



Capital Improvement Planning & Funding

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Overview

- Background
- Financial Planning
- Capital Improvement Planning
- Capital Financing



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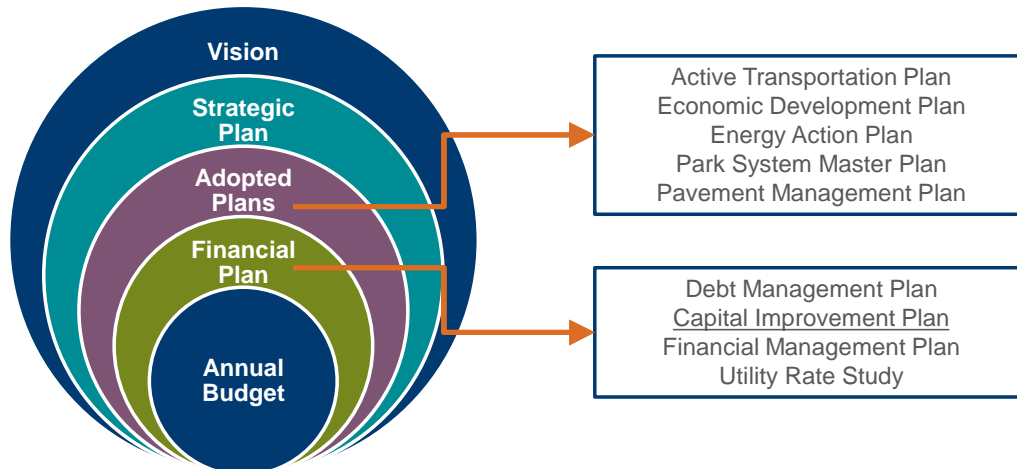


FINANCIAL PLANNING

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Planning & Budget Development Hierarchy



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Financial Planning Benefits

Translates
Vision into
Action

Identifies
Funding
Sources for
Priorities

Manages
Community
Expectations

Identifies Assets
& Appropriate
Fund Balances

Reduces Stress
in the Budgeting
Process

Communicates
Long-Term
Plans to
External Parties

Reduces
Reactivity in
Unpredictable
Situations



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Without Financial Planning...

- Impacts capability to respond to unanticipated events
- Potential interruption or reduction in service levels
- Creates higher costs for delayed or unplanned expenditures
- Reduces transparency & understanding for stakeholders
- Hampers confidence in organizational capabilities & staff



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Integrating Planning With Your Budget Process

Start with vision, strategic priorities & adopted plans

- Establish foundation for decisions
- Changes in programs and service levels?
- New or revised capital projects?

Identify costs needed to achieve goals

- Personnel
- Services & programs
- Material & supplies
- Capital outlay & debt
- Equipment



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CAPITAL IMPROVEMENT PLANNING

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What is a Capital Improvement Plan (CIP)?

- Sometimes called different names
- Some communities have separate Capital Equipment Plan (CEP)
- Generally, a tool to help organizations identify & plan for current, future capital needs
 - ✓ Identify, allocate & prioritize limited resources
 - ✓ Plan for larger than usual expenditures
 - ✓ Create opportunity for dialogue among stakeholders
- Should include at least a **five-year** projection with **inflation**



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Capital Expenditures

- Infrastructure Assets:
 - ✓ Buildings
 - ✓ Parks & Rec Facilities
 - ✓ Streets & Trails
 - ✓ Utilities
 - ✓ Sanitary Sewer Utility
- Equipment
 - ✓ Rolling Stock
 - ✓ IT
- Others



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Why Create a CIP?

- Legal requirements
 - ✓ Necessary to authorize certain bonds
- Provide essential public services
 - ✓ Preserve & enhance quality-of-life
- Support economic development
- Responsible financial management
 - ✓ Identify best use of limited resources
 - ✓ Spread cost burden thoughtfully
 - ✓ Preserve public assets



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Step 1: Identify Participants & Stakeholders

- Governing Body
 - ✓ Advisory commissions
 - ✓ Community outreach
- City Administrator/Manager
- Finance Director/City Treasurer
- Public Works Director/City Engineer
- Other Department Directors



What to do here?

- Ensure appropriate staff included in the process
- Establish appropriate timeline to solicit input

Your CIP is only as good as the data used to make it!



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Step 2: Identify Projects & Anticipated Costs

- Review strategic priorities
- Consult experts & stakeholders
 - ✓ Public works staff
 - ✓ Consulting engineers
 - ✓ Financial consultants
- Include market factors
 - ✓ Inflation
 - ✓ Commodity prices



What to do here?

