

Capital Improvement Programs

11.438 Economic Development Planning

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Capital Improvement Programs

- Just as the operating budget is the year-to-year map on how to raise and spend money, municipalities have longer term tools as well.
- One is the long range financial forecast, used to track trends and forecast ability to maintain services
- Another is the Capital Improvement Program

Capital Improvement Programs

- What is a Capital Project? Long lived infrastructure, durable goods like vehicles, housing developments, land acquisition.
- Can be anything over a certain cost, or anything designed to last for more than 1 year.
- Can a study be a Capital Project? Yes, if expensive enough, in some municipalities

Capital Improvements for Economic Development

- Utility and stormwater/sewer work
- Roadway Extensions/Reconstructions
- Placemaking
- Capital Grants to Businesses
- Transit capital improvements
- Strategic siting of public buildings and uses
- Park and open space improvements

How do you Develop a CIP?

- What are your Capital Needs?
- How much money do you have to pay for them? Annual appropriations or bonds?
- How do you put them together?
- Generally they are fiscally constrained documents for a 5 year period. Year 1 is “real” and the other years are enlightened guesses.

Who Runs the CIP Process?

- Usually Finance Departments.
- In Massachusetts the Planning Board is technically responsible for the CIP, but in practice it is usually managed by the CEO and Finance Director
- Planning Board approval usually a formality

How Common Are They?

- More common in a City Manager form than strong Mayor. Any idea why that might be?
- When they do exist, often loose connection to land use planning.
- When they do exist they may not always be fiscally constrained.

Process for developing a CIP

- Set budget based on policies
- Fund by debt vs. operating costs
- Solicit project ideas from departments internally
- Figure out a public participation
- Develop selection process and prioritization process for projects
- Develop draft CIP

Process for Developing a CIP (2)

- Present draft CIP to adopting authority
- Refine CIP and fiscal forecasts (if needed)
- Present final CIP for approval
- First year of CIP becomes part of budget needing local legislative approval

ICMA Suggestions

1. Proceeds from long-term debt will not be used for current, ongoing operations.
2. Long-term borrowing will be confined to capital improvements too large to be financed from current revenues.
3. Bonds will be paid back within a period not to exceed the expected useful life of the capital project.
4. Where possible, special assessment, revenue, or other self-supporting bonds will be used instead of general obligation bonds.
5. Good communication with bond rating agencies will be maintained, and a policy of full disclosure on every financial report and bond prospectus will be followed.
6. Long-term debt issuance will have a level debt service with a life no greater than the expected life of the capital improvement being financed and no greater than 20 years.

How Much to Borrow?

Overall net debt as a percentage of assessed or market valuation. Under 10% and no rapid changes

Overall net debt per capita/household as a percent of per capita/household income. Standard and Poor's index. Should be below 15%

Net Debt Service as a percentage of net operating revenues. Should be below 20% for high credit rating

Recommendations from Elmer for Planners in CIP process

1. Establish policies linking CIP to land use plan
2. Develop support for land use plans through capital investments
3. Influence others' capital facilities (externally)
4. Use conservation and other strategies for environmental benefit
5. Increase public participation in process

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Spring 2020

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