

Capital Improvement Program & Budget Process

Overview

The City of Altoona's capital improvement program and budgeting process for the capital improvement program is currently inadequate. While the City currently administers a capital improvement program (the "CIP"), the City does not have written procedures that define the term "capital project," nor a set of criteria for selecting or prioritizing projects in the capital plan. The City also lacks both a formal procedure to monitor capital budgets and the financial information for each approved project.

The City's CIP is not a formal document, and it is not updated on an annual basis. The City's current CIP is a list of projects that is included in the budget each year. Over the past several years, the City has not funded a majority of its capital budget due to inadequate funds. A capital improvement program that builds and preserves infrastructure and technology systems is an essential part of stability and promoting economic expansion in Altoona.

Because the City has not fully funded its annual capital budgets, capital projects have been accumulating to a point that the City will need to either borrow for projects that are normally funded from its annual operating budget, continue to fund only a portion of its capital needs while it strives to balance its operating budget or a combination of the two methods.

The City's current CIP encompasses fiscal years 2013 through 2017 and includes a total of approximately \$9 million in capital project funding needs. Below is table that lists the City's current capital projects included in its CIP through fiscal year 2017.

Altoona Funding Needs by Department 2013 - 2017 (Requested by City)

Department	2013	2014	2015	2016	2017
Public Works	1,802,550	1,270,352	1,120,192	1,266,574	954,832
Fire	95,000	25,000	0	250,000	360,000
Police	218,700	169,950	170,350	167,600	178,050
IT	163,800	245,300	141,300	219,150	181,300
Total	2,280,050	1,710,602	1,431,842	1,903,324	1,674,182

Source: City of Altoona Administration

The City's current process for the development of its CIP is for the City's department directors to submit their respective capital budgets to the City Manager for review. The City Manager decides what is included in the City's CIP. While the City's Administration has to make difficult decisions about how best to allocate limited resources, it should remain cognizant that deferring infrastructure investment can have a detrimental, long-term delivery of services impact on the City and its economic growth potential.

Capital Improvement Plan Development

As noted, the City currently does not have formal procedures for the development, coordination and implementation of a CIP. The City must adopt policies and procedures that prescribe the specific development and implementation of a capital improvement program as described in more detail below.

The capital improvement process needs to be based on best practices and account for the City's limited financial resources for the CIP. It must clarify the roles of the City Manager, City Finance Director and City Council. To best address the City's capital needs within the constraints of limited resources, Altoona needs to set clear criteria for prioritizing and selecting capital investments that:

- Protect the health and safety of the public and employees;
- Advance the implementation of a Comprehensive Plan;
- Invest in core infrastructure and equipment needs; and
- Shows the impact of capital investments on the operating budget.

In addition, the City must make significant improvements to the management of the capital plan and budget in order to ensure that projects in the CIP are active, completed on time and within budget. Council should be consulted on the projects included in the capital plan. The CIP should be an integral part of City governance. The current capital needs of the City, the financial constraints of the capital budget, and the growing burdens on operating revenues should be considered in whole. If the demands of the capital plan cannot be met then the operations that drive those capital needs should be reevaluated and aligned with the financial limitations of the capital and operating budgets over a multi-year period.

Definition of Capital Eligible Projects

The City will need to formally define a "capital project". A Capital Improvement Project ("capital project") may include any project funded by public monies, in whole or in part, or proposed to be funded by public monies, in whole or in part, to build, restore, retain, rehabilitate, purchase or repurchase any equipment, property, facility, infrastructure, hardware for information technology, park facility, or building that is neither funded annually or repeats in any way the intent of a previous project and is to be used for the public benefit or is a public asset. Capital projects shall have a minimum value of fifty thousand dollars (\$50,000) and have a minimum useful life as defined by the City. All capital projects that are less than \$50,000 and have a shorter useful life than defined by the City as an eligible capital project, should be included in the City's annual operating budget.

