Capital Planning Process Overview

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Financial Policies Certificate Series

October 1, 2025

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Capital Improvement Program

RSA 674:5 - 8

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Capital Improvement Program (CIP)

Most capital planning is done as part of a Capital Improvement Program (CIP)

Capital Improvement Programs commonly cover a six-year period starting with the next budget year and are updated every 1-3 years.

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Why Do Capital Planning?

Lenders and bond raters expect it

Ensures assets inherited from prior administrations are preserved and continuity in long-range planning

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Why do we need a capital improvements program?

CIPs are not required by law, but there are a host of reasons a municipality should prepare one and keep it up to date.

- A plan helps bridge the gap between the long-term planning process and the development of the annual operating budget.
- A plan that systematically anticipates needs rather than just reacting to unanticipated problems (thus preventing surprises among government officials and the voting public).
- Planning ahead allows time to get the necessary resources in place bit-by-bit rather than all at once, avoiding spikes in the tax rate.
- This advance planning leaves time to identify alternate sources of funding (federal and state grants, long and short-term debt, or pay-as-you-go).
- Good plans create a blueprint linking fiscal capacity with the need to promote economic development through investments in infrastructure.
- Regular attention to capital assets increases the likelihood of proper maintenance to extend the life of existing assets.
- A CIP is a legal prerequisite for some other land use tools, such as growth management under RSA 674:22 or impact fees under RSA 674:21, V.

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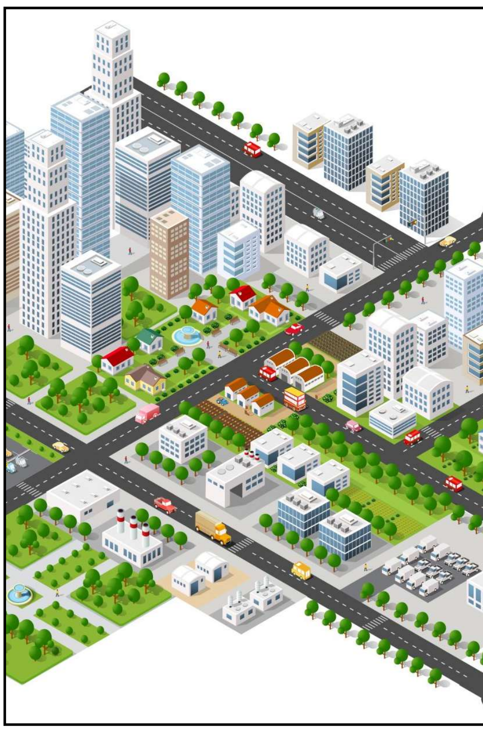

Why Do Capital Planning?

- Helps local officials think through complex infrastructure development and financial decisions.
  - A plan helps bridge the gap between the long-term planning process and the development of the annual operating budget.
- May avert some of the expensive mistakes that frequently result from crisis management.
  - Planning ahead allows time to get the necessary resources in place bit-by-bit rather than all at once, avoiding spikes in the tax rate.
- Informs and educates both decision makers and the public about the anticipated investments in the municipality.
- A plan prepared cooperatively among officials, employees and the public increases the "buy-in" so voters understand why items in the plan are important.
- "Shovel-ready" or prepared plans can help a community be ready to participate in federal or state grant programs when they arise.
- A CIP is a legal prerequisite for some other land use tools, such as growth management under RSA 674:22 or impact fees under RSA 674:21, V.

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Major Elements

- An inventory of present physical assets
- A maintenance and replacement schedule
- A time-table and estimate of future needs

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Considerations

- A complete financial analysis of historical revenues and expenditures is strongly recommended
- Correlates to pre-approved documents and ordinances, such as it not conflicting with approved Master or Strategic Plan

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Under NH Law

Under the law, "[t]he sole purpose and effect of the capital improvements program shall be to aid the mayor or selectmen and the budget committee in their consideration of the annual budget." RSA 674:5.

The final CIP must be submitted to the governing body and the budget committee "for consideration as part of the annual budget." RSA 674:8.

The projects identified in the CIP are not mandatory; the CIP is simply a set of recommendations and an outline for achieving them.

Note: a CIP has no effect on applications before the planning board or zoning board of adjustment other than as a guide for off-site exactions, and to the extent it is used to guide the development of grown management ordinances or impact fee ordinances. *Zukis v. Fitzwilliam*, 135 N.H. 384 (1992).

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Other Considerations- Growth Management Ordinance

Without a CIP in place, a municipality is not permitted to enact a growth management ordinance under RSA 674:22, I.

This makes sense because a growth management ordinance is only valid to the extent it accurately balances the municipality's need for restrictions on growth and a projection of what is deemed to be "normal growth." *Rancourt v. Barnstead*, 129 N.H. 45 (1986).

How can a town know what a growth management ordinance needs to accomplish if it hasn't considered what reasonable projected growth is and what infrastructure is required to support it?

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Other Considerations-Impact Fess

The other major ordinance that may be adopted only after a CIP is adopted is an impact fee ordinance under RSA 674:21, V. Impact fees may be assessed for:

- including and limited to water treatment and distribution facilities;
- wastewater treatment and disposal facilities;
- sanitary sewers; storm water,
- drainage and flood control facilities;
- municipal road systems and rights-of-way;
- municipal office facilities;
- public school facilities;
- the municipality's proportional share of capital facilities of a cooperative or regional school district of which the municipality is a member;
- public safety facilities;
- solid waste collection,
- transfer, recycling, processing, and disposal facilities;
- public library facilities; and public recreational facilities not including public open space.

A town may still levy exactions for off-site improvements under RSA 674:21, V(j) without an impact fee ordinance, but they are limited to the cost of improvements located outside the subject property and include only any necessary highway, drainage, and sewer and water upgrades pertinent to that development.

Under NH Law

A CIP "shall" do the following:

- Address capital improvement projects over a period of at least six years.
- Classify projects according to the urgency and need for implementation.
- Include a timetable for implementation of projects.
- Take into account public facility needs shown in the master plan.

