



CAPITAL IMPROVEMENTS PLANNING MANUAL:

**A Strategic Tool
for Planning and Financing
Public Infrastructure**



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PREFACE

This publication, *“Capital Improvements Planning - A Strategic Tool for Planning and Financing Public Infrastructure,”* is one of the many efforts of the Montana Department of Commerce to assist Montana's local governments to finance, build and maintain their public facilities. This publication provides a step-by-step procedure for creating a capital improvement planning program. Through this process local needs are evaluated, priorities are objectively identified, and costs and funding sources are identified. The result of the process, the “Capital Improvements Plan,” provides a plan and schedule for the repair and construction of public facilities.

Primarily written for local officials in rural counties and small towns, this publication is intended to provide a straightforward description of the capital improvements planning and budgeting process. Written for the layperson, this publication is intended as a guide for governing bodies, clerks and financial staff, public works directors and maintenance supervisors, planning directors, consulting engineers, and other consultants, such as accountants or grant writers.

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CHAPTER 1: INTRODUCTION TO CAPITAL IMPROVEMENTS PLANNING

What is Capital Improvements Planning?

"Capital improvements planning" is a process used to identify capital (public facility) needs, establish priorities, and schedule and fund projects to either construct or improve existing new facilities. The end result of this process is called the "Capital Improvements Plan" (CIP). The plan is a budgeting and financial tool used by a local governing body, whether a municipality, county, county water and sewer district, school district, or a tribe, for maintaining, improving, or building new, public facilities. The CIP looks at the "big picture" of community needs. A CIP should cover all public facilities owned or maintained by the local government including: water systems, wastewater systems, storm drain systems, solid waste systems, streets/roads, bridges, parks, and all public buildings, such as courthouses, jails, fire stations, etc. The plan is often referred to as a Comprehensive Capital Improvements Plan (CCIP). The plan identifies specific projects, costs, priorities, timetables, and funding sources. The level of detail may be commensurate with the size of the community.

What are the benefits to having a CIP?

One of the most important reasons is that a CIP saves money by improving the cost-effectiveness of how local governments expend their limited resources and dollars:

- ❑ It helps local governments create a long-term financial plan to meet public works needs, thus ensuring financial stability.
- ❑ It helps governments to implement goals and objectives outlined in their growth policies, helping to ensure that growth occurs in a cost-effective and desirable manner.
- ❑ It identifies where improvements will be needed over time, rather than waiting for each crisis to occur before acting. It is usually more expensive to make emergency repairs than it is to maintain a system in working order by anticipating problems and making corrections incrementally before there is a total breakdown in the system.
- ❑ The process involves a thorough analysis of all financial options. This analysis may help the local government learn about financing alternatives that can provide grants or low interest loans for improvements.
- ❑ A CIP demonstrates to bond underwriters that the local government is a better financial risk because it has methodically thought through its public facility's needs.
- ❑ A frequently updated CIP may also improve your chances for obtaining grants, which can reduce the amount of local dollars required. For example, grant applications submitted to the Treasure State Endowment Program and the Community Development Block Grant Program are typically more competitive if the applicant has a CIP and the proposed project is included in the CIP.
- ❑ Incorporating hazard mitigation considerations into a CIP can help lower the costs from natural hazards and save the community money by reducing the costs to rebuild or repair infrastructure after future disasters.

The capital improvement planning process helps local governments to understand and be more responsive to citizens' needs and desires:

- ❑ It removes “unreasonable” pressure from the governing body to fund a project that a small group thinks is important and helps to prevent the funding of “pet projects.”
- ❑ Citizen participation helps to ensure greater understanding of the community’s needs by its citizens and helps to build support for critical projects.
- ❑ It helps local officials to remember that specific capital improvements are only part of the total number of capital facilities that citizens are paying for through their taxes. For example, municipalities are responsible for providing water and wastewater service and maintaining a street system, counties provide solid waste disposal and maintain the county’s road and bridge system, while school districts are responsible for providing adequate learning facilities. If taxpayers are already supporting a bond debt for a new high school, they may be resistant to financing a general obligation bond to fund a new county jail, unless they have a complete picture of the infrastructure responsibilities of the local government.
- ❑ Having a CIP illustrates to the citizens that the local government is trying to fulfill its obligations to its customers in a long-term, financially efficient, "least cost" and common-sense manner. Most citizens are not informed about public works issues and consequences. Developing a CIP can be an effective way to educate the public about the hard choices that must be made by a community’s elected leaders.