Future Challenges

There are significant challenges facing the City with respect to the development of its CIP. The City's current process will need to be improved in order to strengthen its CIP.

- The City must develop and adopt a formal process for the development and implementation of the CIP, such as creating a CIP Committee. The CIP Committee needs to align with a best practices approach to the development of the City's CIP. The challenge for the City is to implement the action steps necessary to formalize the CIP

into a regular annual process that ensures that the limited resources of the City are being applied to the highest priority projects.

- The City Manager and the City Department directors will need to be more involved in the development and implementation of the City's CIP. A regular communication protocol between the Department heads and the City Administration must be established to develop both the high priority projects and the plan to fund the projects included in the City's CIP.
- The City has not been able sufficiently to invest capital into the infrastructure of the City during the past several years due to its financial distress. The prioritization of the CIP projects needs to be realistic and based on a needs assessment.

Initiatives

CB01. Create an Annual CIP Document

Target outcome:	Transparency; Improved Coordination
Four year financial impact:	Not Available
Responsible party:	City Manager; Finance Director

Beginning in 2013, the City shall establish a five year capital improvement plan that includes eligible capital projects, with sufficient detail for each project, and listed in order of priority for funding, subject to annual review and amendment. The plan should include preliminary funding levels, sources for each of the five years and a formal budget for review, modification and adoption by the Council for the first year (fiscal year 2013). The first five year plan developed under this process would be for the period 2013-2017.

The CIP must be updated on an annual basis and must be the responsibility of the City Manager. The CIP will be presented and approved by City Council in connection with the City's annual budget. The CIP document will provide the City Administration and City Council with an opportunity to discuss the projects to be included in the CIP and, the performance of the CIP projects including; (i) original project budget compared to final cost; (ii) estimated project completion date compared to actual completion date; (iii) cumulative CIP expenditures; and (iv) the overall impact to the City both from financial and economic perspectives.

The annual CIP document presented to City Council by the City Manager shall include the following:

- A narrative review that details CIP project priorities for the upcoming budget year.
- A description of the CIP development process that the City Administration conducted during the year and how the CIP projects were selected to be included.
- A summary of the CIP by project type and department.
- Individual descriptions of each project included in the CIP for the upcoming budget year. The description of each project will detail the project's location, project summary, estimated cost, estimated completion date and the project's estimated operational cost or savings.

The creation of the annual CIP document will allow the City to prioritize its capital projects within the framework of its limited resources. It will allow City Council an opportunity to comment on the projects and provide the public an opportunity to comment on the City's projects.

CB02. Increased Involvement of City Departments in the CIP Process

Target outcome:	Transparency; Improved Coordination
Four year financial impact:	Not Available
Responsible party:	City Manager; City Departments

The City's current process to establish the projects to be included in its CIP involves the City Department directors making requests for funding to the City Manager. The City Manager and Finance Director then make the ultimate decision as to what projects are included in the City's CIP. The CIP projects are then included in the annual capital budget that is adopted by City Council. As noted previously, during the past several years, the City's CIP process has resulted in projects that are included in the annual capital budget, but are not funded.

The City Manager, Finance Director and each City Department director must establish a process to develop the City's CIP on an annual basis. The City Manager, Finance Director and City Department directors will meet on a quarterly basis, at a minimum, to prioritize and establish the projects to be included in the 5 year CIP and the projects to be funded in the next budget year. This process will allow the City Manager to have a better idea about projects that need to be prioritized, and the City Department directors will gain a better understanding of the City's limited financial position and how projects need to be prioritized for funding and implementation.

When the City Manager presents the CIP to City Council with the budget on an annual basis, the City Administration and the City Department directors will be able to give City Council and the public a greater understanding of the priority projects and the impact they will have on the City.

