

Alabama GFOA Capital Planning and Asset Management



Government Finance Officers Association

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Greetings to Alabama GFOA

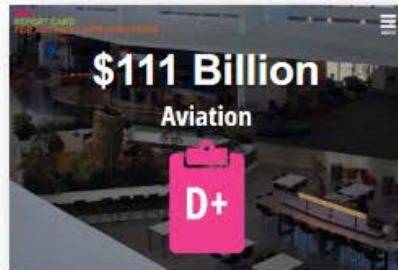
- For over a century, government finance professionals have relied upon the GFOA to provide timely information, practical educational opportunities, high-quality professional publications, and the latest information on best practices.
- There are 21,000 GFOA members
 - You are members of a national community
- Thank you
- Kyle Wedberg, Senior Manager RCC
 - City, State, NGO experience
 - New Orleans, LA

Context

2021 ASCE Report Card

Total
Investment
Gap
\$2.59 Trillion

(up \$0.5 Trillion
in 10 years)



Goals

- Big picture, not in the weeds
 - State and GFOA trainings for the technical aspects of Capital Planning and Asset Management
- Opportunity to interact with each other
- Think about Capital Planning
 - What we didn't know?
 - What may we have taken for granted?
- Take one thing back to your CIP process

“Make no little plans. They have no magic to stir (people’s) blood and probably will not themselves be realized. Make big plans, aim high in hope and work, remembering that a noble, logical diagram once recorded will never die, but long after we are gone will be a living thing, asserting itself with ever growing insistency.”

-Daniel Burnham,
1909 City of Chicago Master Plan

Structure

- Thinking about Capital Planning as a systems process
 - Comprehensive Plan- Planning Department
 - Annual Budget and CIP- Fiscal Office
 - Long Term Financial Plan
- Interrogate reasons do we do a Capital Plan
 - New Projects
 - Replacement of Old Infrastructure
 - Asset Reconditioning
- Stewardship
 - Generational decisions

Agenda

- Definitions
- CIP as a systems process
- Organizing existing and future capital
- Interrogate CIP
- Stewardship
- Remember to experience other presentations this week through the Capital Planning prism

Definitions (cont.)

- Master Plan (also called the Comprehensive Plan, General Plan, or Community Master Plan)
 - “A master plan is a dynamic long-term planning document that provides a conceptual layout to guide future growth and development. Master planning is about making the connection between buildings, social settings, and their surrounding environments. A master plan includes analysis, recommendations, and proposals for a site’s population, economy, housing, transportation, community facilities, and land use. It is based on public input, surveys, planning initiatives, existing development, physical characteristics, and social and economic conditions.” - World Bank
 - “Planners are always thinking about today, but also about what tomorrow might bring. A community plan must meet the needs of its residents today, but also keep the future in mind. A community plan, often called a comprehensive plan, is a kind of map or blueprint for what a community aims to achieve in the future.” Cynthia Bowen, APA

Definitions

○ Capital Assets

- “land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period” – GASB 34

○ Infrastructure Asset

- “long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems” – GASB 34

Definitions (cont.)

- Capital Improvement Plan (CIP)
 - “A Capital Improvement Plan (CIP) describes the capital investments the government intends to make over a multi-year period. A CIP is the basis from which final capital budgeting decisions flow annually.”

-GFOA, Kavanagh, Financial Policies, 2017, 3rd edition

Definitions (cont.)

- GFOA recommends that state and local governments prepare and adopt comprehensive, fiscally sustainable, and 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 strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs.

Basics of Capital Program

- Capital Improvement Planning (long term multi year)
- Capital Budgeting (one year traditionally linked with operating budget timeline)
- Capital Project Implementation (departments)
- Capital Asset Management (inventory and condition)

Capital Project Definition

- What constitutes a capital project?
 - What is your jurisdiction's definition of a Capital Project?

