



Budgeting and Capital Facilities Plans

IACC
Wenatchee, WA

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Objectives

- What are capital projects – how is budgeting for capital projects different
- Discuss GMA theory to the CFP
- Understand Policy Issues and Options
- Explore Practical Ways to Implement your CFP
- Discuss Data Challenges
- Explore Funding / Financing Options

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Terms

- Infrastructure
- Capital Facilities – capitalizable (usually)
- CIS – capital investment strategy (also known as “Vision Blueprint”)
- LOS – level of service – a change lever
- Resources / Revenues –
- Debt – bonds and loans
 - Councilmanic vs. voted
 - Must be repaid!

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Capital Facilities (projects)

- A “project” - characteristics
 - A dollar threshold
 - \$50,000 = capital project (road, building)
 - \$5,000 = capital expenditure (vehicle, furniture)
 - Life of asset
 - At least one-year (often the threshold is more - e.g. 3 years)
 - Part of a system
 - Street lights, fiber network
 - Capitalized on “the books” as an asset
- Routine capital – (e.g. replacing cars)

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CFP / GMA Premise

- If we build it – they will come
 - Corollary – if they come, we will have to build it
- Same premise in good budget practice
 - Strategic plan sets broad goals
 - Interim goals point the way toward broad goals
 - Pay for the things that maximize progress on goals
 - Monitor, correct and repeat

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Capital Facilities Plan

- A 6 year plan that:
 - Includes a list of capital facilities and contemplated capital projects
 - Identifies timing (usually by year)
 - Identifies funding (where known, otherwise a “best guess”)
 - The concept of resource constrained plans (not all projects but funded)
 - Is updated each year (or so – e.g. biennial budgets)
 - Is the basis for capital investment decisions by council
 - Intersects with other political decisions – a swimming pool may not be required under concurrency – but they are getting built

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Financial Plan

See budget process summary:
www.redmond.gov/bp
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City of Redmond's financial plan

Relationship of the financial planning elements

There is an intentional logic in the design of the City's financial planning strategy. It is represented in the illustration below and referred to often in this budget.

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Long Range Financial Strategy

- Council adopted policy document
 - Scope is proactive management of fiscal issues
 - From a policy perspective
 - Includes parameters for decision making:
 - Price of Government / Budget by Priorities
 - Capital Investment Strategy – 20+ year plan
 - Capital Facilities Plan – 6 years
 - Biennial Budget – 2 years

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CFP Theory in GMA

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Basic Requirements (of GMA)

- The Comprehensive Plan must include a CFP
 - A Capital Facilities Plan (CFP) must:
 - Include an inventory of existing capital facilities
 - Forecast the future needs for capital facilities in context of land use plan
 - Propose the likely locations for necessary additional facilities
 - Cover a period of at least six years
 - Associate funding with capital needs as necessary to support projected growth

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Concurrency

- GMA says:
 - The comprehensive plan permitted growth must be supported by needed facilities
 - The provision of the needed facilities should be “concurrent” with the growth
 - They should occur at the same time
 - There is a “window” to provide concurrent facilities

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How to - ideas

- Integrate your capital budgeting into the requirements for a CFP
 - Some cities have a CFP and “operating capital”
 - Difference is \$ threshold, or life of the asset, or related to a required element of CFP
 - The CFP theory found in GMA is a good approach for capital project planning
 - Focuses objectively on identified need - not wish list
 - Political priorities need to find a home as well

