

CAPITAL IMPROVEMENT PLANS

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INTRODUCTION

The capital improvement plan (CIP) is a vital fiscal and planning tool that identifies needed capital improvement projects and costs; prioritizes and provides a schedule for the projects; and identifies funding sources and financing options. It is a plan of action for long-term infrastructure development that promotes financial responsibility, drives economic growth, and engages the community.

As discussed in the Budgeting and Accounting Chapter, the annual operating budget describes costs incurred in normal county operations and the departments responsible for delivering services that benefit citizens in the current fiscal year. These operating costs are funded from current-year revenues, meeting the requirements of a balanced budget.

Capital costs differ from operating costs. Capital costs cover projects of a longer time frame and typically involve the acquisition of equipment or construction of facilities and infrastructure that may benefit county residents for years to come. Capital projects require larger outlays of funds and meet the criteria of capital improvements. They can be paid from various sources, including available funds in the General Fund balance, the issuance of bonds, collections of the special purpose local option sales tax (SPLOST), or other forms of financing.

This chapter provides an overview of the CIP and its place in sound financial management, including the following:

- CIP management.
- CIP policy.
- Planning process.
- Capital budget.
- Funding options.
- Funding policies and strategies.
- Impacts to the operating budget.
- CIP implementation.

5-YEAR CIP DEVELOPMENT

CIPs are typically 5-year programs that serve as a schedule of improvements to be completed over multiple years.¹ The CIP includes a description of proposed capital improvement projects ranked by priority, a year-by-year schedule of expected project funding, and an estimate of project costs and financing sources.

CIP Management

Organization is the key to ensuring a smooth CIP process. The responsibility for management of the CIP should be made prior to beginning CIP development. The CIP can be managed by a department (e.g., finance), or individuals (e.g., the county clerk or county manager) in smaller counties.

CIP Policy

A county's CIP policy will guide administration through the CIP process. Capital planning policies should consider organizational characteristics, such as services provided, organizational structure, and external environment. Per the Government Finance Officers Association (GFOA) Best Practices Capital Planning Policies, an effective capital planning policy should include:

- County's approach to capital planning.
- Identification of stakeholder departments.
- Definition of a capital improvement project.
- Establishment of a CIP review committee.
- Role of public and external stakeholders.
- Formation of decision-making processes.
- Setting criteria for prioritizing projects.
- Establishment of a resource allocation process.
- Assessment of fiscal capacity.
- Procedure for accumulating capital reserves for new/replacement purchases.
- Policy for debt limit restrictions linked to useful life of the assets.
- Requirement for a multi-year CIP with long-term financing strategies.
- Process ensuring CIP is meeting legal funding requirements.
- Requirement for inclusion of larger capital maintenance projects.
- Provisions for monitoring and oversight of the CIP program.

For a more thorough review of these best practices, see [GFOA Capital Planning Policies](#).

An effective CIP policy does not prioritize projects but provides the tools and guidelines to make such decisions. The decision makers in each county are faced with making subjective decisions. For example, one committee member may believe that paving roads is the highest priority while another member may believe that replacing the jail's HVAC system is the first priority. The development of a CIP policy that includes prioritization criteria is essential in assisting with decisions and makes these determinations less subjective.

Planning Process

CIP Calendar

A calendar should be developed in an easy-to-follow format to monitor the plan development process and ensure that it remains on schedule. It can be as simple as a listing of due dates by task or as complex as a detailed task list, including dates and responsible personnel. This calendar should be approved by the board of commissioners at an agenda meeting.

Solicitation of Project Requests and Proposals

Seeking capital requests can begin via various methods. Some counties may find that a staff meeting is the best starting place. During these meetings, the calendar, instructions, data-gathering forms, policies, and realistic expectations can be laid out for department personnel. Questions can also be addressed at this time. Other counties may have an existing process in place; in this case, only new department heads need to be trained on the process.

Data-Gathering Forms

Forms should be developed to collect the necessary information for appropriately analyzing and prioritizing capital requests. Forms should include, but not be limited to, project name, requestor/submitting department, contact information, detailed project description, estimated project costs by year, and estimated impact on operating budget. These requests should include sufficient data to support the estimate, such as product specifications, maps, diagrams, justifications, contractor estimates, quotes, etc. Outside financing sources, such as grants, should be identified. Providing for electronic submittal of requests and related documentation reduces the amount of lost paperwork.

Example of CIP Data-Gathering Form

FY2024 CIP / CAPITAL - PROJECT REQUEST FORM

Project Code: (for Finance use only)

All fields must be completed for submission. Incomplete forms will be rejected.

