

CAPITAL BUDGETING AND FINANCE

Second Edition



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Once the forms are completed, they are forwarded to the assistant county manager, who also serves as budget director. If only minimal changes to the current capital budget and CIP are being proposed, the assistant county manager reviews the requests, makes any point adjustments assigned to the proposed projects and acquisitions according to the thirteen criteria shown in Exhibit 3-2, and forwards the updated numerical ranking (highest to lowest) to the county manager. However, when numerous changes are being proposed, a budget steering team is used to assign points to the proposed projects and acquisitions submitted by the departments. This team consists of the county manager, the assistant county manager, the county finance officer, and a representative from each of the eight functional teams: general government, administration, education/culture, recreation, public safety, human services, natural resources, and law enforcement and courts. The ranking is then forwarded to the county manager, who reviews it and makes additional adjustments, if needed, before presenting the proposed capital budget and CIP to the governing board.

Chatham County's weighted rating system provides a common framework for the budget steering team's evaluation and ranking of capital requests. The team and the board of commissioners continue to endorse the weighted rating system as a key aspect of their capital budgeting process. However, one important caution applies to any weighted rating system used in local government: even though it results in numeric scores, a weighted ranking system that prioritizes capital project and acquisition requests is still based on decision makers' subjective assessments or judgments. In other words, using numerical scoring does not ensure a totally objective process.

Organizational goals

The extent to which a project or acquisition helps a local government make progress toward its organizational goals is one of the factors rated in most weighted systems. In fact, capital project and acquisition requests can be ranked solely on the basis of this criterion. Some local government officials even feel that priority setting in all of its capital budgeting should be based predominantly on organizational goals, an approach that aligns capital budgeting with the local government's strategic plan.

In some local governments, the governing board establishes organizational goals to guide policy making and administrative activities, including the preparation of the capital budget and CIP. Organizational goals may be based on general mission or value statements, or they may reflect long-term strategic or comprehensive plans. The governing board typically approves the goals and reviews them at the beginning of the annual budget process. If the goals are ongoing, as is often the case, the board reviews and updates them in light of recent developments. The goals established or updated by the governing board for the operating budget often apply to the capital budget and CIP as well. In some local governments, the governing board establishes organizational goals specifically to guide priority setting for the capital budget and CIP.

Rockville, Maryland, is a local government that uses board-approved program goals and objectives set specifically for its capital budget and CIP to guide its ranking and selection process (see Exhibit 3-3 on page 83).¹⁷ Each year the capital budget and CIP are reviewed in the context of city, county, state, and federal planning programs; the city's adopted master plan; and the mayor and council's vision,

Exhibit 3-3 Board-approved program goals and objectives for the Rockville, Maryland, capital budget and CIP**Recreation and Parks Program Area overview**

Description: The projects in the Recreation and Parks Program Area focus on maintaining and improving the quality, attractiveness, and usability of the city's "greeninfrastructure" of parks, open spaces, forest areas, and rights-of-way, as well as on constructing and maintaining the city's sixty-nine buildings. Projects also address active park areas, such as ballfields, playground equipment, hard-surface courts, pathways, bikeways, and pedestrian bridges. Projects to preserve and enhance the city's historic assets within the public park system are included. A master plan for maintenance and improvements to each major city building is updated annually, and the resultant projects are included in the CIP.

Goals:

- Protect and enhance the city's environment and natural resources.
- Plan, design, and construct new recreation and parks facilities in growth areas and in existing areas of the city that are underserved.
- Preserve and enhance historical resources located within the public park system.
- Plan and design a balanced system of safe parks, open spaces, forest areas, and facilities that meet the present and future leisure time needs of all Rockville citizens.
- Plan, design, and construct safe, accessible public building facilities throughout the city.
- Design and maintain the city's parks and facilities at high-quality standards.
- Beautify the city's neighborhoods, rights-of-way, facility grounds, parks, and business and commercial areas with flowers and quality landscaping.
- Encourage more art by providing public programs devoted to beautifying the city.
- Provide accessible special service facilities, including a senior center, golf course, swim center, nature center, skate park, dog park, and community recreation centers, which offer opportunities for desirable leisure time activities.

