



August 24, 2024

---

# Establishing a Capital Improvements Plan

---

Dear Reader:

The following document was created from the CTAS website ([ctas.tennessee.edu](http://ctas.tennessee.edu)). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

The University of Tennessee  
County Technical Assistance Service  
226 Anne Dallas Dudley Boulevard, Suite 400  
Nashville, Tennessee 37219  
615.532.3555 phone  
615.532.3699 fax  
[www.ctas.tennessee.edu](http://www.ctas.tennessee.edu)

Table of Contents

<b>Establishing a Capital Improvements Plan .....</b>	<b>. 3</b>
<b>CIP Steps 1 - 5 .....</b>	<b>. 5</b>
<b>CIP Steps 6 -10 .....</b>	<b>. 6</b>
<b>CIP Steps 11-16 .....</b>	<b>. 6</b>
<b>Capital Improvements Plan Policy Considerations .....</b>	<b>. 7</b>

# Establishing a Capital Improvements Plan

Reference Number: CTAS-1705

We have identified 16 steps to developing a CIP and various policy considerations within these steps. The ultimate goal for a CIP is the establishment and maintenance of credibility among departments, elected officials, and the public.

## Step One—Study Committee of Legislative Body and Department Heads

Starting the process, the legislative body could appoint a committee of its members, elected officials, and local government staff to formulate a basic plan and resolution authorizing the capital improvements plan.

## Step Two—Authorization Establishing the CIP

The county legislative body should authorize the capital improvements plan. This authorization is by an approved resolution. Sample Authorizing Resolution.

## Step Three—CIP Committee

Since local government usually involves many elected officials and various agencies, it is recommended that a committee be established with the authority to set policies and implement procedures for the CIP. The committee could be made up of legislative body members and key department heads.

## Step Four—Coordinator and Staff Assignments

A person should be assigned the task of coordinating the CIP and sufficient staff should be assigned to assist the coordinator in administering the CIP.

## Step Five—Annual Calendar for CIP Preparation

Below is a suggested annual calendar for preparing the capital improvement program and submitting it for approval.

<u>MONTH</u>	<u>ACTIVITY</u>
September 1	Distribute CIP manual, forms, and computer work sheets
September 15	Briefing session for all departments
October 1 to November 15	Each department prepares information
November 15	Each department submits CIP requests
December 1	Consolidate all requests into a master plan
December 15	CIP committee reviews and prepares recommendations
Jan. 1 to Jan. 31	CIP committee presents CIP to legislative body for review
Feb. 1 to Feb. 28	Legislative body holds hearings for department heads and public
March 1 to March 31	Master plan developed with modifications
March 31	Legislative body approves plan and funding
April 1	Departments begin implementing plan

## Step Six—CIP Forms

In order to analyze the cost and priority of each capital improvement project request submitted, a form should be developed itemizing the major factors to be considered. Sample CIP Request Form; the top portion or front of the form provides detailed cost and description and the bottom or back of the form provides a means to evaluate and set a priority for each project.

## Step Seven—Public Involvement

The degree and amount of public involvement will depend on local conditions; however, if the project will result in a major tax increase, it is recommended that the public be involved from the beginning of the planning and evaluation. It seems that the more knowledge a person has of the problem, the more likely he or she will respond positively to a solution. The public's involvement can be achieved by issuing a Public Survey.

## Step Eight—Needs Analysis—Capital Investment Records

How can you make an intelligent decision unless the facts are available relative to quantity, quality, and age of facilities and equipment? Few local governments have historically maintained adequate records of capital improvements, and of these only several have all the facts readily available for use in planning the replacement of buildings and equipment. This section of your plan should show how a records and information systems could be maintained. The threshold dollar amount may vary from government to government depending on the policies they have established.

## Step Nine—Consolidated Capital Improvement Project Schedule

A schedule for consolidating all capital improvement requests for the year showing the estimated cost and possible funding sources is suggested. This schedule could be used as the master listing of all projects for evaluation by the CIP Committee and legislative body. A schedule for presenting all projects closed out during the last fiscal year and all current projects is also suggested.