1. Project Name:

2. Department:

Department Contact(s):

3. Is this a construction project? Yes/No If yes, is a permit required?

3a. If this is a continuation or add-on to an existing project, provide the full account number (include existing project number):

| 4. Total Requested Project Funds by Fiscal Year (\$): | | Other Funding Sources: | Other Funding Source Type: |
|---|----------------------|------------------------|----------------------------|
| FY24 | <input type="text"/> | FY24 | <input type="text"/> |
| FY25 | <input type="text"/> | FY25 | <input type="text"/> |
| FY26 | <input type="text"/> | FY26 | <input type="text"/> |
| FY27 | <input type="text"/> | FY27 | <input type="text"/> |
| FY28 | <input type="text"/> | FY28 | <input type="text"/> |

5. Estimated Total Cost (\$): 6. Estimated Useful Life:

7. Detailed Project Description/Cost Breakdown:
 Include as much information as possible. If necessary, attach additional sheets. *Requests with insufficient detail will be returned.*

Separate Detail Sheet Attached: Yes/No

8. Start Date (estimate): 8a. Completion Date (estimate):

9. Project Cost - Budget Line Items (Object Code)

| Account Description | \$ Amount |
|----------------------------------|----------------------|
| 541110 - Land | <input type="text"/> |
| 541111 - ROW | <input type="text"/> |
| 541210 - Other Improvements | <input type="text"/> |
| 541320 - Building and Structures | <input type="text"/> |
| Total Project Cost | \$ - |

10. Impact on Operating Budget
 (Future Annual Fees/Cost to any M&O Account)

| Budget Line Items | Annual Amount (\$) |
|---------------------|----------------------|
| Personnel Costs | <input type="text"/> |
| Maintenance/Repairs | <input type="text"/> |
| Capital Outlay | <input type="text"/> |
| Utilities | <input type="text"/> |
| Other | <input type="text"/> |
| Total | \$ - |

Submittal of Project Requests and Proposals

Requests for capital projects should be submitted to the designated department or staff member at a central location to ensure that all requests are captured. The required paperwork can be completed electronically and submitted via email. Email also provides a time stamp of when the documentation was submitted. Departments seeking approval for capital projects should submit timely requests that meet the prescribed deadlines and include justification, cost estimates, and product specifications, if applicable. The due dates should be a part of the CIP calendar and the instructions and expectations should be provided to staff members who participate in the county's operating budget.

Instructions and forms related to the CIP and the operating budget should be updated annually and provided to the department directors, supervisors, and constitutional officers who are expected to participate. Personnel would also typically include those involved in the development of the operating budget.

Project Prioritization

Once capital project requests and proposals – along with the appropriate support – have been received, prioritization begins. Because government structures differ, ranking of projects, based on need and available funding, may be completed by county administration or by the governing authority. Typically, a committee is established to review and prioritize these requests. Committees should include the county administrator/manager, chief financial officer, and other personnel who understand the CIP process. In smaller counties, the board of commissioners may participate in the prioritization process.

Funding sources are limited, and capital requests are abundant. Creating a list of the projects requested – identified by project name, estimated cost, and a cost breakdown by fiscal year – is an effective organizational tool. To compare the dollar amount of these requests against the available funding and including the sources of available funding to the CIP proposal list is ideal. By making this information available to the committee, determinations can be made as to which projects can be funded in the current year and which may need to be deferred to subsequent years.

When evaluating capital requests, use the guidelines established in the CIP policy. If there is no CIP policy, then the policy should be developed.

Evaluation criteria should be established to guide the CIP committee in a consistent and focused manner. The criteria are developed to provide some rationale and consistency to the prioritization process. In the absence of established criteria in a CIP policy, the county commission would establish these criteria, but the criteria should be reviewed and honed by the county administration before adoption. Naturally, criteria will vary county by county, based upon each county's needs and priorities.

Prioritization of projects can be complex and perhaps the most important step in the CIP process. Prioritization should be largely based on the needs of the community and services outlined in the county's financial policies. The GFOA recommends that governments should first prioritize requests based upon the following:

- **Health and safety.** Priority should be given to high-risk safety issues that require a capital project to correct.
- **Asset preservation.** Capital assets that require renewal or replacement based on capital asset life cycle.
- **Service/asset expansion/addition.** Infrastructure improvements needed to support government's policies, plans, and studies.²

Other criteria to consider when prioritizing projects:

Does the project...