Quick exercise:

- 1 Minute: Think about your jurisdiction's definition
- 2 Minutes: Share the highlights with a neighbor or a small group around you.
- 3 Minutes: Sample Responses from a Couple of Groups or Individuals; Discuss

Capital Project Scope

- What constitutes a capital project?
 - What is your jurisdiction's definition of a Capital Project?

- Dollars, Dosage, and Duration
 - Expenditure must be at least \$X or >
 - One time or non-recurring annually
 - Multiple years
 - To implement (phase of project)
 - To complete (construction or acquisition)
 - Life span

CIP as Systems Process

- Vision/Comprehensive Plan- Planning Department
- Keeping it Legal- Counsel
- Long Term Financial Plan- How much do we owe and how much will we have?
- Input- Political and Community input
- Non-financial factors- ESG
- Evaluation
 - CIP Process, Project Implementation, and Infrastructure Performance

Environment, Social, Governance (ESG)

- Multiple entities want governments to see and hear about consideration given to ESG factors
 - Rating Agencies
 - Elected Officials
 - General Public
 - Lenders
 - Grant Makers
 - State Government
 - Federal Government

Finance Department Organizes CIP

- The Finance Department does not own the CIP Planning Process as individuals and departments across government are responsible for various aspects of the process. Finance is traditionally responsible for the orchestration of the process.

1 Minute: Think about your current CIP Planning Process. What works and what would you change? (As employee or citizen)

4 Minutes: Share the highlights and lowlights with the same neighbor or small group around you.

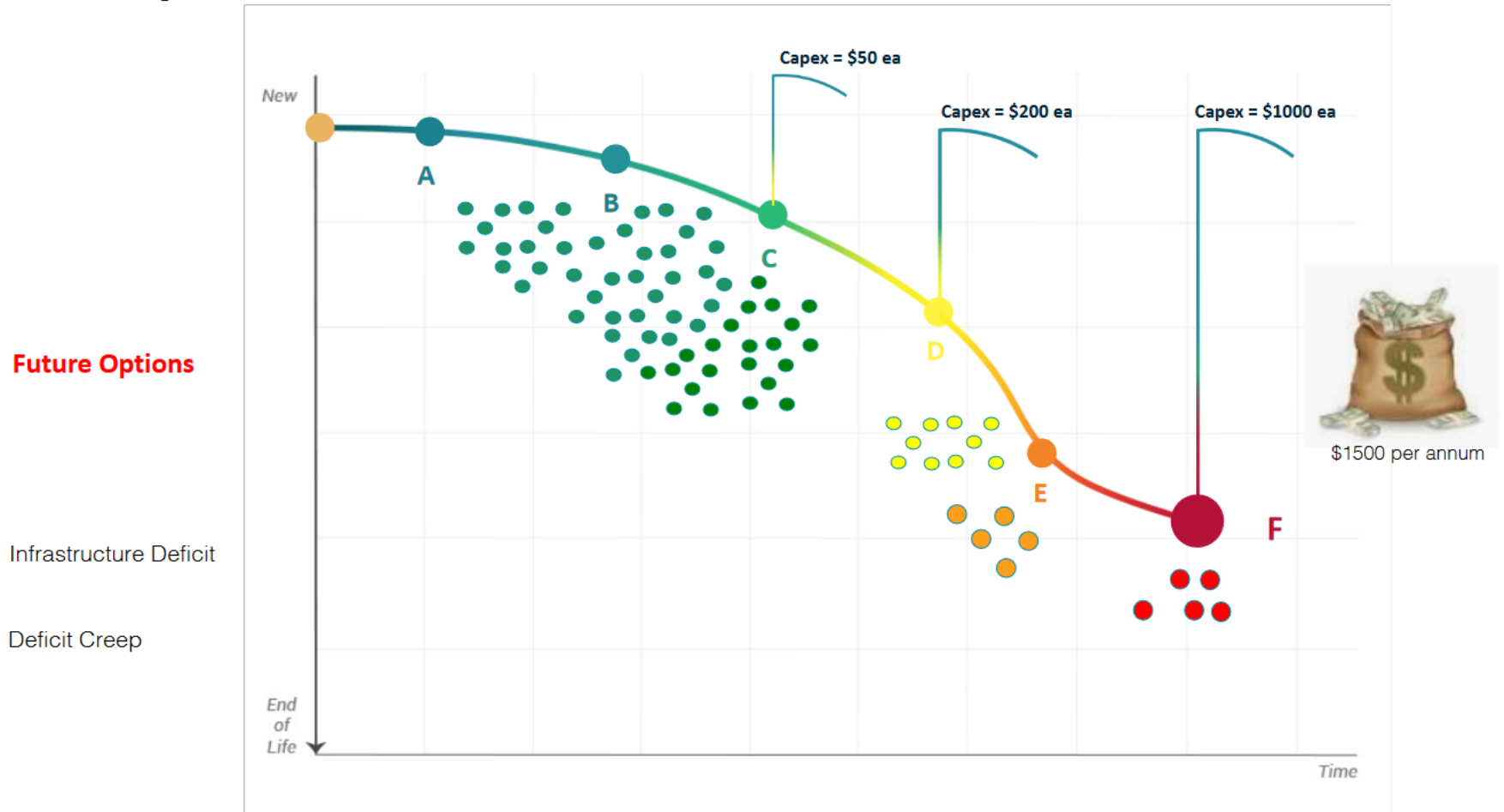
5 Minutes: Sample responses from a couple of groups or individuals; Discuss