A CIP "may" include the following:

- The estimated cost of each project.
- The probable operation and maintenance costs
- The probable revenues (if any) from each project
- Project the effects of the plan on key financial variables, such as the property tax rate, debt management & the operating budget

Without these elements tying the capital improvement plan to a long-term funding strategy will NOT be possible!

CIP preparation by planning board or CIP Committee

Before we begin

Before a capital improvements program can be prepared, (a) the municipality must have established a planning board under RSA 673:1, and (b) the planning board must have created and adopted a master plan under RSA 674:1.

When considering how this fits with a CIP, it is helpful to remember that a master plan is intended to delineate the best and most appropriate future development of the area to guide the planning board in its work, so the community can achieve smart growth, sound planning, and wise resource protection. RSA 674:2, I.

After those two prerequisites are met, the legislative body (town meeting, town council or city council/aldermen) may authorize the creation, adoption and amendment of a capital improvements program. RSA 674:5. In a town meeting town, this is done by approval of an article on the warrant.

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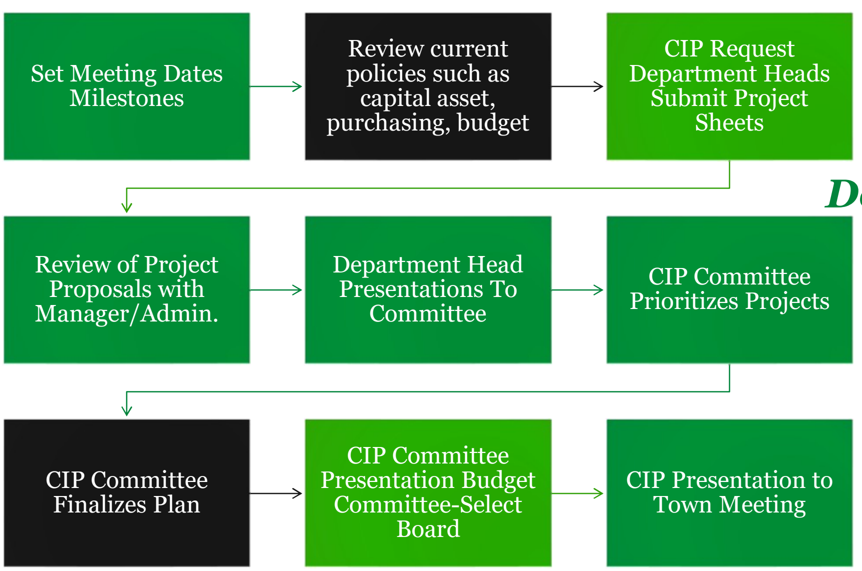
CIP Development Process



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Review your current financial policies

Operations
- Is there a chain of command the CIP committee should follow?

Budget
- Does it reference capital outlay expenses?
- Does it have a limit on how much can / should go into CRFs / ETFs?

Fund Balance
- Does it discuss acceptable uses of fund balance such as the purchase of capital outlay?

Revenues
- Do they discuss CRF / ETF uses for capital outlay?
- How about a one-time revenue policy?

Expenditures
- Do you have a purchase policy the CIP committee needs to take into account?

Capital Asset
- What is the definition of capital assets?
- What is the threshold?
- What is the useful life?

Investment
- Do the trustees of trust funds have an investment policy that ties up a CRF when it might be needed for a specific purchase?

Debt
- Will a CIP with debt financing as part of the financing plan bring the town over the debt limit?

You may have more policies to consider such as:
- Enterprise Fund policies
- Grant Management policies

Steps to Success

- Establish a process
- Appoint a coordinator
- Identify what is and isn’t a Capital Project
- Identify supporting revenue and funding sources
- Inventory current assets
- **Prioritize**
- **Collect staff input**
- **Evaluate and make adjustments**
- **Public input/Public Hearing**
- **Finalize and adopt**

Where to Start?

Establish a process

Local officials need to establish the process by which they will do their capital planning

May plan with officials and internal staff

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Timelines

Ensure someone is appointed from the planning board to coordinate the effort

Consult with the town administrator, town or city manager, the governing body and the budget committee to discuss the process and the timeline.

The timeline should be two things: reasonable and well-publicized.

- It is important for the planning board or committee to recognize that the officials and employees from whom they are trying to get information each have a lot of other things on their plate

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Timelines- The Capital Plan should precede the Annual Budget Process

This internal timeline should include:

- A period to assess the current fiscal and capital asset situation and to review the master plan. If there are many departments or too much information, the planning board or committee might consider creating subcommittees to each review a certain portion of the information (perhaps a specific department) and report back to the larger group.
- A discussion period during which the planning board or committee can discuss issues with the town/city manager or administrator, ask and answer questions, and gather additional information.
- A plan for exactly who will draft the CIP and when.
- A timetable for drafting, revising, and adopting the CIP.

Step Three- Set Criteria through Policy

Identify what is and is not a capital project or purpose - refer to the capital asset policy for this

This can differ based on the type of local government, population, budget size, or other unique factors

Common Capital Assets

- Infrastructure (roads, sewers. storm sewers, sidewalks, bridges, curb and gutter, street lights)
- Buildings (administration buildings, libraries, museums, treatment plants, civic centers, pools)
- Equipment (fire trucks, police cruisers, generators, snow plows, IT equipment)
- Land (parks, gardens, tree nurseries, waterfronts, industrial park land)

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Step Four- Assessing the Current Situation

Inventory current capital assets

Most such base information should be readily available through the government's insurance carrier/reports/maintenance schedules/financial fixed and capital assets schedule

Needed for accountability and usage tracking

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Relation to GASB 34

GASB 34 includes an inventory of all public works infrastructure

Values of bridges, roads, facilities

Based on life-cycle costing

Relates directly to asset inventory needed for capital planning.

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Assessing the Current Situation- Fiscal Capacity

A fiscal analysis to assess fiscal capacity is a critical step.

The planning board or committee should obtain or create a comprehensive list of all the trust funds, capital reserve funds, special revenue funds, and other funds (and the balances in each fund).