- enhance the quality of life in the community?
- improve upon the delivery of services in the community?
- improve operational efficiencies within the government?
- reduce costs in the long-term?
- preserve historical assets?
- require partnership with non-profit or corporate entities?
- include any state or federal mandates?
- promote economic development?
- impact the operating budget?
- have grants or other outside funding available?
- fulfill a prior commitment that must be met?
- integrate environment, social and governance (ESG) considerations?³

In prioritizing capital requests, there is always an option to develop an objective criterion, allowing the committee to "score" and rank capital requests. Prioritization through objective criteria would simplify the process but should not be the only analysis to consider. Analytical techniques for consideration include net present value, payback period, cost-benefit analysis, life cycle costing, and cash flow modeling.⁴ Developing a ranking system that includes the guidelines identified in the county's CIP policy is also an effective tool.

When the evaluation of projects is complete, the governing authority will take action to include the selected projects in the county's proposed capital improvement plan.⁵

Public Input

Public input should be included in the CIP process. The placement of this input in the process can vary between counties. Some governments may believe that public input should be part of prioritization, where other governments may believe that the public input should be part of the public hearings immediately prior to adoption.

Public input should be solicited and measured; however, the final selection of projects should fall to the CIP committee. Final selections should be made after consideration of all aspects of the request, such as project costs, type of project, funding availability, operating impacts, political impacts, and community needs.

Prior to adoption, the annual budget, the capital budget, and the CIP are presented to the county commissioners and made available to the public at the presentation and through the county's website.

Capital Budget

An integral component of the CIP is the capital budget. The capital budget is the first year of the capital improvements plan and is normally incorporated into the county's annual budget process. The capital budget specifies funding sources for the various facilities, improvements, and equipment projects identified in the capital improvement plan. Incorporating the CIP into the annual budget process ensures that the CIP is reviewed on an annual basis. The annual review should include a reassessment of the county's capital needs and any changes necessary to reflect the county's long-range plan.

FUNDING OPTIONS

How is the CIP program funded? Potential funding options include:

- General fund balance.
- Capital reserve/replacement program.
- SPLOST.
- Bonds.
- Grants.
- Joint ventures.
- Alternative sources.

Not all funding options are going to be available to all counties. Governments are faced with funding constraints which can include socio-economic limitations of the community, current financial condition, existing capital projects, personnel, existing policy, and debt limitations.⁶

Prior to selecting specific funding sources, county government should consider the following criteria, as well as impacts to the county and community.

- **Legality.** Does the funding meet state regulation and county policy?

- **Equity/intergenerational equity.** Will future generations pay for a project past its useful life?
- **Effectiveness.** Are there resources available or generated to make the project successful?
- **Acceptability.** Does the risk outweigh the benefits? Is it politically acceptable? Is a rate increase necessary?
- **Affordability.** Can the county afford the project?
- **Ease of administration.** Does the county have the staff and experience to manage the funding requirements?
- **Operating impact.** Can the county sustain operating costs in the future?

General Fund Balance

A county's general fund balance consists of five classifications:

1. **Non-spendable** – funds that are not able to be spent such as inventories or encumbrances.
2. **Restricted** – restricted by outside parties such as debt covenants or SPLOST funds.
3. **Committed** – restricted by the board of commissioners for a specific purpose such as capital projects (ARPA, SPLOST).
4. **Assigned** – has an intended use but not restricted, such as emergencies or the CIP.
5. **Unassigned** – funding available.⁷

County finances vary. Some counties may have funds set aside in the assigned fund balance or the unassigned fund balance, where others may not have sufficient revenues. A government's unassigned fund balance should not be used to balance the budget. The operating budget should be balanced with the annual recurring revenues. Capital projects can be funded with one-time revenues or funds in the unassigned fund balance, if available.

Capital Reserve/Replacement Program

GFOA recommends that local, state, and provincial governments establish a system for assessing their capital assets and then appropriately plan and budget for any capital maintenance and replacement needs.⁸ A capital reserve/replacement plan is an organizational tool used to determine when capital assets should be replaced and is critical in budget planning. Funding the capital reserve replacement program annually allows county administration to plan for anticipated future expenses. This multi-year tool provides a view of the upcoming costs expected for vehicle and equipment replacement, road preservation, roof replacement, and other infrastructure

improvements. Allocating funds for future replacement costs in the capital plan and repair/maintenance costs in the operating budget is sound financial management.

SPLOST

Special Purpose Local Option Sales Tax (SPLOST) is a one percent sales tax collected and used to fund capital projects. SPLOST collections cannot be used for operating or maintenance costs.

Each county's board of commissioners must initiate the SPLOST referendum and the additional penny must be voted on by the eligible voters in the county. The SPLOST is typically viewed as a more favorable revenue source than property taxes, since this sales tax is imposed upon everyone making purchases within the county.