How to organize existing and future Capital

- Asset Management
 - Do we know what we own?
 - What is the current condition?
 - Stretch our thinking to longer timeframes
- Long term CIP- What to Fund (over five, ten, or more years)?
 - Comprehensive (LTFP, Need, and Plan)
 - Asset Maintenance
- Short term CIP- What to Fund (recursive annual process)?
 - Current economic realities versus plan.
 - Needs versus current economic realities.

Infrastructure Capital

Life Cycle and Infrastructure Deficit



Credit and thanks to GFOA CEDCP Committee Advisor Ashay Prabhu

Funding

- What are the linkages between the CIP and the LTFP?
 - Revenues
 - Debt Service
 - Growth assumptions
- What is the best path to funding projects in the CIP (How to Fund)?
 - Bonds
 - Fees
 - Operating revenues

Funding (cont.)

- There is logic to all means of finance decisions
 - Make decisions based on multiple inputs of thinking
- Match funding to project
 - Life cycle of project and asset matters
- Consistent linkages to long term thinking (right or revisit)
 - LTFP
 - Comprehensive Plan

Interrogate

- What are the Reasons we do a CIP?
 - Everyone loves cutting ribbons
 - New Projects = New Demonstrated Needs
 - Do we have the operating resources?
- Replacement of Old Infrastructure
- Asset Reconditioning
- Not just what is planned to happen, but what will not happen (you can say no)

Stewardship

- Cities in fiscal distress are there because of a lack of planning, management, revenues, and too much debt
- 90% of rating agency downgrades are due to failure of management, not economic failure.
- Cities with degrading infrastructure will need decades not years to shift that reality
- Improvement and maintenance of existing infrastructure may actually be the best investment, but asset inventory and capital assessment essential for good decision making.
- What do you leave for your children's children? (30 year projects need 30 year thinking)

Telling the Story IS doing the Work of the CIP

- What is the story?
- Who is the audience?
 - Internal Government
 - External Community
 - Rating Agencies
- The plan and the story may actually be the institutional narrative

Other Germane Presentations this Week

- Rating agency presentations (next)
 - What is your current debt?
- Citizen Surveys
 - Short and Long Term planning

Final Thoughts

- Inherited conditions
 - Campfire
 - Best Day to Plant a Tree
 - Unjust or Unsafe
- Sound planning needs to start now AND but must be vigilantly maintained
- What will change or shift in your CIP process? I would welcome hearing any initial thoughts.
- Questions