Other important information includes the tax rate, fixed costs going forward (such as bond payments or other debt service),

The past, present and future expected revenues, expenditures and debt (i.e., what can the municipality afford?).

The current status of previously approved projects

- What are the cost estimates and funding sources for projects which are currently underway and when are they expected to be completed?
- What impact do those projects have on the fiscal analysis and asset inventory once they are finished?

Economic Trends

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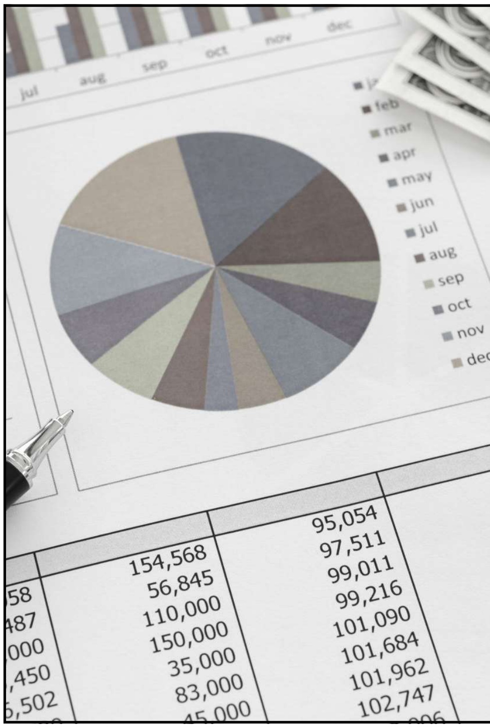

Step Five-Funding

Identify the revenue sources to be used to support capital projects.

Capital projects may be funded through general revenue, grants, designated revenue funds, special taxes or fees, or some form of debt.

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Common Revenue Sources

General Fund/General Revenue/General Taxation

Grants (remember matching requirements)

General Obligation (GO) Bonds

Local borrowing

Revenue Bonds

Special Assessments

Impact Fees & User Fees

State or Federal "Pass Through Financing"

Partnerships & donations

Revolving Funds

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Remember- Guiding Principles of Debt Management

01

Borrowing for operating expenditures is generally considered financially unsound

02

Borrowing for capital projects is considered essential financial decision-making

03

Borrowing for capital projects requires effective debt management

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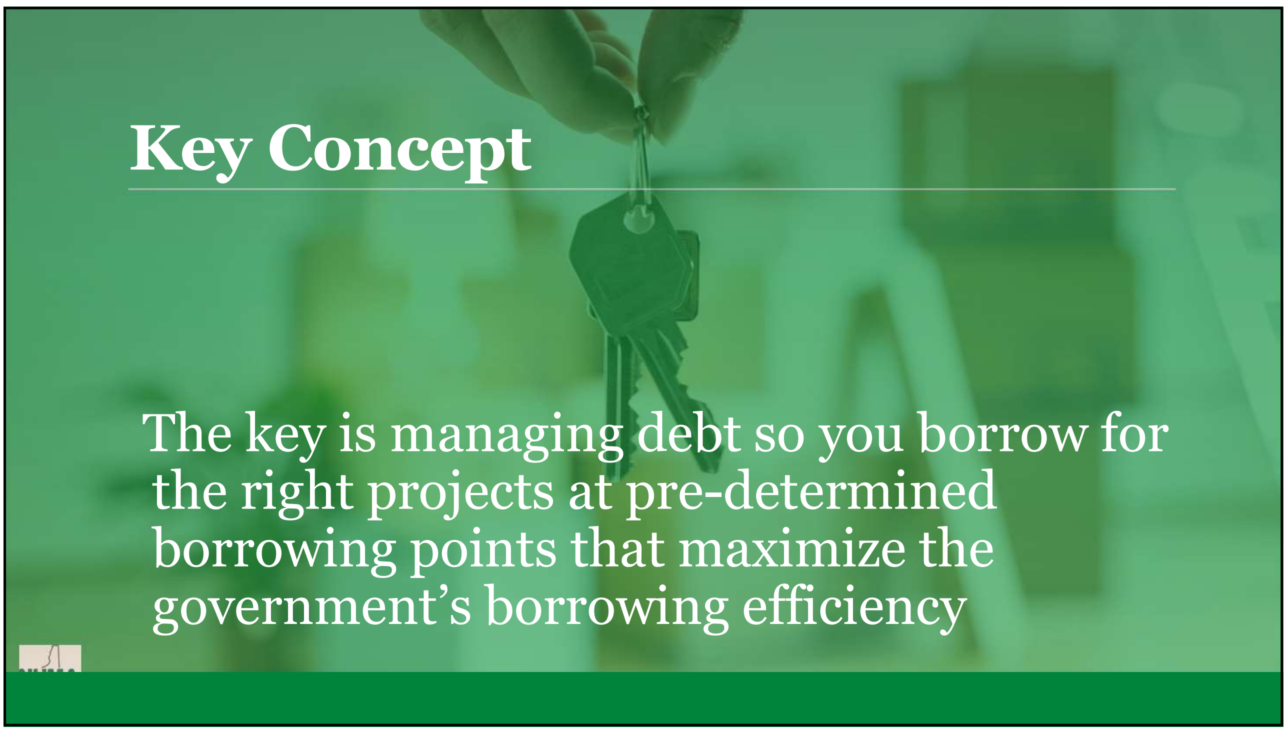

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Key Concept- Debt Management Policy and CIP Policy are inter-dependent

Effective debt management can minimize interest cost and even stabilize local government financial positions

Periodic review of debt and re-financing when conditions are favorable are essential to effective debt management and capital planning

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Step Six- **Prioritize**

It is unlikely in local government that there will ever be enough funds, resources, or staff time available to pursue every capital project which can be justified

Local leaders must prioritize to ensure the right projects are kept when the resources run out

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PRIORITY LIST OF CAPITAL NEEDS

- Once the town/city shows its commitment to the C.I.P. The next step should be to require department heads to identify the capital needs of their departments (police, fire, public works, etc..)

