs.

Step 2: Determine your costs. Total project costs should be determined when developing the multi-year capital plan. To ensure the accuracy of your financial projections, you should do the following:

• define the scope and timing of a project early in the planning process;

• use the most appropriate approaches, including outside assistance, when estimating project costs and potential revenues;

• adjust cost projections for inflation for projects programmed beyond the first year;

• quantify the ongoing operating costs for each project and identify funding sources for those costs; and ➤

What are the benefits of a capital improvement plan?

Experts say that beyond giving a community a sense of financial security, capital improvement planning has several other benefits, including:

• ensuring the timely repair and replacement of aging infrastructure;

• identifying the most economical means of financing projects;

• giving the public an opportunity to get involved in the budget and financing process;

• eliminating unanticipated, poorly planned, or unnecessary capital expenditures along with sharp increases in taxes, user fees, and debt to cover unexpected projects or purchases; and

• balancing public improvements with the township's financial resources.

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• estimate all major components required for a project, including land acquisitions, design, construction, and contingency and post-construction costs.

Step 3: Prioritize your capital requests. Townships are continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing projects and requests is a critical step in the capital planning process. When evaluating potential projects, the board of supervisors should:

• consider how the project relates to the township's financial and governing policies, plans, and studies;

• encourage input and participation from major stakeholders and the general public;

• follow legal requirements and/or mandates;

• anticipate the impact of a proposed project on your operating budget;

• apply analytical techniques, as appropriate, for evaluating potential projects, such as net current value, pay-back period, cost-benefit analysis, life cycle costing, and cash flow modeling;

• re-evaluate projects approved in previous multi-year capital plans; and

• use a rating system to facilitate decision-making.

Step 4: Develop financing strategies. Your township's financing strategies should align with the project's requirements while sustaining the community's financial health. When attempting to figure out how to pay for upcoming projects, townships should:

• anticipate expected revenue and expenditure trends;

• prepare cash flow projections;

• consider and estimate funding that may be available through such sources as fees and loans;

• ensure the reliability and stability of your identified funding sources; and

• evaluate the affordability of your township's financing strategy, including the impact on debt ratios, taxpayers, ratepayers, and others.

Final words of wisdom

Back in Antis Township, where this story started, supervisor Ken Hostler has very few worries about the municipality's future.

"There's no question that the capital planning we've been doing is a good thing," he says. "We're trying to look as far down the road as possible and then we're going out and getting things done."

The feeling is much the same in West Lampeter Township, Lancaster County, where Dee Dee McGuire appreciates the capital plan that was turned over to her when she was appointed manager six years ago.

"I can't imagine why you wouldn't have one," she says, likening the document to a financial road map that points officials down an agreed-to path. "It's a document that I can look at and see what we have planned because it's all in there. I know where we need to go and how we're going to get there." ✦

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