### Step Ten—Prioritizing Projects

No perfect system has been developed for evaluating and prioritizing capital improvement projects; however the county legislative body should develop a system of prioritization which would include issues related to safety, legal, education, value of life, and conveniences.

### Step Eleven—Financial Analysis and Impact

After developing a capital improvements plan or receiving a request for capital improvements, the CIP committee and local legislative body must determine how much the local government can afford and how it will pay for the improvement. This section of your plan should discuss the logical steps in analyzing current debt requirements and funding sources. CTAS's Debt Management Workshop class discusses issues related to the county's current operating debt payments and projects future payments in a multi-year budget plan.

Public hearings and news articles seem to be the most used means of communicating with the public, but regardless of the means, the information should be correct and complete. Credibility should never be compromised by intentionally misleading the public or providing inaccurate information.

### Step Twelve—CIP Committee's Report and Recommendations to Legislative Body

When all the input and documents from department heads, staff, and public have been analyzed, a report and recommendations should be given to the legislative body.

### Step Thirteen—Legislative Body Consideration and Adoption

The legislative body's task is to weigh the necessity of the projects with the availability of funds and the amount of tax increase, if needed. After serious deliberations and consideration of all the facts, the adoption process of the legislative body involves three phases:

Phase One. CIP Document—The first phase is the adoption of the CIP multi-year planning document, with tentative approval of project scheduling in the second year and thereafter. It must be clear to the legislative body that the CIP document is a planning document with budget authorization and funding included in the second and third phases.

Phase Two. Capital Budget and Financing—In this phase, a capital budget is approved for various capital project funds for different departments. This authorization is for new projects to begin in the current or ensuing fiscal year, and the budget format would be similar to an operating budget except using different account numbers. Once this budget is approved, the department may begin bids and signing contracts for the projects authorized by the capital budget. A second part of this phase is to authorize funding either by issuing capital outlay notes and/or bonds. Once the capital outlay notes or bonds are approved, the local government may issue the notes or bonds immediately using a financial advisor, in most cases, or the local government may borrow temporary cash by either issuing revenue (tax) anticipation notes or bond anticipation notes. The borrowing of temporary cash is similar to construction loans used by private businesses.

Phase Three. Capital Improvement Included in Operating Budgets—In-lieu of authorizing separate capital budgets using capital project funds, the legislative body may approve the purchase of capital improvements in the operating budget for the specific department. Usually this is done when the amount of expenditure is small, and/or when funding is from accumulated funds or excess revenues in the operating budget. In some cases when the expenditure is small, capital outlay notes will be issued and the proceeds placed in the operating budget. If the expenditure is authorized in an operating budget, then the department must wait until the operating budget is approved, or a specific resolution for the expenditure is approved by the legislative body.

### Step Fourteen—CIP Financial Plan

Capital funding sources include

#### **Pay-As-You-Go**

- Annual Revenue – Local Taxes
- Reserves - one time revenue as one time transfer
- Earmarked Revenue
- Special Assessments
- Impact Fees
- Grants/Donations

#### **Debt**

- General Obligation Bonds
- CON – Capital Outlay Notes
- Revenue Bonds

- Capital Leases
- Special Obligation Bonds
- Loan Pools

For additional information, see the Capital Funding Sources and Debt Financing page in e-Li.

Step Fifteen—Implementation, Monitoring, Follow-up and Final Inspection

This may be the most important step since it determines the quality of the project which in some cases could last fifty years or longer. The success of this step and project lies mainly with the department head or official; however, it should be a joint effort of the legislative body, CIP Committee, and the department head. The general areas of concern in this step, which determine the success and quality if properly and extensively managed, are the following:

1. Complete and clear specifications
2. Proper bidding and awarding of the contract
3. Complete contract with surety bond requirements
4. Constant monitoring of specifications and contract with inspection of projects
5. Monthly reporting of project progress and financial condition
6. Encumbrance (obligation) accounting, for the contract and change orders
7. Final inspection and approval by the department head, CIP Committee, and other officials responsible for the operation

Step Sixteen—Use the Asset

Finally, after all is done, the asset is ready for use.