- Using the ***$25,000 and five-year life expectancy*** as an example for the criteria for inclusion on the list of capital needs, the town should encourage the department heads to think beyond the next budget cycle. ***What are the department's capital needs in the next 3-5 years?***

- Each item to be listed may require that the department head complete a standard ***Capital Requirement Form.*** This form would then be the source document for future reference by the department heads, administration and governing body. It may serve as the basis for *factual comparison* of one capital item proposal to all other capital item proposals in the process of creating a master roster of the city/town's *priority ranked capital needs.*

- The roster of recommend capital needs is then provided to the governing body for reference during formal presentations by the during capital planning and budget planning sessions.

Rank and Prioritize Expenditures

- Create a predetermined clear, objective set of criteria to evaluate all projects, programs and services.
- Promote procedural justice in the allocation of limited resources.
- Ensure existing assets are maintained before embarking on new initiatives.
- Consideration if there is a current asset/program/service that is in the budget but no longer fits the needs of the community then it could be retired/discontinued, and resources re-directed.

Expenditures- Ranking Policy Priorities

A CIP Model

- **Establish a Priority Order**:
- **Need vs Want**
  - Required by law
  - Public health & safety
  - Improves productivity / services/ achievement
  - Support Strategic plans, CIP Plans, goals, policies
  - Reduces operating costs
  - Improves obsolete facility
  - Directly benefits local economic base
  - Social, cultural, historic or aesthetic value
- **Aggregate Need Ranking** - based on 'three pillars' of assessment:
  - Equity
  - Facility Condition/Service Outcome
  - Capacity Utilization -Greater need = higher priority
- Option: define a formal point system / score card

Scoring Scale

0	1	2	3
The project does not align with any progress indicators or strategies outlined in the strategic plan	The project aligns with one (1) progress indicator or strategy outlined in the strategic plan	The project aligns with two (2) progress indicators or strategies outlined in the strategic plan	The project aligns with three (3) progress indicators or strategies outlined in the strategic plan

Or…… Establish a Priority Order of Capital Needs such as:

- 1. Public safety
- 2. Required by law
- 3. Outside financing available
- 4. Support plans, goals, policies
- 5. Reduce operating costs
- 6. Improve obsolete facility
- 7. Improve productivity / services
- 8. Directly benefit Town's economic base
- 9. Social, cultural, historic or aesthetic value
- ❑ Option to define a formal points system / score card

Step Seven-
Staff input

1. Verify condition of existing infrastructure and equipment
2. Identify trends affecting capital issues
3. Develop a list of needs and suggested projects
4. Submit to “Coordinator” for consolidation

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Capital Requiremen Form

Department: ___________________________________

1. Identify the needed capital item:

2. Explain why the item is needed:

3. Indicate when it will be needed:

4. Describe the operational impact on department performance *if the item is not acquired:*

5. Provide an authoritative estimate of the cost of the capital item:

Department Head Signature:________________________ Date: _______________

Reviewed by :___________________

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Example- Durham

https://www.ci.durham.nh.us/businessoffice/approved-2020-2029-capital-improvements-program

The CIP Identifies not only Estimated Cost….

But Funding Source

CAPITAL IMPROVEMENT PROGRAM

PROJECT YEAR	2021-2023	PROJECT COST	2021 - $80,000
DESCRIPTION	Culvert & Outfalls Program	DEPARTMENT	Public Works

IMPETUS FOR PROJECT (IE. MANDATED, COUNCIL GOAL, DEPT INITIATIVE, ETC.)

Department Initiative, MS-4 Permit

DESCRIPTION (TO INCLUDE JUSTIFICATION)

2021 - Oyster River Road - locations in the Faculty Development Neighborhood- $80,000
2022 - Mill Road @ Oyster River (near Foss Farm) - $70,000
2023 - Mill Road @ College Brook (headwall and outlet) - $85,000

ESTIMATED COSTS:	PRELIMINARY STUDY, DESIGN AND ENGINEERING	$ -
	FINAL DESIGN AND ENGINEERING	$ 10,000
	CONSTRUCTION ENGINEERING OVERSIGHT	$ -
	CONSTRUCTION COSTS	$ 70,000
	CONTINGENCY	$ -
	TOTAL PROJECT COST	$ 80,000
FINANCING	OPERATING BUDGET	$ 80,000
	UNH - CASH	$ -
	BOND - TOWN PORTION	$ -
	UNH PORTION	$ -
	FEDERAL/STATE GRANT	$ -
	CAPITAL RESERVE ACCOUNT	$ -
	TOTAL FINANCING COSTS	$ 80,000
IF BONDED:	NUMBER OF YEARS	N/A
	TOTAL PRINCIPAL	$ -
	TOTAL INTEREST	$ -
	TOTAL ESTIMATED COST	$ -

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Example- Durham CIP Financing

https://www.ci.durham.nh.us/sites/default/files/fileattachments/planning_board/page/73653/draft_cip_2026-2035.pdf

2025 CAPITAL IMPROVEMENT PROGRAM

Description	Operating Budget	UNH Cash	Bonding		State & Federal	Capital Reserve	Grants, Trade & Other	Total
			Town	UNH				
General Fund								
Fire Department								
New Fire Station			$ 4,000,000	$ 16,000,000				$ 20,000,000
Thermal Imaging Camera						$ 12,000		$ 12,000
Replace 2013 Chevrolet 2500 (Utility Truck)						$ 65,000		$ 65,600
Refurbish 2015 Marion Pumper			$ 80,000	$ 80,000				$ 160,000
Replace 2016 Chevrolet Tahoe (Chief's Car)						$ 95,000		$ 95,000
GIS								
GIS Program	$ 30,000							$ 30,000
Information Technology								
IT Equipment Replacement	$ 29,500							$ 29,500
Police Department								
Vehicle Replacement	$ 127,000							$ 127,000
Public Works								
Buildings & Grounds Division								
Seasonal Decorative Lighting	$ 2,500							$ 2,500
Courthouse/Old Town Hall Restoration			$ 367,000					$ 367,000
Operations Division								
Road Resurfacing	$ 488,000							$ 488,000
Crack Seal Program	$ 25,000							$ 25,000
Sidewalk Improvement Program	$ 40,000							$ 40,000
Drainage System Rehabilitation Program	$ 85,000							$ 85,000
Stormwater Management Permit Compliance	$ 30,000							$ 30,000
Facility Infrastructure Preventative Maintenance	$ 25,000							$ 25,000
Madbury Roadway, Sidewalk, Drainage Const.			$ 2,298,000					$ 2,298,000
Dump Truck Replacement			$ 185,900					$ 185,900
Mobile Air Compressor Replacement	$ 30,000							$ 30,000
Longmarsh Road Bridge Replacement			$ 1,300,000					$ 1,300,000
Sanitation Division								
Recycling Collection Vehicle Replacement			$ 299,000					$ 299,000
Total General Fund	$ 912,000	$ -	$ 8,529,900	$ 16,080,000	$ -	$ 172,000	$ -	$ 25,693,900