- Encourage candid discussions about needs
- Provide reasonably conservative cost estimates

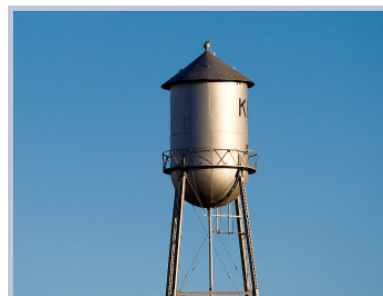
Your CIP should be updated annually!



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Step 3: Prioritize Capital Projects

- Legal requirements
- Public safety concerns
- Asset condition
- Public opinion
- Cost/benefit considerations
- Operating impacts
- Resource availability



What to do here?

- Ensure compliance with mandated requirements
- Provide anecdotes & data to support requests

New capital projects usually planned in an “out-year” first!



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Step 4: Analyze Data

- Review financial positions of each fund
 - ✓ Fund balances & trends
 - ✓ Surplus & deficits
 - ✓ Debt service
- Identify other potential budget impacts
 - ✓ Operating costs & related capital costs
- Refine capital project cost estimates



What to do here?

- Critique analysis & provide additional insight
- Be available & prepared to respond to questions



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Step 5: Identify Existing/New Funding Sources

- | | |
|--|--|
| <ul style="list-style-type: none"> • Local <ul style="list-style-type: none"> ✓ Special assessments ✓ Franchise fees ✓ Fund balances ✓ Property taxes ✓ Bond proceeds ✓ TIF & tax abatement ✓ Park dedication fees | <ul style="list-style-type: none"> • Non-Local <ul style="list-style-type: none"> ✓ Grants ✓ Federal aid & grants ✓ State aid & grants ✓ Private partnerships ✓ Joint Powers Agreements (JPAs) • Internal Resources <ul style="list-style-type: none"> ✓ Fund balances |
|--|--|

**There may be legal restrictions for
different funding sources!**

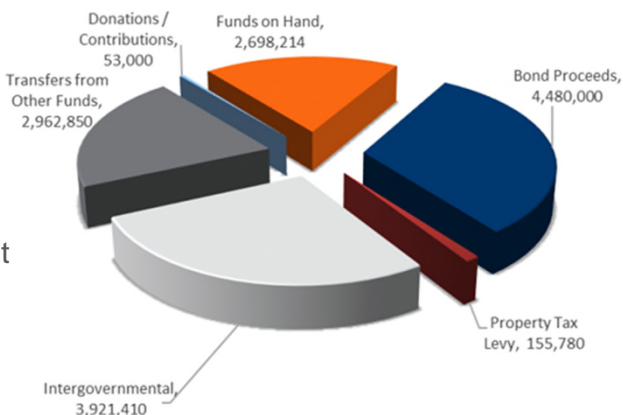


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Example: Project Funding Sources

- Road Reconstruction
 - ✓ Municipal State Aid (MSA)
 - ✓ Utility Contributions
 - ✓ Capital Reserves
 - ✓ Current Engineering Budget
 - ✓ Bond Proceeds
 - ✓ Others



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Step 6: Prepare the Model

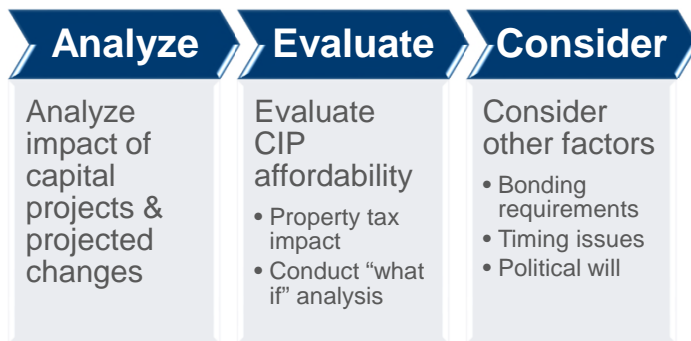
	2023 Budget	2024 Projection	2025 Projection	2026 Projection	2027 Projection	Total
Fund No. 409						
Funding Sources						
Property Taxes	\$ 74,000	\$ 79,900	\$ 86,300	\$ 93,200	\$ 100,700	\$ 434,100
Local Government Aid	250,000	250,000	250,000	200,000	200,000	1,150,000
Interest on Investments	4,000	4,000	4,000	4,000	4,000	20,000
Total Funding Sources	\$ 328,000	\$ 333,900	\$ 340,300	\$ 297,200	\$ 304,700	\$ 1,604,100
Capital Plan Expenditures						
Total Expenditures	\$ 475,000	\$ 377,000	\$ 465,000	\$ 170,000	\$ 160,000	\$ 1,647,000
Surplus (deficiency) of funding sources over (under) expenditures	\$ (147,000)	\$ (43,100)	\$ (124,700)	\$ 127,200	\$ 144,700	\$ (42,900)
Estimated Beginning Fund Balance	325,200	214,700	171,600	46,900	174,100	932,500
Projects Carried Forward from Prior Years	36,500					36,500
Estimated Ending Fund Balance	\$ 214,700	\$ 171,600	\$ 46,900	\$ 174,100	\$ 318,800	\$ 926,100
Fund Balance Requirement (35% of Average)	\$ 115,290	\$ 115,290	\$ 115,290	\$ 115,290	\$ 115,290	\$ 576,450
Difference (\$)	99,410	56,310	(68,390)	58,810	203,510	349,650