## CIP Steps 1 - 5

Reference Number: CTAS-1706

Step One—Study Committee of Legislative Body and Department Heads

Starting the process, the legislative body could appoint a committee of its members, elected officials, and local government staff to formulate a basic plan and resolution authorizing the capital improvements plan.

Step Two—Authorization Establishing the CIP

The county legislative body should authorize the capital improvements plan. This authorization is by an approved resolution. Sample Authorizing Resolution.

Step Three—CIP Committee

Since local government usually involves many elected officials and various agencies, it is recommended that a committee be established with the authority to set policies and implement procedures for the CIP. The committee could be made up of legislative body members and key department heads.

Step Four—Coordinator and Staff Assignments

A person should be assigned the task of coordinating the CIP and sufficient staff should be assigned to assist the coordinator in administering the CIP.

Step Five—Annual Calendar for CIP Preparation

Below is a suggested annual calendar for preparing the capital improvement program and submitting it for approval.

<u>MONTH</u>	<u>ACTIVITY</u>
September 1	Distribute CIP manual, forms, and computer work sheets
September 15	Briefing session for all departments
October 1 to November 15	Each department prepares information
November 15	Each department submits CIP requests
December 1	Consolidate all requests into a master plan
December 15	CIP committee reviews and prepares recommendations
Jan. 1 to Jan. 31	CIP committee presents CIP to legislative body for review
Feb. 1 to Feb. 28	Legislative body holds hearings for department heads and public
March 1 to March 31	Master plan developed with modifications
March 31	Legislative body approves plan and funding
April 1	Departments begin implementing plan

## CIP Steps 6 -10

Reference Number: CTAS-1707

### Step Six—CIP Forms

In order to analyze the cost and priority of each capital improvement project request submitted, a form should be developed itemizing the major factors to be considered. Sample CIP Request Form; the top portion or front of the form provides detailed cost and description and the bottom or back of the form provides a means to evaluate and set a priority for each project.

### Step Seven—Public Involvement

The degree and amount of public involvement will depend on local conditions; however, if the project will result in a major tax increase, it is recommended that the public be involved from the beginning of the planning and evaluation. It seems that the more knowledge a person has of the problem, the more likely he or she will respond positively to a solution. The public's involvement can be achieved by issuing a Public Survey.

### Step Eight—Needs Analysis—Capital Investment Records

How can you make an intelligent decision unless the facts are available relative to quantity, quality, and age of facilities and equipment? Few local governments have historically maintained adequate records of capital improvements, and of these only several have all the facts readily available for use in planning the replacement of buildings and equipment. This section of your plan should show how a records and information systems could be maintained. The threshold dollar amount may vary from government to government depending on the policies they have established.

### Step Nine—Consolidated Capital Improvement Project Schedule

A schedule for consolidating all capital improvement requests for the year showing the estimated cost and possible funding sources is suggested. This schedule could be used as the master listing of all projects for evaluation by the CIP Committee and legislative body. A schedule for presenting all projects closed out during the last fiscal year and all current projects is also suggested.

### Step Ten—Prioritizing Projects

No perfect system has been developed for evaluating and prioritizing capital improvement projects; however the county legislative body should develop a system of prioritization which would include issues related to safety, legal, education, value of life, and conveniences.

## CIP Steps 11-16

Reference Number: CTAS-1708

### Step Eleven—Financial Analysis and Impact

After developing a capital improvements plan or receiving a request for capital improvements, the CIP committee and local legislative body must determine how much the local government can afford and how it will pay for the improvement. This section of your plan should discuss the logical steps in analyzing current debt requirements and funding sources. CTAS's Debt Management Workshop class discusses issues related to the county's current operating debt payments and projects future payments in a multi-year budget plan.

Public hearings and news articles seem to be the most used means of communicating with the public, but regardless of the means, the information should be correct and complete. Credibility should never be compromised by intentionally misleading the public or providing inaccurate information.

### Step Twelve—CIP Committee's Report and Recommendations to Legislative Body

When all the input and documents from department heads, staff, and public have been analyzed, a report and recommendations should be given to the legislative body.