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How to - ideas

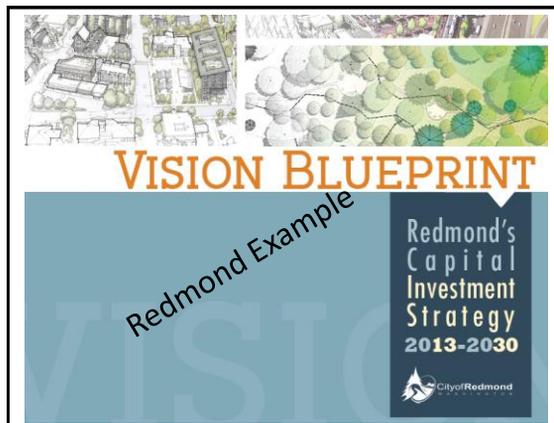
- Follow traditional budget building approach:
 - Obtain policy parameters first
 - Comprehensive Plan will provide much policy guidance - therefore it is important to track this
 - Include other goals of the city / council
 - Maintain an inventory of existing facilities including level of service capacities
 - Level of Service (LOS) is an important decision making criteria
 - LOS standards should also provide policy guidance

How to - ideas

- Set LOS standards
 - Mandatory for transportation (utilities also)
 - Can include many others (parks, law enforcement, library, fire protection)
 - Typically uses population to drive facility needs - although not always the most logical
 - Use facility requirements to drive operating budget needs - more facilities = higher costs

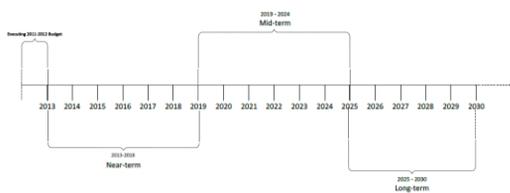
How to - ideas

- Stratify your LOS standards
 - Required concurrency
 - Transportation, water, sewer
 - Other priority services, but maybe not required concurrency standard
 - Police, fire, surface water
 - Other highly desired standards (parks, libraries)
 - Other standards for planning purposes (administrative office space)

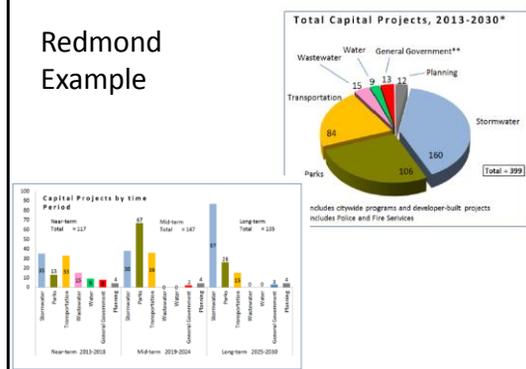


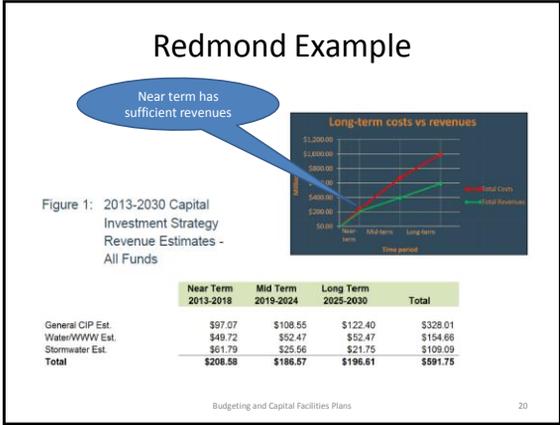
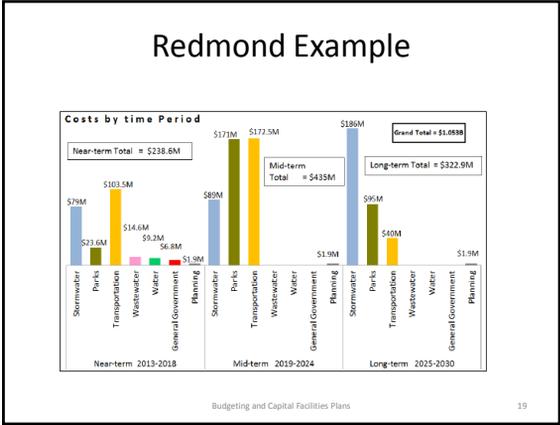
Redmond Example

