

CAPITAL IMPROVEMENTS PROGRAM

Capital Improvements Program - Budgeting Device

Along with land use control ordinances, a formal capital improvements program (CIP) is a primary tool for the implementation of a comprehensive plan. Although not legally binding, the CIP includes and establishes a time frame for the long-term capital expenditures planned by a municipality. A capital expenditure may be defined as an outlay of municipal funds to purchase, improve or construct a piece of equipment or a facility that is expected to provide service over a long period of time. Typically, a capital expenditure is relatively large when compared to normal operating expenditures included in the budget. Examples include, the construction of or major improvements to buildings, land acquisition, recreation facilities, highway improvements, and vehicle purchases. In short, the CIP is a budgeting device to guide the allocation of non-operating funds, and to avoid the unexpected mid-year expenditure of large sums.

Informal v. Formal

Many local officials think in terms of a capital improvements program in the more informal terms of simply setting aside funds for anticipated large expenditures. Township Supervisors know what they need, how much it costs, and if the municipality can afford it. While this is certainly one technique in planning for community facilities and services, a more formal approach with an adopted, written CIP has certain advantages. *The Practice of Local Government Planning*, published by the International City Management Association, identifies the following benefits of an effective CIP:

1. Ensures that plans for community facilities are accomplished.
2. Provides an adopted plan that continues even if local officials change.

<u>SAMPLE FUND PROJECTION AND CAPITAL BUDGET</u>						
GENERAL FUND PROJECTION	YEAR					
	2007	2008	2009	2010	2011	2012
Projected general fund revenue	\$200,000	\$210,000	\$225,000	\$250,000	\$260,000	\$275,000
Projected general fund expenditures	\$160,000	\$168,000	\$175,000	\$205,000	\$215,000	\$250,000
Projected Net Funds Available	\$40,000	\$42,000	\$50,000	\$45,000	\$45,000	\$25,000
CAPITAL BUDGET						
Township Park - land acquisition, engineering, construction, and debt service. \$300,000 over 20 years beginning in 2006	\$0	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Road Improvement - right-of-way acquisition, engineering, construction, and debt service. \$200,000 over 10 years beginning in 2008.	\$0	\$0	\$0	\$20,000	\$20,000	\$20,000
Total New Capital Expenditures	\$0	\$15,000	\$15,000	\$35,000	\$35,000	\$35,000
Net New Financing Required* <u>Equals</u> Total New Capital Expenditures <u>Minus</u> Projected Net Funds Available	(\$40,000)	(\$27,000)	(\$35,000)	(\$10,000)	(\$10,000)	\$10,000
* Parentheses indicate available funds exceed new capital expenditures.						

3. Allows improvement proposals to be evaluated against established policies and the comprehensive plan.
4. Enables the scheduling of improvements requiring more than one year to construct.
5. Provides the opportunity for the purchase of needed land before costs increase.
6. Encourages long range financial planning and management.
7. Provides for sensible scheduling of improvements.
8. Offers the opportunity for public participation in decision making.
9. Leads to improved overall municipal management.

Prioritization of Municipal Needs

In developing a CIP a municipality must prioritize its capital needs based on the planning process findings, and the CIP establishes commitment for public investment in accord with the specific goals and objectives included in the comprehensive plan. *The Practice of Local Government Planning* suggests one method is for a community to divide its needs into three categories: essential, desirable and deferrable. In prioritizing needs, municipal officials must also consider the revenue side of the equation. Needed capital expenditure can only be made by identifying anticipated revenues in terms of other operating expenditures. In other words, the costs of scheduled capital expenditures must be evaluated in terms of acquiring the necessary revenue to fund the improvements. In any case, the CIP is, by necessity, an on-going process which must be reevaluated annually, with a planning period of six years being typical.

A variety of CIP techniques are available and the process can be very complex in larger municipalities. A more simplified approach is certainly more appropriate for the ECWC three Townships where capital needs are more manageable. A sample is provided in the *Sample Fund Projection and Capital Budget* on the previous page. In any case, the costs of operation and maintenance of new facilities and equipment must also be considered for inclusion in annual budgets. The principal anticipated direct capital expenditures for Damascus Township, Manchester

Township and Oregon Township identified by this *Plan* are outlined below in terms of essential, desirable, and deferrable to provide the foundation for formal capital improvements programming.

DAMASCUS TOWNSHIP NEEDS -- EQUIPMENT, BUILDINGS AND OTHER FACILITIES
<p>Essential</p> <ul style="list-style-type: none"> • replace older trucks and equipment <p>Desirable</p> <ul style="list-style-type: none"> • improve park, tennis/basketball court, playground equipment • increase office, meeting and maintenance space <p>Deferrable</p> <ul style="list-style-type: none"> • increase community center space

MANCHESTER TOWNSHIP NEEDS -- EQUIPMENT, BUILDINGS AND OTHER FACILITIES
<p>Essential</p> <ul style="list-style-type: none"> • replace older trucks and equipment <p>Desirable</p> <ul style="list-style-type: none"> • Township Building addition - filing, storage • heated addition to maintenance building <p>Deferrable</p> <ul style="list-style-type: none"> • complete upgrade of existing maintenance building

OREGON TOWNSHIP NEEDS -- EQUIPMENT, BUILDINGS AND OTHER FACILITIES
<p>Essential</p> <ul style="list-style-type: none"> • acquire loader <p>Desirable</p> <ul style="list-style-type: none"> • acquire land for building and salt/cinder shed <p>Deferrable</p> <ul style="list-style-type: none"> • construct building and salt/cinder shed