Transportation Program Area overview

Description: The projects in the Transportation Program Area provide for a safe, well-maintained, and

efficient transportation system focused on mobility, accessibility, neighborhoods, environment, and safety. The citywide master plan serves as a guide for the Transportation Program Area's specific goals, objectives, and performance measures. Residents also provide suggestions to be considered for the Transportation Program Area CIP.

Goals:

- Minimize nonlocal traffic, transportation noise, and the heavy truck use of neighborhood streets.
- Foster a safe, maintainable, and pedestrian-friendly transportation network that encourages the observance of traffic laws; enhance the mobility of people, goods, and services; promote a transportation system that is multimodal, accessible, safe, and friendly to all users; respect and protect neighborhoods, especially from impacts of regional traffic; protect the environment; and maximize connectivity between neighborhoods.
- Construct transportation improvements to support the impacts resulting from land development, and ensure access to new developments.
- Promote multimodal transportation systems and maximize incentives for demand management strategies.
- Minimize the impact on the natural, cultural, and socioeconomic environments.
- Maintain traffic controls at city intersections and streets to ensure that they remain in superior condition.
- Improve pedestrian and bicycle connections between existing neighborhoods and connect existing street networks.
- Reduce travel time to activity centers by making the road network more gridlike, and minimize congestion where appropriate.
- Improve pedestrian and bicycle safety, lighting, and vehicular safety on city streets.
- Upgrade and improve city infrastructure, such as bridges, roads, sidewalks, and other concrete structures.
- Maintain and upgrade city streetlights.

(continued)

Stormwater Management (SWM) Program overview

Description: The projects in the Stormwater Management (SWM) Program Area (formerly the Water Resources Program Area) support the Federal Clean Water Act and the goals of the National Pollutant Discharge Elimination System (NPDES) program by restoring, protecting, and maintaining the physical, chemical, and biological integrity of the nation's waters, including Rockville's streams, the Potomac River, and the Chesapeake Bay. The city of Rockville holds an NPDES general permit for its ongoing discharges of storm-water runoff from its storm drain network into the Rock Creek, Cabin John Creek, and Watts Branch watersheds. This permit requires the city to undertake a variety of measures to ensure that polluted water is kept out of the storm drains. Among other requirements, Rockville's current permit commits the city to inspecting and ensuring upgrades to both private and public storm-water facilities. Stream restoration and storm-water pond projects are planned to improve the aquatic habitat, reduce stream bank erosion, and improve the quality of water in Rockville's streams and the Chesapeake Bay. Adding or upgrading storm drainpipe systems is planned to minimize flooding from infrequent major storms as well as seasonal storms. Park improvements and SWM facility improvements are coordinated between the Department of Public Works and the Department of Recreation and Parks.

Goals:

- Enhance the environment and provide a sense of community that is responsive to the diverse cultural, social, and physical needs of the people of Rockville; and maintain Rockville's image of being a pleasant and desirable city in which to live, work, and play.
- Ensure that community involvement is an integral part of the Department of Public Works's SWM implementation, beginning in the watershed management planning stage and continuing throughout the project design stage.
- Ensure that SWM facilities are designed to preserve Rockville's streams and minimize the adverse effects of development on local and state ecosystems and waterways; and enhance Rockville's streams by improving their water quality and reducing stream bank erosion.

Source: Adapted from Rockland, Maryland, *FY 2009-FY 2013 Adopted Capital Improvements Program*, 25, 67, 87, 109, 145, rockvillemd.gov/government/budget/fy2009/adopted/fy09-adopted-cip.pdf (accessed July 8, 2009).

Utilities Program Area overview

Description: The Utilities Program Area provides for the planning, study, design, and construction of water projects that meet or exceed environmental, health, and safety regulations in providing adequate and safe water for consumption and fire suppression. The Utilities Program Area also provides for the planning, study, design, and construction of wastewater projects that meet or exceed environmental, health, and safety regulations in safely conveying and treating wastewater.

