

# **EXECUTIVE SUMMARY OF THE CAPITAL ACTION TEAM**

**JANUARY 2002**

## **REPORT TO THE COUNTY MANAGER**

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The Capital Action Team was charged with assessing the current Capital Improvement Program (CIP) including the process, content and implementation, and with making recommendations for how the program could be, or should be, improved. The Team researched best practices among communities rated highly for capital management by Governing Magazine, Aaa/AAA/AAA bond rated communities and neighboring jurisdictions. The Team also interviewed representatives from commissions, staff that have been involved in the CIP, department heads and representatives from Arlington Public Schools.

Arlington is a Aaa/AAA/AAA rated community with a healthy economy and a history of good fiscal management. Arlington's budgets regularly receive awards for fiscally responsible programs, including the CIP. From the research, the Capital Action Team has determined that the current CIP is not broken, but could benefit from improvements to the format and process, and should be driven more by planning than by budget. As community expectations change, financial constraints tighten, and information systems become available to expand our capacity to provide more meaningful information, now is an opportune time to make improvements.

There is an inextricable link between the CIP and the budget and fiscal policies. Arlington has traditionally taken a revenue-driven approach to the CIP, preparing the CIP with available revenue once the operating budget has been balanced. This approach has led to fluctuating pay-go budgets from year to year. It has also resulted in deferred maintenance of capital assets because of a lack of adequate funding in some years.

Utilizing a revenue-driven approach without comprehensively linking to the County's vision, long-range strategies or plans has led to the creation of a CIP that is a collection of projects. Because the current CIP is not uniformly based on plans, projects not funded in the first year are often placed in future years of the program without real thought, planning or confirmed community support. Common practice has been to not spend money on planning or Architecture and Engineering (A&E) until a funding source has been identified for a project. As a result, some projects are slated for funding as soon as they are identified. This has led to poor project planning, poor cost estimates and a lack of public support when the projects come forward. Another common practice is to place ill-defined projects in the CIP with an asterisk (\*). Typically these projects have not gone through a community planning process and have not been evaluated to determine affordability.

A revenue-driven CIP cannot be done without the essential linkages between community planning processes, needs, and ability to pay. Although some agencies have worked hard to build these linkages, strong linkages are not pervasive. Further, the integration and prioritization of needs across the County is lacking. These problems cannot be resolved by process changes alone; they require organizational structural changes as well. The planning, prioritizing, and citizen involvement requirements for a sound CIP call for leaders steeped in the highest levels of thought and perspective to fairly consider countywide strategic needs and alternatives. We recommend two major changes to address this. First, we recommend the development of a Comprehensive Plan, second, we recommend that the Executive Leadership Team (ELT) be the group that prioritize CIP funding recommendations. Agency heads actively led with hands-on support by high level staff in the Manager's Office is the best way to ensure this is accomplished. It also ensures that the communication on strategic needs is echoed through the agencies.

Processes are needed that ensure planning efforts have a direct link to the CIP and that CIP decision-making is more focused. A biennial CIP would provide an opportunity to incorporate both planning and budgeting processes into a single process. It also would give planners more time to complete community-planning processes and provide a direct linkage to the CIP.

Based on the Team's research, the strengths of the current CIP are:

- Well managed from a fiscal perspective.
- Flexible.
- Delivered some major projects in the past.
- Resulted in Aaa/AAA/AAA bond ratings.

Key aspects of other jurisdictions' best practices that we should consider include:

- Focus on maintenance of capital assets as a priority over new projects (and several have moved in that direction specifically to address years of ignoring maintenance).
- Base CIP on clear, adopted fiscal policies that cover issues such as debt ratios, percentage of capital expenditures to general fund expenditures, and a minimum level of maintenance funding.
- Have policies that the five or six-year plans be affordable.
- Utilize discipline to base the CIP on plans and needs versus following political will.
- Provide strong linkage between plans and the CIP.
- Have contingency funds in capital to address emergencies, opportunities and cost overruns.
- Use internal staff or management teams to review proposals.
- Manage the CIP process from departments other than DMF (Manager's Office, Planning and DPW are the others most often encountered).
- Put CIP on the Web in a PDF format. No searchable databases were found.
- Have extensive citizen processes, including citizen groups that make the final decisions, but mostly rely on the normal public hearings and citizen participation in the processes that lead to the development of plans.
- Have a biennial CIP and operating budget.

