

# ARLINGTON COUNTY CAPITAL IMPROVEMENT PROGRAM

## Funding Criteria and Process

### **I. Funding Criteria**

In general, to qualify for funding through the County's capital budget, a capital facilities project or program element must have a cost of more than \$25,000 and a useful life in excess of 10 years. Information technology investments, such as computer hardware, software, networking or public safety communications equipment have a range of useful lives. Projects that are smaller or that must be undertaken as part of a scheduled maintenance program are normally funded through the operating budget.

The County's annual budget process includes the preparation of the upcoming year's operating budget, the upcoming year's Pay-As-You-Go (PAYG) capital budget. The six-year Capital Improvement Program (CIP) will be updated biennially. The County Board appropriates each annual Pay-As-You-Go capital budget at the same time as the annual operating budget. The funding levels contained in the out years of the CIP are based on current information about the County's future capital needs and will be updated on a biennial basis.

Through the biennial CIP process, the County strives to develop and update plans and recommendations aimed at achieving a number of objectives. Based on the direction of the County Board and the County Manager and in coordination with the recommendations of the Capital Task Force, additional emphasis was placed on the need to develop sound master plans for each program area. The objectives of this CIP are:

- reflect County Board and community priorities through the use of inclusive public planning processes;
- maintain and improve the basic infrastructure of the County through public facility construction and rehabilitation;
- maximize the useful life of capital investments by scheduling major renovations and modifications at the appropriate time in the life cycle of the facility or equipment;
- identify and examine future infrastructure needs and establish priorities among projects so that available resources are used as effectively and efficiently as possible; and
- improve financial planning by comparing needs with resources, estimating future bond issues and identifying potential fiscal implications.

Arlington's six-year CIP is one of the County's significant planning processes. This plan identifies the capital needs of the community and indicates how these capital needs will be funded over the six year period. The CIP brings together for implementation the County's other major planning documents, including the General Land Use Plan, the Zoning Ordinance and County Map, the Open Space Master Plan, the Master Transportation Plan, the Storm Sewer System Plan, the Water Supply and Distribution Plan, the Sanitary Sewer Plan, and the Pedestrian Master Plan. Each of the existing plans is periodically updated based upon changing community and infrastructure needs. Arlington County Public Schools also completes its own planning process each spring that results in the development of its annual capital improvement plan for school facilities.

The CIP is primarily a planning document. As such, it is subject to change each year as the needs of the community become more defined and the adopted projects move closer to final approval. In order to mitigate the changes in funding amounts, the County Manager has instructed that all large projects first request funding for planning and A&E (architectural and engineering). Once projects have completed the planning process, which includes a full community process, scope definition, and initial design, funding for construction costs can be requested. It is anticipated that this process will allow for improved accuracy in cost estimating.

## II. Sources of Funding

Funding for capital improvements comes from a number of major sources. These funds are generated through local taxes, fees, charges, outside funding or other similar sources. The availability of these funds is sensitive to economic cycles. When economic growth is diminished, the amount of revenues available for capital improvements is compromised.

The annual appropriation of **Pay-As-You-Go (PAYG) funds** provides the greatest flexibility because Arlington has opted to seek voter approval for bond financing every other year. Because the CIP must balance the financing of projects with their respective construction schedules, it is important to consider the timing of a project when determining the appropriate funding method. For example, a project that is to be constructed in conjunction with private sector development should be funded in time to meet the developer's construction schedule so that the County benefits from concurrent project construction.

The Capital Action Team recommended the creation of the **Capital Assets Preservation Program (CAPP)** to be funded through Pay-As-You-Go funds. The purpose of the CAPP is to ensure that existing capital assets are maintained in reliable, serviceable condition and periodically updated and renewed as necessary to continue achieving that purpose. The Capital Action Team further recommended that future maintenance and minor renovation projects be funded through the CAPP fund.

Use of a CAPP fund is being introduced in this CIP in several program areas, including Local Parks and Recreation, Transportation and Pedestrian Initiatives, and Government Facilities. However, in order to create a more effective CAPP fund, a comprehensive facility maintenance inventory will be developed. This inventory will include an equipment replacement and facility renovation schedule, and will be based on updated condition surveys, best management practices and recommended overhaul/replacement cycles.