Figure 5: Capital Investment Strategy timeline



Redmond Example



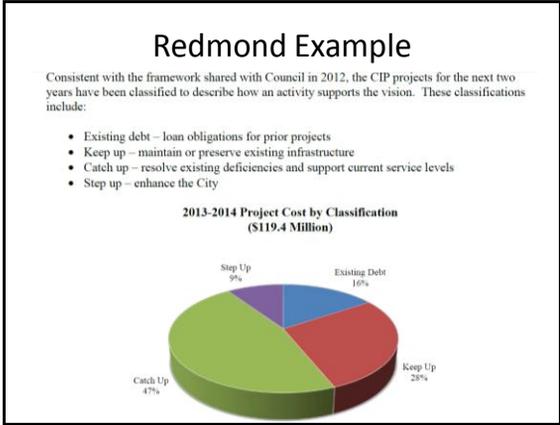
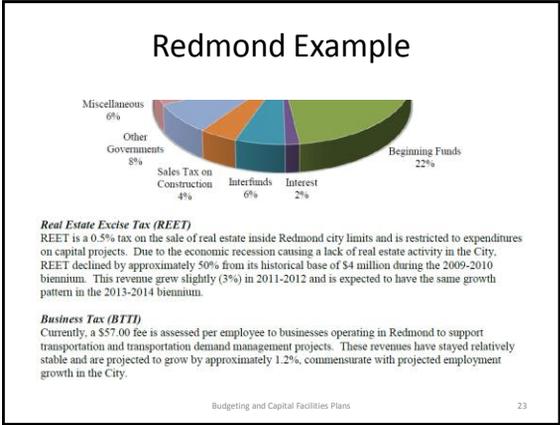
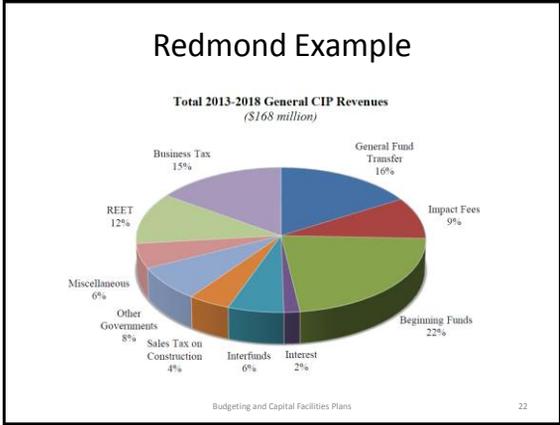


Redmond Example (Introduction to CFP)

The City will continue to direct its limited resources, as well as federal and state funding requests, to those areas which are key to its future. The City of Redmond CIP is broken down into four sections – Downtown, Overlake, Redmond Neighborhoods and Citywide Projects which outline the long range plan for addressing capital needs in specific geographic areas of the City. The purposes and goals of the Vision Blueprint are to:

- Implement the Comprehensive Plan vision for Downtown, Overlake and Redmond Neighborhoods;
- Identify key strategic actions needed to carry out the vision;
- Summarize planned capital facility improvements sequencing and costs for the next 18 year period;
- Guide future decisions about priority infrastructure projects and programs in each of the CIP areas;
- Address deficiencies such as level of service requirements;
- Address maintenance/repair and upgrades as needed

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How to - ideas

- Financing the Plan
 - Projects identified as needed to support LOS standards must have funding identified
 - Therefore, CFP is not an accurate statement of **total** capital needs
 - Not all projects able to be funded with “ready” resources

How to - ideas

Illustration - summary

Project	Cost	Funding Source	Location	LOS Trigger
Road A	385,000	301	R6	0
Water B	297,000	401	E2	1
Sewer C	320,000	401	E2	2
Road D	292,500	note 1	E8	5
Park E	64,000	101	L4	N/A

note 1: \$100,000 from cip, balance unknown

How to - ideas

Illustration - sorted by project year

Project	2013	2014	2015	2016	2017	2018
Road A	385					
Water B		297	320			
Sewer C	292.5					
Road D						293
Park E		64				
Total	677.5	361	320	0	0	293