The recommendations in this report are categorized into four main themes. These themes are:

- The CIP should be based on the County's vision, its Comprehensive Plan, and departmental strategic plans and goals. A Comprehensive Plan should be developed.
  - The CIP should be based on sound adopted fiscal policies and practices.
  - The CIP process should be more open to the public, with formats of both the CIP book and WEB that are easy to understand.
  - Implementation of CIP projects should be well managed and tracked.
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## **KEY RECOMMENDATIONS BY THEME**

**A. The CIP should be based on the County's vision, its Comprehensive Plan, departmental strategic plans and goals, and adopted fiscal policies. A Comprehensive Plan should be developed.**

1. The County Manager's office should have overall responsibility for strategic planning and integrating plans, creating a comprehensive plan, and should manage the CIP process.
2. The County should inventory, evaluate, and maintain the County's capital assets, and create a separate CIP fund for maintenance with consistent funding.
3. The Executive Leadership Team (ELT) should replace the CIP Task Force as the primary staff review body.
4. The ELT and the County Board should have an annual discussion to set unified strategic goals for the year. These in turn can guide departmental planning and preparation of CIP proposals.
5. Criteria should be established that CIP proposals would be required to meet before being accepted for review.
6. Criteria should be adopted to assist in the prioritization of accepted proposals. These criteria should also emphasize the goals of the CIP.
7. There should be CIP work sessions in the fall for the departments to present CIP program updates to the County Board.

**B. The CIP should be based on sound, adopted fiscal policies and practices.**

1. The County should adopt fiscal policies that guide a comprehensive six-year financial plan for capital and operating programs resulting in an affordable six-year CIP. The fiscal policy should include guidance on financial subject areas, and should be developed in conjunction with operating program fiscal policy.
2. The County Board should adopt a comprehensive debt policy and capital fiscal strategy establishing standard debt targets and constraints governing the amount of debt the County should incur.
3. A fund in the CIP to provide for emergencies and/or opportunities should be established.
4. There should be a direct link between capital decisions and the operating budget. Agencies should detail the impacts on operating costs in their submissions and operating impacts for all projects should be shown in the CIP book.
5. Projects should propose innovative alternatives to full County funding.
6. The County should create a new program called Operations Support for small capital projects (under \$75,000) that will enhance daily operations.

7. Capital funding should reflect community needs based on levels of service discussed and agreed to within department plans and the Comprehensive Plans, and on the maintenance needs based on the CAPP.
8. The County should develop and adopt a financial programming policy that provides the framework for selecting and scheduling funding sources to meet capital needs.
9. The County should establish a definition of “capital” projects.

**C. The CIP process should be more open to the public, presented in formats (budget book and WEB) that are easy to understand.**

1. The public should be involved in the planning process for both master planning or strategic planning of departments, as well as in planning for approved projects that are in development.
2. A new CIP process and timeframe should be implemented.
3. The two-year CIP budget, the six-year CIP, and the operating budget should all be presented and reviewed at the same time and they should be done on a biennial basis.
4. Information on projects in the CIP should be accessible by source of funding, by program areas, by plans to which they relate, and by neighborhood.
5. The CIP presentation should be user-friendly, and provide more information on projects.

**D. Implementation of CIP projects should be well managed and tracked.**

1. All community facility projects should be subject to a community process for preliminary designs and be complete to “35% design” before they are funded. The County should establish a central database of all capital projects with various data elements by project phase including: multi-year adopted project budgets, actual project expenditures to date, project milestones, and projected completion schedules.
  2. There should be an annual CIP report to provide status of projects and dollars expended.
  3. Projects should be evaluated annually to closeout completed projects or to unfund, or reallocate funds.
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