The second source of funding for capital projects is **bond financing**. This source of funding is generated through the borrowing of funds (principal) at a cost (interest) through the sale of municipal bonds. There are several types of bond financing, including general obligation bonds and project revenue bonds. Arlington County usually issues general obligation bonds, which must first be approved by the County's voters. Arlington County's practice is to schedule bond referenda for even-numbered calendar years, which correspond to odd-number fiscal years. One of the criteria used to determine which projects will be funded with bond proceeds is the useful life of the improvement (i.e. "pay-as-you-use"). Projects funded with bond proceeds generally have a useful life that is similar in length to the repayment schedule of the bonds, which is generally from one to 20 years. Arlington typically sells 20-year serial bonds and aggressively repays about five percent of the bond principal each year. The average bond principal is outstanding for approximately 11 years.

A third source of funding for capital is **inter-jurisdictional payments**. Arlington County sometimes agrees to provide services to other jurisdictions through contractual agreements. For example, wastewater treatment services for some areas of Alexandria, Falls Church, and Fairfax County are provided by Arlington County's Water Pollution Control Plant. These jurisdictions also share in the cost of capital improvements of this facility, thus reducing the cost to Arlington County users.

**Lease-purchasing finance** represents another source of capital financing where the government agrees to lease a facility (or has a facility constructed and then leases it) or equipment and to provide lease payments over a fixed term in exchange for financing. In this type of lease, the County makes "subject to appropriation" equity payments within its lease and thereby can gain full ownership without remaining financial obligations of the facility at the end of the equity lease. This type of financing can take advantage of tax-exempt financing or private sector financing, and it fits well with the financing of County office buildings, other County buildings, communications or computer equipment.

**Hook-up fees** are another source of capital funding. These fees are assessed to developers and builders to join the water and sewer systems, based on the cost of capacity (volume) of the systems being “used up” by the customer. These funds are programmed during the annual budget process for capital expansion projects.

**Developer contributions** are also a small but important source of funding. These are contributions paid by developers to finance specific projects. Examples of these projects are utility undergrounding and street lighting.

Finally, there are **grants** and **reimbursements** from the state and federal governments. These are funds provided by the Commonwealth of Virginia or the federal government for reimbursement of costs for certain capital improvements. Whenever possible, state or federal reimbursement is sought to offset County tax support and is included in the planning process. (See the Transportation and Pedestrian Initiatives section of the CIP for some current examples.)

### **III. Explanation of the Current Process**

Capital projects originate from a variety of sources. In some cases, individual residents request improvements to their streets, playgrounds or other County facilities. County Board appointed Commissions, Advisory Groups, and Task Forces might advise the Board or develop long-term plans that recommend certain types of improvements. Neighborhood associations and business groups also might suggest projects and work with County staff on their design. Some types of projects are initiated by staff using their professional judgment, especially in areas in which the public may not be aware of the need, such as storm drainage.

Projects most often come forward through a sponsoring department, which is responsible for their implementation. Being aware that there are always more project proposals submitted than can be funded in a given year, departments undertake an internal ranking of projects. The criteria used in this internal ranking varies among departments depending on their mission, but frequently involve public requests, safety issues, and conformance with Board approved master plans. The departments also transmit the recommendations of the commissions they staff, such as the Parks and Recreation Commission, Commission for the Arts, etc.

Beginning this CIP cycle, the County Manager appointed a member of his staff to oversee the development of the capital budget. Departments submitted their CIP requests to the County Manager’s Office and the Department of Management and Finance (DMF) in March. The CIP Task Force, an interdepartmental committee, reviewed the submissions and forwarded recommendations to the County Manager for his review.

In addition to a member of the County Manager’s staff and the capital analyst from DMF, the CIP Task Force consists of technical staff from the Office of Support Services; Department of Public Works; Department of Parks, Recreation and Community Resources; Department of Community Planning, Housing and Development; Department of Environmental Services; Department of Technology Services and the Fire Department. The CIP Task Force has a uniform set of standards (known as Capital Readiness Standards) that are applied to all project requests. The most important of these deals with linkage to an adopted master plan; alleviation of threats to the public or employee health and safety; funding of projects imposed upon the County by state or federal mandates; pre-existing legal obligations of the County; protection of private property; preventative or corrective actions to existing facilities to protect the County’s investment; and enhancement of the natural and social environment of the County. The task force also considers current and future fiscal impact, costs of deferring a project, alternative funding sources, and County and private development goals and plans. Constituencies for a project are always important factors that are considered as well.

This year, the CIP Task Force will also work to implement the recommendations of the Capital Action Team to improve the CIP process and prepare for the next biennial review of the CIP scheduled to formally begin in CY 2004.