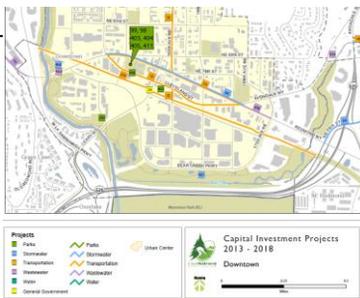
How to - ideas

Illustration - by funding source

Project	101	CIP	301	401	Unknown
Road A			385		
Water B				297	
Sewer C				320	
Road D		100			193
Park E	64				
Begin Cash	125	150	392	785	
New Balance	61	50	7	168	-193

How to - ideas

Illustration – by location nature



How to - ideas

- Structure your decision making process
 - Establish criteria for making decisions
 - LOS impacts
 - Funding - simplify your funding strategies
 - Funding - including operating budget impacts
 - Integrate other processes
 - 6 year street plan
 - Parks master plan
 - Information Services plan

How to - ideas

- Establish a decision making process:
 - Establish a prioritization
 - Some have special committees, I would recommend a staff review.
 - Hold public meetings
 - Create a capital plan of both funded and unfunded projects
 - Allocate available dollars
 - Seek additional dollars

Integration into Budget Process

- Similarities covered in previous slides
- Differences:
 - Part of the comprehensive plan
 - Amended annually (or every other year)
 - Could be “lost” (overlooked) in the plan update
 - Based on LOS
 - Drivers are LOS issues, not unrelated priorities
 - Understand and use LOS to design plan

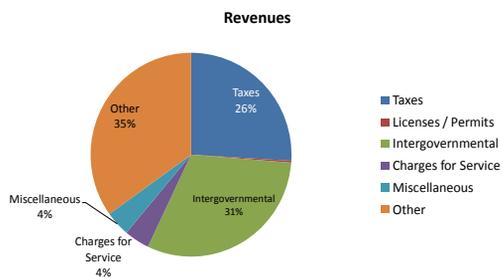
Integration into Budget Process

- Differences continued
 - Can affect grants, loans and state money
 - Must include any potential project to preclude loss of state funds
 - Potentially dilutes effectiveness of the CFP as a budget tool
 - Will have operating budget impacts
 - Must plan for operating budget impacts such as debt service, loan repayments, operating costs of new facilities...

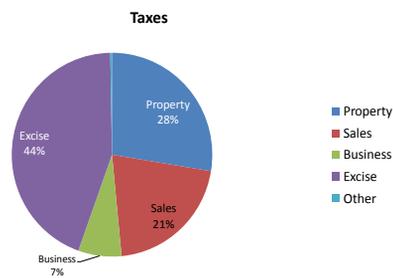
Explore Funding / Financing Options

- Funding Options
 - Create a list
 - Align it with applicable uses (i.e. gas tax, REET)
- Financing
 - Grants vs Loans vs Leases vs LIDs
 - Debt policies (when using debt makes sense)
 - Debt limits (legal and financial)
 - Accessing debt markets

Capital Revenues



Capital Revenues



Risks / Challenges

- CFP can get lost in budget process
- CFP is different and not easy to track
 - What projects are already approved / underway
 - What projects are really being proposed
 - What projects would be nice to have if we had money
- Different elements (transportation, parks, etc.)
- Tracking status of existing projects
(on time, cost overruns, changes in resource allocations)
- Politics (communication)

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GASB Statement 54

(a topic your accountant will be thinking about)

- GASB 54 Clarifies:
 - Proper use of accounting funds (including capital funds)
 - Proper classification of fund balances
- Limits use of capital funds to:
 - Financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- Effective in 2011

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