Goal: Enhance the environment and a sense of community in ways that are responsive to the diverse cultural, social, and physical needs of the people of Rockville, and maintain Rockville as a pleasant and desirable city in which to live, work, and play.

General Government Program Area overview

Description: The projects in the General Government Program Area address the following:

1. Development of the central business district
2. Major enhancements to the city's information and communications systems
3. Construction, renovation, and replacement of city facilities
4. Miscellaneous projects that do not clearly fit into one of the other program areas of the CIP.

Goal: Promote the use of the central business district; maintain and improve the city's information and communication systems; and provide adequate facilities for city staff that support new technologies and improve service delivery.

Objectives:

- Provide pedestrian-oriented circulation and public gathering areas
- Provide effective transportation access and adequate parking
- Ensure that attractive, readily accessible streetscapes are in place
- Inspire imaginative urban design
- Upgrade and replace the city's technology infrastructure
- Ensure that city facilities provide safe and appropriate work areas.

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which includes a distinctive place, a city of neighborhoods, communication and engagement, an exceptional environment, balanced growth, and fiscal strength. This long-term and ongoing commitment to planning activities, goals, and objectives—as well as the community-wide approach used in developing them—gives continuity to Rockville’s annual capital budget and CIP priority-setting process and provides a very strong basis for justifying the city’s priorities to the community.

In addition to understanding how capital budgeting supports other planning initiatives, some local governments use citizen input to help prioritize capital requests. For example, Mecklenburg County, North Carolina, uses a citizen capital budget advisory committee to make recommendations to the county manager and the board of county commissioners on process, priorities, and projects.¹⁸ When local governments include citizens in their capital budgeting processes, they must decide how the partnership will be managed. Will citizens function in a consulting role, making recommendations on capital requests? Will local officials and citizens build a collaborative process in which final decisions are made together before the governing board’s review? Will citizens actually be empowered to finalize the rankings before the governing board’s review? Citizen involvement can greatly enhance the connection between current community priorities and a local government’s ability to make progress toward accomplishing its organizational goals.

Summary

This chapter discusses the evaluation and prioritization of capital requests in local government. It addresses cost-benefit analysis as a methodology for bringing more rigor into the field of capital budgeting and finance, where all benefits and costs are identified and given a monetary value for calculating the NPV. It also examines six approaches—experience-based judgment, departmental service-level objectives, broad categories of need, urgency-of-need criteria, weighted rating systems, and organizational goals—to ranking numerous capital requests within an environment of limited resources.

While this chapter primarily addresses the evaluation and prioritization of capital requests that come from departments, more local governments are using public-private partnerships as a means of leveraging public infrastructure and promoting economic development. Chapter 4 specifically focuses on the evaluation of these partnerships because of the complexities involved with structuring and managing them for expanding community and organizational capacity.

Notes

- 1 V. O. Key, “The Lack of a Budgetary Theory,” *American Political Science Review* 34 (December 1940): 1138.
- 2 See, for example, Robert L. Bland, *A Budgeting Guide for Local Government*, 2nd ed. (Washington, D.C.: ICMA, 2007).
- 3 While the research is based on projects taken on by all levels of government across twenty counties, it shows how even large governments with substantial organizational capacity have difficulty projecting accurate costs. See Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl, “Underestimating Costs in Public Works Projects: Error or Lie?” *Journal of the American Planning Association* 68 (Summer 2002): 279–295, flyvbjerg.plan.aau.dk/JAPAASPUBLISHED.pdf (accessed July 8, 2009).
- 4 Edith Stokey and Richard Zeckhauser, *A Primer for Policy Analysis* (New York: W. W. Norton, 1978). This text represents one of the most cited sources for cost-benefit analysis.
- 5 John L. Mikesell, *Fiscal Administration*, 7th ed. (Belmont, Calif.: Wadsworth, 2006).
- 6 David L. Weimer and Aidan R. Vining, *Policy Analysis*, 4th ed. (Upper Saddle River, N.J.: Prentice Hall, 2005).