R-17

James Johnson
City of Long Beach
Councilmember, Seventh District

Date: December 14, 2010

To: Honorable Mayor and Members of the City Council

From: Councilmember James Johnson, Seventh District J.J.
Councilmember Gerrie Schipske, Fifth District GS
Councilmember Dee Andrews, Sixth District DA

Subject: Request Long-Term Capital Improvement Plan for FY 2012 Budget

RECOMMENDATION:

Request the City Manager prepare a long-term capital improvement plan to be included with the fiscal year 2012 budget.

DISCUSSION

Spending on capital projects is long term in nature, as the projects tend to span fiscal years. They also provide long-term benefit. These considerations are why capital projects should be planned for over a multi-year period, as opposed to a one-year period typical of the City's operational expenses.

Long Beach's Capital Improvement Plan (CIP) is currently a one-year plan. The best practice in public finance is recognized to be a multi-year plan, generally from three to ten years. According to the Government Finance Officers Association, "It is extremely difficult for governments to address the current and long-term needs of their constituents without a sound multi-year capital plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts." (See "Best Practice: Preparing and Adopting Multi-Year Capital Planning (2006)," attached)

Also, in an audit completed in July 2008, the City Auditor made the following recommendations:

"Implement a multi-year capital plan. The importance of capital needs can be much better communicated to the council, executive management and citizens with such a document. It is difficult to make the case for funding without a plan. While an inventory of street condition is an important planning tool, and an estimate of total needs is also useful, the City needs a realistic plan for at least five years to show what it can do with resources that are likely to be made available." (July 2008 Long Beach Streets Audit, Pages 3 and 23)

While funding for many of these projects may be unavailable, it remains useful to know what the approximate cost of these projects are, and what the priority projects are for the City when and if funds do become available. Thus, Long Beach should implement a multi-year Capital Improvement Plan for FY12. While this plan would span several years, it would be amended each year by Management and Council as part of the normal budget process.

Public Works and the City Manager have indicated that a five-year Capital Improvement Plan would be ideal and would allow those departments to start prioritizing projects listed in the Unfunded Projects section of the most recent Capital Improvement Plan for Council input and consideration. As part of this plan, Management should take care that the capital needs presented are based on current information whenever possible.

FISCAL IMPACT

Long-term capital planning is essential for the efficient use of resources. For example, preventative maintenance today can avoid large capital expenditures tomorrow. To the extent long-term capital planning encourages such capital investments, there will be a significant but unknown positive fiscal impact.

BEST PRACTICE

Preparing and Adopting Multi-Year Capital Planning (2006) (CEDCP)

Background. Buildings, infrastructure, technology, and major equipment are the physical foundation for providing services to constituents. The procurement, construction, and maintenance of capital assets are a critical activity of state and local governments, school districts, and other government agencies, and therefore require careful planning.

Capital planning is critical to water, sewer, transportation, sanitation, and other essential public services. It is also an important component of a community's economic development program and strategic plan. Capital facilities and infrastructure are important legacies that serve current and future generations. It is extremely difficult for governments to address the current and long-term needs of their constituents without a sound multi-year capital plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts.

A properly prepared capital plan is essential to the future financial health of an organization and continued delivery of services to citizens and businesses.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets. A prudent multi-year capital plan identifies and prioritizes expected needs based on a community's strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more.

Identify needs. The first step in capital planning is identifying needs. Using information, including development projections, strategic plans, comprehensive plans, facility master plans, regional plans, and citizen input processes, governments should identify present and future service needs that require capital infrastructure or equipment. In this process, attention should be given to:

- Capital assets that require repair, maintenance, or replacement that, if not addressed, will result in higher costs in future years
- Infrastructure improvements needed to support new development or redevelopment
- Projects with revenue-generating potential
- Improvements that support economic development
- Changes in policy or community needs

Determine costs. The full extent of project costs should be determined when developing the multi-year capital plan. Cost issues to consider include the following:

- The scope and timing of a planned project should be well defined in the early stages of the planning process
- Agencies should identify and use the most appropriate approaches, including outside assistance, when estimating project costs and potential revenues
- For projects programmed beyond the first year of the plan, governments should adjust cost projections based on anticipated inflation

- The ongoing operating costs associated with each project should be quantified, and the sources of funding for those costs should be identified
- A clear estimate of all major components required to implement a project should be outlined, including land acquisition needs, design, construction, contingency and post-construction costs
- Recognize the non-financial impacts of the project (e.g., environmental) on the community

Prioritize capital requests. Governments are continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing capital project requests is a critical step in the capital plan preparation process. When evaluating project submittals, governments should:

- Reflect the relationship of project submittals to financial and governing policies, plans, and studies
- Allow submitting agencies to provide an initial prioritization
- Incorporate input and participation from major stakeholders and the general public
- Adhere to legal requirements and/or mandates
- Anticipate the operating budget impacts resulting from capital projects
- Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, pay back period, cost-benefit analysis, life cycle costing, cash flow modeling)
- Re-evaluate capital projects approved in previous multi-year capital plans
- Use a rating system to facilitate decision-making

Develop financing strategies. GFOA recognizes the importance of establishing a viable financing approach for supporting the multi-year capital plan. Financing strategies should align with expected project requirements while sustaining the financial health of the organization. Governments undertaking a capital financing plan should:

- Anticipate expected revenue and expenditure trends, including their relationship to multi-year financial plans
- Prepare cash flow projections of the amount and timing of the capital financing
- Continue compliance with all established financial policies
- Recognize appropriate legal constraints
- Consider and estimate funding amounts from all appropriate funding alternatives
- Ensure reliability and stability of identified funding sources
- Evaluate the affordability of the financing strategy, including the impact on debt ratios, taxpayers, ratepayers, and others

References

- *Capital Improvement Programming: A Guide for Smaller Governments,* GFOA, 1996.
- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting,* National Advisory Council on State and Local Budgeting, GFOA, 1998.
- GFOA Best Practice, "Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets," 2001.
- GFOA Best Practice, "Establishing the Useful Life of Capital Assets," 2002.
- *Capital Budgeting and Finance: A Guide for Local Governments,* International City/County Management Association, 2004.
- "Managing the Capital Planning Cycle: Best Practice Examples of Effective Capital Program Management," *Government Finance Review,* June 2004.
- GFOA Best Practice, "Establishment of Strategic Plans," 2005.

Approved by the GFOA's Executive Board, February 24, 2006.