CB03. Funding of Priority Capital Projects

Target outcome:	Improved Services
Four year financial impact:	(\$1,015,000)
Responsible party:	City Manager; Finance Director

The City Administration has provided the Act 47 Coordinator with a list of capital projects it desires to fund in fiscal years 2013 through 2017. As previously stated, the City includes various projects in its budgets to be funded from the operating budget on an annual basis. Over the past several years, many of these projects have not been funded due to financial constraints on the operating budget.

The City needs to prioritize and budget for routine expenses in the various departments. The City Administration has requested that the projects it listed through fiscal year 2017 be funded in connection with the anticipated current refunding of the City's General Obligation Notes, Series A & B of 2003 (See Debt Chapter). This is problematic for several reasons; (i) many of the projects listed should not be considered capital projects, but rather routine expenditures; (ii) the City is not legally allowed to issue tax-exempt debt to fund projects that are not reasonably expected to be completed in 3 years from the date the debt is issued; and (iii) there are legal constraints as to how long the debt issued amortizes in relation to the useful life of the funded project. Many of the projects requested by the City have very short useful lives (example, vehicles and wi-fi maintenance).

Following a review of the City's list of projects requested to be funded by issuing debt, the Act 47 Coordinator's opinion is that many of these projects should not be funded through the issuance of debt. Instead, they should be included in the various department budgets and funded by operations on an annual basis. The annual department operating budgets need to be expanded to include these costs and the City needs to account for and fund the various City department annual expenditures through budgeting and cost controls.

There are several projects requested by the City in fiscal years 2013 and 2014 that the Act 47 Coordinator suggests can be funded through the issuance of the debt. The total amount of the projects to be included in the anticipated debt issuance are listed below by department. All other projects identified by the City in fiscal years 2013 and 2014, if a priority, need to be included in the annual department budgets and funded by operations as stated above.

Projects to be Funded Through Debt

Department	2013	2014	Total
Public Works	1,628,800	956,302	2,585,102
Fire	0	0	0
Police	114,000	121,400	235,400
IT	0	60,000	60,000
Total	1,742,800	1,137,702	2,880,502

The City would fund the amount listed above by issuing debt that would amortize over a fifteen (15) year period on a level basis. Based on current estimated interest rates for tax-exempt debt, the annual debt service obligations for the capital projects above would be approximately \$260,000 per year. The table below shows the estimated financial impact of issuing debt to fund the amount in the table above through the issuance of debt.

Financial Impact

FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total
\$0	\$235,000	\$260,000	\$260,000	\$260,000	\$1,015,000

CB04. Capital Budget Financing

Target outcome:	Transparency; Improved Services
Four year financial impact:	Not Available
Responsible party:	City Manager; Finance Director

Initiatives CB01 and CB02 address the process that the City will undertake to establish the projects to be included in the CIP. The other component of a successful CIP is the funding of the identified projects. There are two traditional ways to fund capital projects, issuing debt or using funds from the City's operating budget.

Debt financing for capital projects would allow the City to pay for its capital projects over a period of time through the payment of debt service. Using funds from the annual operating budget to fund capital projects limits the amount of capital projects that the City can fund on an annual basis due to the City's current limited financial resources. External funding in the form of grants from federal and state should be sought by the City and can be used to supplement its efforts to fund its capital projects.

The City will have difficulty funding capital projects through the issuance of debt or allocating funds from operations based on the City's current financial position. Any debt issued to fund capital projects will increase the City's annual debt service requirements and add to the City's current operating deficits. The City's priority must be to bring the City's operations into balance prior to funding new capital projects.

The City shall not issue any additional debt without the approval of the Act 47 Coordinator, including debt intended to fund capital projects (other than the amount identified in CB03 and the Debt Chapter of the Recovery Plan). Upon adoption of the Recovery Plan, the Act 47 Coordinator will work with the City Manager and the City Finance Director to assist in the CIP process and to establish priority projects. As the City makes progress towards financial stability, it will be able to financially support additional debt to fund its CIP.