

## FINANCIAL CAPACITY PLANNING SERIES

- Asset Management
- **Capital Improvement Planning**
- Rate Structure

**F**inancial capacity is the ability to acquire and manage sufficient funds to effectively operate and maintain your water system. This handout series is designed to help you develop the basic tools needed to ensure revenue sufficiency and planning ability to meet future water system needs.



### DRINKING WATER SERVICES

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### DRINKING WATER SERVICES

# CAPITAL IMPROVEMENT PLANNING

A Capital Improvement Plan is the road map to a thriving water system. It is a critical planning document, typically projecting ahead 5-10 years. It identifies capital projects and equipment purchases, provides a planning schedule, and identifies options for financing the planned improvements.

A Capital Improvement Plan provides the link between the water system, the community's goals & objectives, and the annual budget. In this handout we review the process and key elements for creating an effective Capital Improvement Plan.

## — EFFECTIVE CAPITAL IMPROVEMENT PLANNING —

- ENSURES TIMELY REPAIR & REPLACEMENT OF AGING INFRASTRUCTURE
- ENSURES IMPLEMENTATION OF COMMUNITY PRIORITIES
- ENSURES SERVICE DELIVERY NEEDS ARE PLANNED AND MET

The **Capital Improvement Plan (CIP)** outlines specific projects the water system plans to work on, the timing of those projects and the needed funding over the next several years. As seen in the example table below, the CIP presents a blueprint. It clearly identifies the *why, when and how* of planned projects so you can judge their relative importance and prioritize them appropriately.

“Predictions are difficult, particularly about the future.” So a Capital Improvement Plan must adapt to the new realities of time. It must be reviewed and revised every year to take advantage of new opportunities, changing priorities and unexpected events.

Process for developing a Capital Improvement Plan:

### 1. CAPITAL INVENTORY

The process usually begins by creating a complete inventory of the water system. This is often based on an annual accounting of capital assets. Once the inventory is reviewed and completed, this can serve as the beginning of assessing the need for replacement or expansion of facilities or equipment. If you do asset management planning, you already have the information needed to do this step.

### 2. PROJECT IDENTIFICATION

The next step is to identify any potential capital projects that will be needed in the next 5-10 years. Defining your water system's performance goals (i.e., levels of service) and the criticality of each project will help to justify the need and prioritize the projects. When identifying the projects gather the necessary information shown in Table 1 below.

### 3. COST ESTIMATE

Preparing a cost estimate for each project is the next step in the process. Contact suppliers and engineers to help develop accurate cost estimates. These estimated costs may change, but they do give a rough idea of the funds that you need to set aside for capital improvements. And don't forget to factor in inflation.

### 4. MASTER PROJECT LIST

Organize the identified projects, priority level, estimated costs, and timeline for construction into a single master list as shown in Table 1 below.

**DEBT SERVICE TABULATION-** While organizing the master project list, list the current debts - the amount owed to cover debts every month or year. This is helpful in preparing estimates and to show how much money will be available to fund your capital improvement projects. See Table 2 below.

### 5. DRAFT YOUR CAPITAL IMPROVEMENT PLAN

Using all the information gathered so far, draft your Capital Improvement Plan. The format can be a simple table accompanied by written discussions for each project explaining the scope of the project and justifying the need.

### 6. ADOPTION

After the draft plan has been reviewed and polished, the final Capital Improvement Plan can be adopted by your governing board.

If your water system does not have a master plan that looks at future planning, you can use this CIP as a strong starting point to create a master plan or similar planning document. *Oregon requires master plans from systems with 300+ connections.*

### FINANCE OPTIONS

There are several options to consider when thinking about funding capital improvements. You could pay as you go out of current cash, borrow money, get a grant, or set aside money in reserves. Your Capital Improvement Plan provides important information needed to help estimate the amount of money that should be set aside each year for repair and replacement.

Table 1 - CAPITAL IMPROVEMENT PROJECTS

PROJECT NAME	LOCATION	PRIORITY	JUSTIFICATION	COST ESTIMATE	FUNDING SOURCE	CONSTRUCTION TIME	BUDGET YEAR
Main Street Transmission	Main Street - 4th to 9th Ave	1	Undersized main	\$250,000	SDCs	5 months	2017
Reservoir C	30th Ave at K St	2	Increase fire flow	\$500,000	Loan	8 months	2018
Upgrade Plant	F St at 10th Ave	3	Meet new standards	\$200,000	Loan	4 months	2021

Table 2

DEBT SERVICE	BUDGET YEAR
\$80,000	2017
\$110,000	2018
\$120,000	2019