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Step Eight-
Evaluate Staff Recommendations

Compare staff recommendations with established priorities

Compare with available resources

Make adjustments for a draft plan

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CAPITAL FUNDING PRIORITIES

- Upon achieving agreement on capital priorities, the board should formalize the Roster of Capital Improvement priorities for funding during the annual budgeting cycle.

- Prior to final adoption of the CIP, the Roster should be the subject of a formal public hearing to enable *public participation* and receive public input prior to final council approval of the Roster of Capital Improvement projects.

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Step Nine-
Public Input

Comply with RSA 91-A Open Meetings Law

Informal involvement or public hearing

When the CIP is part of the Operating Budget or Warrant Article, the Public Hearing requirement applies

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PUBLIC PARTICIPATION IN DEFINING CAPITAL NEEDS

The public should be encouraged and enabled to participate in significant decisions prior to making a final decision (in this case adopting the CIP.) Additionally, public input into the capital improvement priority rankings may actually be helpful.

- In short, citizen input concerning your capital priorities is not the only virtue of a public hearing.
- Citizen education is valuable in its own right.
- Informed Citizens can better understand and support budget decisions.

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Step Ten-
Finalize Plan and Adopt

Make Final Adjustments

Can adopt as part of annual budget process

Adopt the plan!

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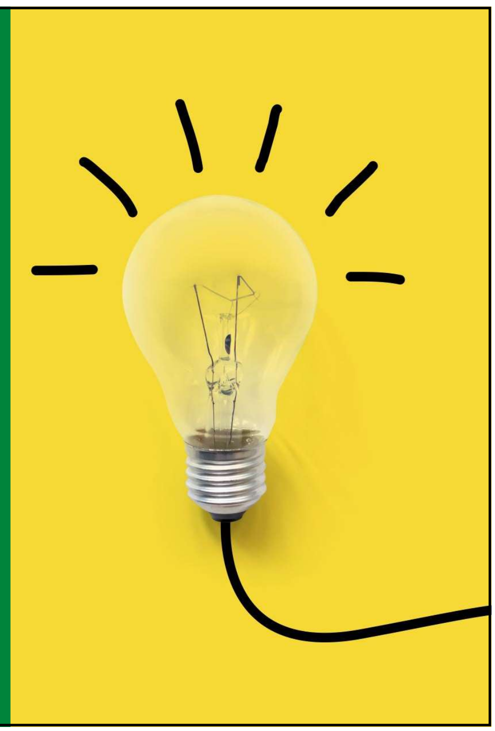
Points to Remember

The capital plan is a flexible document

Can be changed when the situation requires

As a "Plan" it is not "cast in stone"



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What *is* Relationship between the Operating Budget and CIP?

Reviewing the revenue generating potential under the plan assumptions will help identify the capability to finance needed capital projects as well as any gaps in the ability to do so. Moreover, the plan's vision should be balanced between the financial capacities to meet the stated goals, or at a minimum, should clearly identify the financial implications of a vision that may conflict with the town's financial policies and capacity.

Many financial factors should be considered as part of the development the CIP. The planning process should be an in-depth analysis, incorporating the financial factors that bridge the gap between short term operating budget and the communities long term goals.

When integrating CIP plans and the operational budget the use of financial policies can assist governments and help accurately consider the impact of the costs and identify the potential revenue streams. Possible revenue streams and funding strategies include:

- bond programs
- pay as you go
- grants
- impact fees
- Public/ private partnership alternatives

Policy Time

GFOA Best Practice - Capital Planning Policies Summary

- A description of how the government organization will approach capital planning
- A clear definition of what constitutes a capital improvement project
- The establishment of a capital improvement program review committee
- A description of the role of the public and other stakeholders
- Identification of how decisions will be made, prioritization of projects and allocating limited resources
- Assessment of the government's fiscal capacity

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GFOA Best Practice - Capital Planning Policies Summary

- Procedure for accumulating reserves for new and replacement purchases
- Linking debt funding strategies with useful life and legal restraints
- Requirement for development of multi-year plan which includes long term financing costs and strategies
- Requirement that the plan includes significant capital maintenance projects with a funding plan
- Provisions for monitoring and oversight of the approved CIP annual budget and multi-year plan

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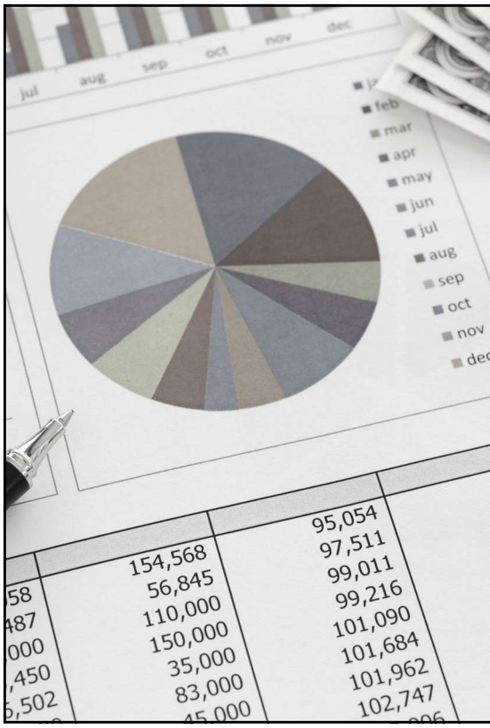


CIP In Practice

Maintains data on all relevant capital projects (project costs, operating cost and revenue impacts, project description and history, and proposed method of financing)

Allows users to examine the impacts of various capital plan assumptions on tax rates (or user fees), reserves, debt load, and fund balances;

- to explore different revenue and expenditure growth assumptions;
- to vary the timing and mix of capital projects over a three to six-year planning period;
- and to adjust assumptions about individual capital projects

A Management Definition

A CIP is a Board/Council approved plan to acquire and pay for needed capital equipment and facilities in a timely and efficient fashion.