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Step 7: Analyze Options



What to do here?

- Offer alternatives to aid review process
- Communicate with stakeholders about status

Inter-departmental communication is key!



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Step 8: Discussion & Revision

- Disclose & review assumptions
 - ✓ Provide easy to understand information
 - ✓ Be forthright with challenges & issues
- Provide thoughtful recommendations
 - ✓ Discuss priorities & potential impacts
- Be prepared for more analysis
 - ✓ Consider presenting scenarios

Remind City Council about what they have already decided!



What to think about here?

- Provide visuals to clarify needs (e.g., maps, photos)
- Do not rely on others to advocate for the CIP or budget



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Financial Plan Structure



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Always Remember... Developing the CIP

- Include as part of annual budget development process
 - ✓ Include current plan in expenditures & funding sources
 - ✓ Formal review & adoption
- Ongoing efforts include:
 - ✓ Plans (e.g., feasibility studies, park improvement)
 - ✓ Payment review & project close-out
- Be transparent! Do not build CIP in a vacuum

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CAPITAL FINANCING

3/16/2026

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Why Minnesota Governments Borrow

- Capital projects with valid authorization under state law
 - ✓ Equipment
 - ✓ Facilities
 - ✓ Infrastructure
- May also issue conduit revenue bonds
 - ✓ Multi-family housing
 - ✓ For non-profit organizations
- Refundings



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Types of Municipal Capital Financing

- Cashflow or “pay-as-you-go”
 - ✓ Use existing cash & reserves
 - ✓ Efficient for short-lived assets
 - ✓ Sometimes difficult to save enough
 - ✓ Those who “pay” may not benefit



What to think about?

- Consider if City should use cash
- Consider if other funds/partners could support a capital project

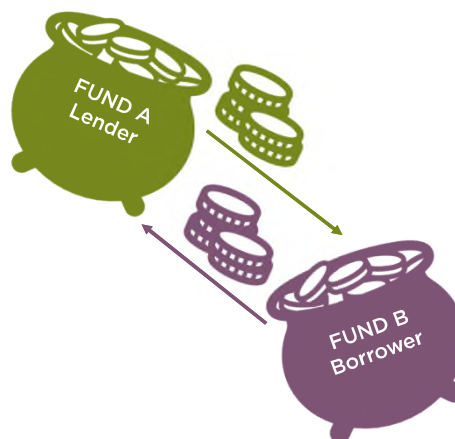


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Types of Municipal Capital Financing

- Interfund or Internal Loans
 - ✓ One fund lends to another
 - ✓ Both borrowing & lending funds should be treated fairly
 - ✓ Can create fund balance & cash flow issues
 - ✓ May allow organization to “profit” from its activity



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Types of Municipal Capital Financing

- Debt issuance or “pay-as-you-use”
 - ✓ Preserve existing resources
 - ✓ Cost of asset amortized over useful life
 - ✓ Asset paid for & benefited by users
 - ✓ Manage tax rates, user fees
 - ✓ Potential property tax levy limits
 - ✓ Those who “benefit” may not pay



What to think about?

- Consider urgency of needs (i.e., required now?)
- Could cash be used for a portion of the project?

Bonds, notes & securities are all general terms for debt.



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General Municipal Bond Types

- Debt must be secured by some asset and/or funding source(s)
- Two primary types:
 - ✓ General Obligation (GO) – secured by full faith and credit (any available source) and authority to levy property tax
 - Irrevocable pledge to levy ad valorem taxes for debt service unlimited by rate or amount
 - ✓ Revenue – secured by specific revenue source
 - Utility system, lease payments, special assessments and/or tax increment

GO pledge usually attracts the lowest available interest rates.



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Let's Talk!



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