SPLOST collections are used for capital outlay: major projects which are of a permanent, long-lived nature, such as land and structures.⁹ The list of projects is presented on the ballot, so voters understand what these collections are funding. The CIP plan is a useful tool when developing the list of capital projects for the ballot. The funds collected are placed in a separate fund reserved for those projects.

Bonds

Before considering bonds as a possible funding source, the government needs a debt policy. The county must give careful attention to the limitations set forth in the debt policy, as well as legal restrictions.¹⁰ Analysis of the debt structure of a county is one of the most important parts of financial analysis in the CIP process.

General obligation (GO) bonds are issued and backed by the full faith and credit and tax authority of the issuer. These bonds are generally issued to fund capital costs that benefit the entire community. GO bonds require no debt service reserve fund and are more marketable, which means lower costs. Note that voter approval may be required for GO bonds.¹¹

Debt limits are established through the Georgia Constitution, which states that the debt incurred "shall never exceed 10 percent of the assessed value of all taxable property within such county."¹²

Revenue bonds are financed from the revenue stream generated by the project or a dedicated revenue stream. These bonds are used for utility type or business type projects where there is a dedicated revenue stream to back the payments. Because revenue bonds are not backed by the full faith and credit and tax authority, these bonds are less secure and less marketable. Voter approval is not needed to issue revenue bonds; however, there will be bond covenants to ensure the revenue stream will cover future payments.¹³

Creditors emphasize the need for a long-term capital plan. Rating agencies and other outside creditors will request a copy of the CIP when evaluating credit. Providing such a plan is vital, especially if the county plans to issue debt as a funding source for the CIP.

The lack of a realistic CIP will reduce credit ratings, which leads to higher interest rates.

Grants

Grants are the most favorable method of financing available; however, grants typically come with other stipulations. Although governments think of grants as “free money,” this is not always the case.¹⁴ When considering grant funding, attention must be given to the financial impacts. Is there a county match required? Do the funds need to be repaid? Is it a reimbursement grant? What are the qualifications and reporting requirements related to the grant funds?

If the grant is a reimbursement, the county will still need to budget for these expenditures and request reimbursement after the fact. Does the county have available funds for a reimbursement grant? The same thought process follows for a county match. Does the county have the funds available to cover their portion of the expenditures? There could be time limitations for reimbursement. For instance, if expenses are not submitted within 3 months, then the reimbursement window is closed. Does the county have enough staff or experienced staff to manage these types of grants?

Some grants require detailed reporting related to socio-economic benefits for the community. What percentage of low-income residents are benefited? Some of the most recent grants to become available are the American Rescue Plan Act (ARPA) grant funds. Depending upon the type of project(s) the county selected to fund with ARPA funds, reporting requirements can be quite extensive. These can include detailed information regarding contracts, contractors, and subcontractors, as well as a deeper analysis into percentages of citizens impacted by projects, including health, income, rent subsidies, etc.

Local Maintenance Improvement Grants (LMIG) are used in transportation projects. The state will typically require a match to receive and use these funds. However, these funds are normally received before commencement of the project. Therefore, if the county has available matching funds, these grants are an excellent source of funding.

Joint Ventures

On occasion, the private sector wants to become involved in community projects. Seeking out corporate sponsorships or partnering with local businesses helps to reallocate costs among the community. These ventures work well with sports, exercise, school, and quality of life type capital projects.

Alternative Sources

Other sources of funding could include impact fees paid by developers. This is a fee paid to the county to assist in defraying costs of adding new residences or new facilities to the service delivery area. Leases are commonly used to assist counties with larger purchases while still allowing the government to meet cash flow needs. However, a recent Government Accounting Standards Board (GASB) statement No. 87 requires counties to

recognize certain leased assets and liabilities, which impacts the presentation of a county's financial statements.¹⁵ Lesser-known options include special assessments, tax increment financing (TIF) bonds, and certificates of participation (COPS).

FUNDING POLICIES AND STRATEGIES

An appropriate mix of funding sources should be used to finance the capital improvement plan. The government should assess its fiscal capacity to develop a capital plan that can reasonably be funded without negatively impacting the operating budget. Though the CIP policy is fundamental as a guiding document for the CIP program, financing strategies serve to optimize outcomes of the decision-making process.