Equipment and facilities wear out and must be replaced. Which is why competent managers of a city or town's assets should plan for how best to acquire and pay for replacement equipment and facilities. As the old cliché goes:

"You can pay me now, or you can pay me later!"

For example, the patrol cruiser that you bought new four years ago now has 250,000 miles on it and needs a transmission that will cost $6,000. Without the cruiser the police will be on foot.

Should you fix the transmission and *hope* that the engine will hold up for a few more years?
OR
*S*hould you trade it in on a new cruiser, even if that means that you will not be able to afford the front-end loader needed by the highway department and that you promised two years ago?

Key Components of the Overall CIP

- The introductory section includes various information on the CIP process, policies, and governance that help provide context and framework under which the CIP is formulated.
- The Overview sets the tone for the CIP with the Joint BOS/Planning Board message and provides status of existing projects, including summaries of authorized expenditures and projects that are underway.
- The Capital Funding section includes various financial summaries of the CIP by program and funding source. It also includes analysis of the Town's debt capacity as impacted by the CIP.

Key Components of the Overall CIP

The remaining sections are dedicated to describing specific programs and projects included under the General Government section, this would include all Departments and facilities. These sections detail the projects by major programs.

- The first part of each of the programs provides a summary overview of costs and funding sources. Also included is specific information on the impact debt financing will have on annual debt service payments where applicable.
- The next pages provide a detailed description of each project, associated master plan impact, project justification, cost schedules, funding schedules, changes from the last CIP, and operating impacts, if any.
  - The current CIP is largely funded by Capital reserves, PAYGO and short-term financing.
  - In addition, the Capital Reserve Funds are integrated in the comprehensive funding strategy for the CIP.
  - Please note that cost estimates are subject to market pressures and may not reflect the actual costs incurred at project implementation.

Financial Considerations in Capital Planning Policy often Include Statements such as:

- ❑General fund debt service shall not exceed XX% of general fund budget.
- ❑ Pay As You Go capital budget shall be a minimum of XX% of the general fund budget.
- ❑XX% of taxes shall be appropriated to capital reserve accounts.
- ❑ Total general fund capital investment (debt service and pay go) shall be a minimum of XX% of general fund budget
- ❑ Discretionary projects in excess of $XXX shall be funded with a debt or capital exclusion warrant article.
- ❑ Enterprise funds shall fully support debt service and capital expenditures. (Water/Wastewater)

What Financing options should the CIP consider including? Common Policy Statements Include:

- ☐ Commit to annual capital funding level
- ☐ State when short- or long-term debt is appropriate
- ☐ Commit to self-supporting enterprise funds
- ☐ Require evaluation of special revenues sources (e.g., revolving funds, grants)
- ☐ Dedicate a revenue stream (e.g., meals and rooms tax for roadwork in addition to the highway block grant)

EXAMPLE -Policy Statement

Each community must define for itself what qualifies as "high cost" and a "useful life of several years."

The specific definition in each community will be slightly different based on the population, capital needs, and available budget.

There is no single "right" way to define this. Smaller towns may have a different definition than larger towns or cities.

For example, a City might set its capital improvement threshold at $25,000 with a useful life of seven or more years. Expenditures that do not meet both the cost and useful life threshold are not included in the capital improvements plan; instead, they are included as a part of the city's operating budget. In a smaller community (population 6,500), the threshold is $10,000 with a useful life of five years. An even smaller community may define it as any project having a useful life of at least 3 years and requiring a gross expenditure of more than $5,000.

SAMPLE POLICY LANGUAGE

Capital Improvement Program

a) *Submission to Council.* The manager shall prepare and submit to council a five-year Capital Improvement Plan at least ninety days prior to the beginning of each fiscal year.

b) *Contents.* The Capital Improvement Plan shall include:

(1) A general summary of its contents;

(2) A list of all capital improvements which are proposed to be undertaken during the five fiscal years next ensuing, with appropriate supporting information as to the necessity for such improvements;

(3) Cost estimates, method of financing and recommended time schedules for each such improvement; and

(4) The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

The above information shall be revised and extended each year with regard to capital projects still pending.

SAMPLE POLICY LANGUAGE

The following is the operating guide for the Capital Improvement Plan Committee:

Purpose:

The Role of the Capital Improvement Plan Committee is to assist the City Manager, prepare, and submit to Council a Five-Year Capital Improvement Program by April 1, annually.

Composition:

The Capital Improvement Plan Committee is made up of the City Manager, the Deputy City Managers and the Director of Budget.

Functions:

1. Develop a Five-Year Capital Improvement Plan based on the anticipated construction or capital acquisition needs of all departments under the control of the City Council. Submit to the City Council for its information the suggested Five-Year Capital Improvements Plan including:

   a) Total estimated costs;
   b) Recommendations concerning scheduling and financing the program; and
   c) The correlated fiscal impact of other taxing units' capital programs. (For example, new Water Resources.)

SAMPLE POLICY LANGUAGE

2. Establish criteria upon which project priority may be based, to include but not limited to:

   a) Effect on the assessed valuation of the City;
   b) Interrelationship of each project with other projects;
   c) Effect of each project on the quality of life and progress of the City;
   d) The number of residents favorably or adversely affected by each completed project;
   e) Each project's relationship to the Comprehensive Development Plan with emphasis upon the Five-Year Capital Improvement Plan and the community development objectives.