### Step Thirteen—Legislative Body Consideration and Adoption

The legislative body's task is to weigh the necessity of the projects with the availability of funds and the amount of tax increase, if needed. After serious deliberations and consideration of all the facts, the adoption process of the legislative body involves three phases:

Phase One. CIP Document—The first phase is the adoption of the CIP multi-year planning document, with tentative approval of project scheduling in the second year and thereafter. It must be clear to the legislative body that the CIP document is a planning document with budget authorization and funding included in the second and third phases.

Phase Two. Capital Budget and Financing—In this phase, a capital budget is approved for various capital project funds for different departments. This authorization is for new projects to begin in the current or ensuing fiscal year, and the budget format would be similar to an operating budget

except using different account numbers. Once this budget is approved, the department may begin bids and signing contracts for the projects authorized by the capital budget. A second part of this phase is to authorize funding either by issuing capital outlay notes and/or bonds. Once the capital outlay notes or bonds are approved, the local government may issue the notes or bonds immediately using a financial advisor, in most cases, or the local government may borrow temporary cash by either issuing revenue (tax) anticipation notes or bond anticipation notes. The borrowing of temporary cash is similar to construction loans used by private businesses.

Phase Three. Capital Improvement Included in Operating Budgets—In-lieu of authorizing separate capital budgets using capital project funds, the legislative body may approve the purchase of capital improvements in the operating budget for the specific department. Usually this is done when the amount of expenditure is small, and/or when funding is from accumulated funds or excess revenues in the operating budget. In some cases when the expenditure is small, capital outlay notes will be issued and the proceeds placed in the operating budget. If the expenditure is authorized in an operating budget, then the department must wait until the operating budget is approved, or a specific resolution for the expenditure is approved by the legislative body.

#### Step Fourteen—CIP Financial Plan

Capital funding sources include

##### **Pay-As-You-Go**

- Annual Revenue – Local Taxes
- Reserves - one time revenue as one time transfer
- Earmarked Revenue
- Special Assessments
- Impact Fees
- Grants/Donations

##### **Debt**

- General Obligation Bonds
- CON – Capital Outlay Notes
- Revenue Bonds
- Capital Leases
- Special Obligation Bonds
- Loan Pools

For additional information, see the Capital Funding Sources and Debt Financing page in e-Li.

#### Step Fifteen—Implementation, Monitoring, Follow-up and Final Inspection

This may be the most important step since it determines the quality of the project which in some cases could last fifty years or longer. The success of this step and project lies mainly with the department head or official; however, it should be a joint effort of the legislative body, CIP Committee, and the department head. The general areas of concern in this step, which determine the success and quality if properly and extensively managed, are the following:

1. Complete and clear specifications
2. Proper bidding and awarding of the contract
3. Complete contract with surety bond requirements
4. Constant monitoring of specifications and contract with inspection of projects
5. Monthly reporting of project progress and financial condition
6. Encumbrance (obligation) accounting, for the contract and change orders
7. Final inspection and approval by the department head, CIP Committee, and other officials responsible for the operation

#### Step Sixteen—Use the Asset

Finally, after all is done, the asset is ready for use.

## Capital Improvements Plan Policy Considerations

Reference Number: CTAS-1709

A number of software packages are available to assist the local government in establishing and maintaining a Capital Improvement Plan. By implementing new accounting standards over the last number of years, counties have better and more accessible data related to their capital assets. With the use of fixed asset accounting and related software, along with insurance policies and the schedule of the insured capital assets, local officials have a baseline start on what assets are in use by the county, the age of the assets, and the intended use of the assets. A county would need to make certain that their insured assets are correctly identified and dated, and then evaluate their future life expectancy.

The process establishing a CIP program and related policy considerations vary from local government to local government based on capital improvement future needs, prior capital needs met and procedures used to meet those needs. A program identified and periodically reviewed assists the county leaders in keeping the policy makers aware of issues, needs, and considerations related to capital improvement and asset management.

**Recommended Practice:** Develop a CIP program by reviewing insured and inventoried assets, accounting general ledger records, and performing a simple walk around evaluation of assets and services provided by the government.

---

**Source URL:** <https://www.ctas.tennessee.edu/eli/establishing-capital-improvements-plan>