Costs associated with the life cycle of each project should be included when developing a CIP program. Counties should determine the most appropriate method when calculating cost estimates. If sufficient internal resources are not available, then it will be necessary to seek outside assistance. The scope and timing of a project should be defined early in the planning process. Projects that extend beyond the first year of the CIP program will need to include adjustments for inflation. The government should include all major components necessary to execute the project, such as land acquisition, design, construction, contingency funds, post-construction costs, and impacts to the future operating budget.¹⁶

Financial strategies should link the project requirements and the fiscal health of the county. A county should be able to:

- Forecast expected revenue and expenditures trends in relation to the CIP and impacts to the operating budget.
- Prepare cash flow projections in coordination with the timing of funding or financing.
- Comply with established financial policies.
- Recognize legal constraints.
- Consider funding from the appropriate funding sources/alternatives.
- Understand the sources and uses of debt service.
- Understand reliability of funding sources.
- Evaluate affordability of the project funding/financing and the impact on the county's fiscal health.¹⁷

IMPACTS TO THE OPERATING BUDGET

Impacts to the operating budget also need to be considered when selecting a project for inclusion in the CIP. These impacts should be included in the capital requests process on the data-gathering forms. Future operating costs should be realistic and be budgeted

for payment from future recurring revenues.

While projects focused on maintaining infrastructure typically have minimal impact on the operating budget, capital projects related to acquisition or construction of facilities or equipment require additional operating funding to operate and maintain. For example, the Parks and Recreation Department has requested and been approved to build a new multi-purpose facility. The initial cost of construction will be funded through the CIP. However, the ongoing costs of operating the facility, such as personnel, utilities, insurance, cleaning, etc. must be included in the county's operating budget. In addition, the question remains, can the county continue to operate this facility into the future? Constructing a new facility that cannot be operated is fiscally irresponsible.

Impacts to the operating budget can also be positive. Purchasing a new vehicle or new piece of equipment should reduce maintenance costs and potentially fuel costs. Operating costs, such as utilities, could be reduced through capital investment in new or more efficient methods of power production. In these cases, a cost-benefit analysis would be prudent as part of the prioritization process.

The annual balanced budget shall be adopted by ordinance or resolution, including the capital budget as the first year of the CIP program. Adoption of the CIP is included as a planning instrument. Local governments are required to adopt and operate under a project-length balanced budget for each capital projects fund in use by the government.¹⁸

CIP IMPLEMENTATION

Once the CIP, capital budget, and annual operating budget are adopted, it is time to begin implementing the program. Policies should include processes for the monitoring and reporting of the CIP program. Monitoring processes should include any legal and fiduciary requirements. Required reporting should include financial information, data for external needs (bonds), project activity, project status, and project close-out. The county will need to have an organizational tool or plan in place to collect, store, and analyze project data. It is recommended that counties evaluate these processes for effectiveness and relevance and adjust as necessary.¹⁹

¹ GFOA Best Practices Multi-Year Capital Planning, www.gfoa.org/materials/multi-year-capital-planning.

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Kavanagh, Shayne C., *Financial Policies* (Chicago, IL: Government Finance Officers Association (GFOA), January 2012, ch. 9).

⁶ Casey, Joseph P. and Mucha, Michael J., Editors, *Capital Project Planning and Evaluation: Expanding the Role of the Financial Officer* (Chicago, IL: GFOA, January 2007, GFOA Budgeting Series Vol. 8, ch. 2, pp. 59-60).

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- ⁷GFOA Best Practices Fund Balance Guidelines for the General Fund, www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund.
- ⁸ GFOA Capital Asset Management, www.gfoa.org/materials/capital-asset-management.
- ⁹ *ACCG Special Purpose Local Option Sales Tax, A Guide for County Officials*, p.15, www.accgov.com/DocumentCenter/View/907/SPLOST-Guide-for-County-Officials-6th-Edition?bidId=.
- ¹⁰ GFOA Best Practices Debt Management Policy, www.gfoa.org/materials/debt-management-policy.
- ¹¹ GFOA An Elected Official's Guide to Debt Issuance, p. 13, <https://www.gfoa.org/materials/elected-officials-guide-debt-issuance>.
- ¹² Ga. Const. art. IX, § V, para. I (a).
- ¹³ GFOA An Elected Official's Guide to Debt Issuance, p. 14, www.gfoa.org/materials/elected-officials-guide-debt-issuance.
- ¹⁴ *GFOA Capital Project Planning and Evaluation*, ch. 2, p. 62. The publication is available for a fee at www.gfoa.org
- ¹⁵ GASB Summary of Statement No. 87, <https://gasb.org/page/PageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-87.html&isStaticPage=true>.
- ¹⁶ GFOA Best Practices Multi-Year Capital Planning, www.gfoa.org/materials/multi-year-capital-planning.
- ¹⁷ Ibid.
- ¹⁸ O.C.G.A. § 36-81-3 (b)(2).
- ¹⁹ GFOA Best Practices Capital Project Monitoring and Reporting, www.gfoa.org/materials/capital-project-monitoring-and-reporting.