3. Determine a priority for each project within the program based upon the established criteria;

4. Secure supporting data, justification for proposed projects, accurate cost estimates and a listing of departmental services and facilities and projected operating costs related to each capital project.

5. Submit a Capital Improvements Plan within such principles, limitations or guidelines as established by the City Council and City Charter Support the Budget office in coordinating and expediting completion of the Capital Improvements Plan as recommended to the City Council.

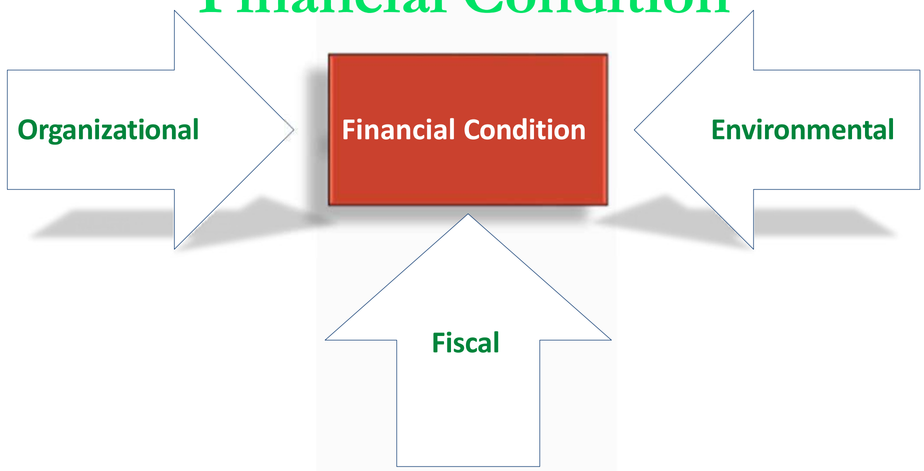
6. Ensure that "abandoned" projects are clearly explained and labeled.

Understanding Fiscal Capacity / Fiscal Conditions

What is the Fiscal Condition?

Your municipality's ability to finance expected services on a continuing basis.

Factors that Affect Financial Condition



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Four Components of Financial Condition

- Cash Solvency
- Budgetary Solvency
- Long-term Solvency
- Service Level Solvency

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Factors Affecting Cash Solvency

- Billing cycles do not coincide with cash flow requirements.
- Receivables not being enforced timely.
- Lack of Internal Controls/Policy/Procedure
- Economic stress
- Inflationary Pressure

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Factors Affecting Budgetary Solvency

- Deficient budgeting procedures.
- Lack of knowledge about real program costs.
- Failure of management to understand:
  - Financial information
  - Proper budget preparation
  - Set Policy and Internal Controls
  - Monitoring procedures

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Factors Affecting Budgetary Solvency

- Federal, State and local mandates/restrictions
  - Tax Cap/ statutory limits
  - Declining or reduced state or federal aid
- Declining population or industry
- Large, unplanned population growth
- Severe weather

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Factors Affecting Service Level Solvency

- Stagnant or shrinking tax base.
- High level of tax exempt properties.
- Lack in growth of revenues.
- Lack of control over rising costs.
- The true cost of providing services.

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Factors Affecting Long-Term Solvency

Non-existent or inadequate multiyear financial planning may lead to:

- Deteriorating infrastructure
  - Lack of funds for contractual and debt payments.

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Other Factors Affecting Financial Condition

- Community needs and resources
- Economic and environmental conditions
- Political culture

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Analysis and Identification of Fiscal Stress

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Sources of Information

- Financial statements and notes
- Multi-year comparisons
  - Local officials/ managers
  - Bond rating agencies
- State and Federal Data

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Before you Begin

- Analyze data integrity
  - Is the data from a reliable source?
  - Are the numbers current and complete?
  - Are there any data or methodological assumptions to be aware of?
  - Do the trends or results intuitively make sense?
- Garbage in – Garbage out

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Analysis

Fund balance

Operating surplus/ deficit

Liquidity

Debt

Other

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Assessing Financial Condition

- Assess each fund individually
- Assess unit as a whole – keeping in mind legal and/or other restrictions
  - Are there funds which can legally provide assistance /loans to other funds?
  - Avoid using tax revenues from one tax base to fund expenditures for another tax base (i.e., lighting districts, sidewalk districts, refuse collection, etc.)

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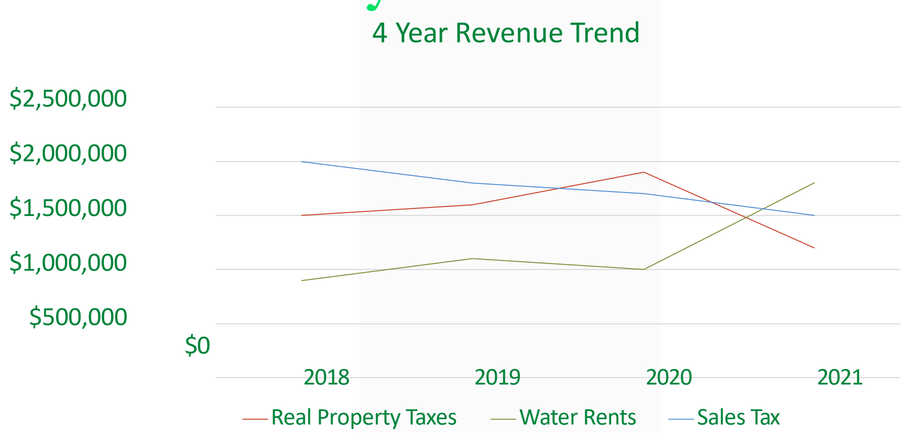
Trend Analysis



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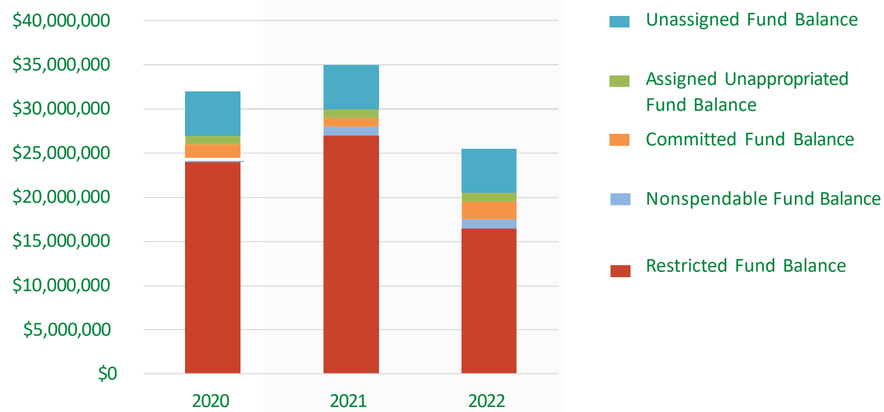
Fund Balance



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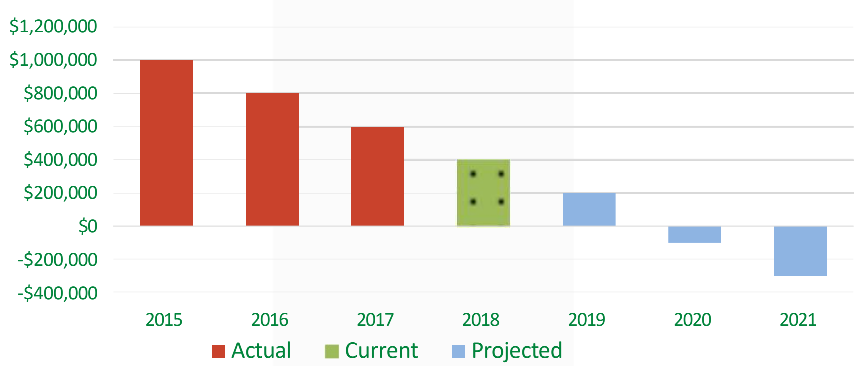
Fund Balance May Not Last Forever

General Fund Unassigned Fund Balance



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Results of Operations

Change in Fund Balance and Operating Results	2019	2020	2021
Beginning Fund Balance	**$27,045,326**	**$30,957,589**	**$34,150,384**
Prior Period Adjustment – Increase	$0	$1	$0
Prior Period Adjustment – Decrease	$0	$0	$0
Restated Beginning Fund Balance	**$27,045,326**	**$30,957,590**	**$34,150,384**
Actual Revenues	$110,609,918	$110,582,058	$113,795,342
Actual Expenditures	$106,697,655	$107,389,264	$123,392,687
Operating Surplus / (Deficit)	**$3,912,263**	**$3,192,794**	**($9,597,345)**
Ending Fund Balance	**$30,957,589**	**$34,150,384**	**$24,553,039**

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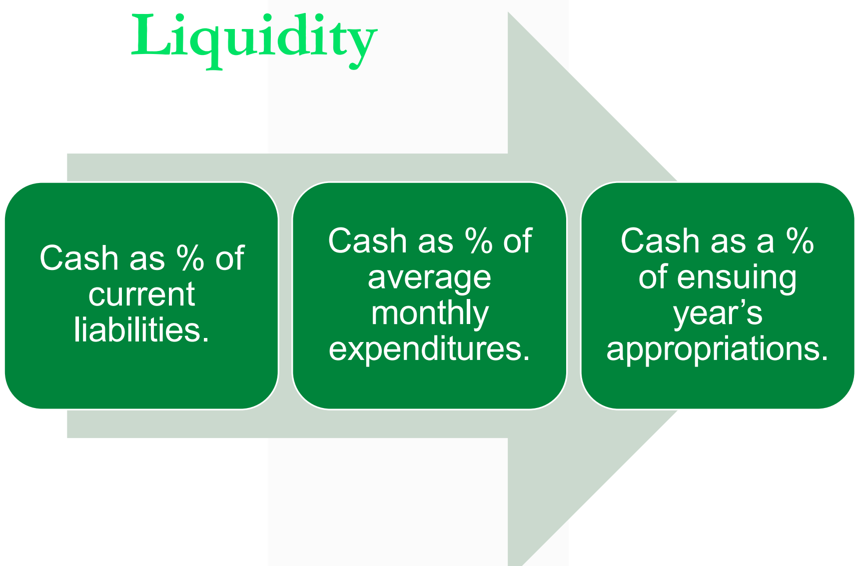
Liquidity



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Cash Position

Unrestricted Cash	2019	2020	2021
Cash	$13,664,597	$14,133,780	$16,493,181
Total Unrestricted Cash	**$13,664,597**	**$14,133,780**	**$16,493,181**
Total Unrestricted Cash as a % of Ensuing Year's Budgeted Appropriations	12.25%	12.49%	14.07%
Restricted Cash	**2019**	**2020**	**2021**
Cash, Reserves	$19,032,749	$22,757,049	$23,026,786
Total Restricted Cash	**$19,032,749**	**$22,757,049**	**$23,026,786**
Restricted Fund Balance	$23,624,179	$26,801,718	$16,111,779
Restricted Cash Sufficient to Fund Restricted Fund Balance	($4,591,430)	($4,044,669)	$6,915,007
Total Cash			
Total Cash (200-235)	**$32,69[illegible],346**	**$36,89[illegible],829**	**$39,51[illegible],967**

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Debt

Fiscal Stress Considerations:

- Short-term debt
  - could be indicative of a cash flow problem.
  - may be the source of funding for deficit fund balances.
- Long-term debt for relatively small purchases or projects.

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Other Analysis

Budgeting

Interfund activity

Long-term debt per capita

Tax levy/ tax rates

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Budgeting

Perform budget vs actual analysis

Analyze the ability to adopt and successfully monitor budgets:

- No budget modifications

Significant budget vs actual differences

- Consistent significant budget modifications

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Questions?

Thank you

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