A capital improvement planning program can help local governments operate more effectively:

- ❑ It helps to prevent public works crises. With a capital improvements planning process, government officials are made aware of what needs to be done, how much it costs, and when it needs to be done. Since there is never enough money to meet all needs, the process helps to establish priorities for funding different types of facilities. The process provides the local government with information about which projects are most critical, and whether there are sources of funds to make the improvements.
- ❑ It encourages consensus among local officials and their staff, which reduces administrative delays and conflicts because there is agreement on the scope of work, timing, and responsibilities. As a result, it helps the governing body provide direction to its own staff and consultants.
- ❑ The capital improvements planning process requires the local government staff to thoroughly justify each project request.
- ❑ A capital improvements plan provides guidance for implementation of the physical improvements outlined in a growth policy or other long-range planning documents.

A capital improvement planning program helps to encourage economic development:

- ❑ A capital improvement planning program helps to ensure adequate facilities are available for new businesses or the expansion of existing businesses.

A capital improvement planning program can help a local government meet statutory requirements.

- ❑ A well thought out and detailed capital improvements planning program can help ensure that the requirements have been met in order to collect subdivision impact fees.
- ❑ Local growth polices require “a strategy for the development, maintenance, and replacement of public infrastructure, including drinking water systems, wastewater treatment facilities, sewer systems, solid waste facilities, fire protection facilities, roads, and bridges.” A CIP can either be used to fulfill that requirement or can implement a public infrastructure strategy contained in a local Growth Policy. CIP’s have long been considered a basic tool for implementing local growth policies.

Capital improvements planning has the potential to increase community resilience.

- ❑ CIPs outline a large portion of a local government’s investments in the community and provide the opportunity to build mitigation and resilience criteria into community investment practices.
- ❑ By outlining higher standards for hazard informed infrastructure improvements into a CIP a community stands a better chance receiving federal funding to rebuild that infrastructure to withstand a future hazard event if the current infrastructure is destroyed.
- ❑ A CIP is updated regularly, this offers communities a chance to incorporate the best-informed hazard data on frequent basis.
- ❑ A CIP offers a chance for communities to implement and fund community resilience objectives.

Does capital improvements planning always work?

Capital improvements planning programs do not always work and can fail for a variety of reasons. The most common reasons are:

- ❑ **Lack of objectives or focus.** If the only reason for going through the capital improvements planning process is to satisfy a requirement to obtain a grant, the program is likely to fail in the long run. Successful use of a CIP requires the recognition by local government leaders that routine use and updating of the CIP, in conjunction with their annual budgeting process, is in the community’s self-interest. The focus of the process needs to be the creation of a CIP that will be actively used as a planning and financing tool, which is updated routinely as part of the annual budgeting process.
- ❑ **Weak information or data.** Any potential project must be adequately evaluated and justified using sound data. Projects cannot be adequately justified and prioritized if the data, upon which those decisions are made, is lacking or flawed. Inadequate information can lead to the wrong conclusions about infrastructure priorities and inappropriate solutions.

- ❑ **Incompatible with existing planning documents.** If a community has adopted zoning and a growth policy with a future land use map and has not prioritized capital improvements in a manner that reflects that expected growth, the community could end up facing large unexpected costs in service extension and increased operation and maintenance costs.
- ❑ **Poor decision-making process.** It is important to remember that this process is a team approach. In the end, the process must have broad-based support from local officials and the public. Without adequate buy-in from a decision-making team and citizens there is a greater potential for the outcome to be altered or protested.
- ❑ **Uncompromising, biased views.** Have projects been built in your community because they were the “pet” project of someone? While it is great that some individuals are motivated and driven to seeing a project through from the concept stage to completion, it is also important that these “pet” projects go through the same evaluation process as all other projects. These “pet” projects must be given unbiased analysis and must be prioritized along with all other potential projects.
- ❑ **Inadequate technical support.** It is important to provide adequate technical resources in order to get the job done. If qualified staff members are not available to submit or evaluate projects, a consultant may need to be hired. Outside resources such as other communities or government agencies may also be able to provide technical assistance.
- ❑ **Limited public involvement.** Public involvement is critical in identifying needs, prioritizing projects and gaining support for them. Failure to adequately include the public in this process and building support for the CIP can result in the project being objected to about the time it is ready to go to construction. These objections, sometimes from only a few “vocal” people, can cause lengthy delays and even result in the project dying.
- ❑ **Lack of adequate funding.** Lack of funding is an important reason for needed projects not getting completed. Be thorough and honest regarding cost estimates that are included in the CIP, as well as the proposed sources for funding. Looking several years in advance of when the project is to be completed greatly increases your ability to obtain funding for the project.
- ❑ **Search for “perfect” solutions.** There is almost never a “perfect” solution, because of constantly changing variables such as rising construction costs. While it is appropriate to ensure that adequate time and resources are spent to seek a proper solution, don’t let the pursuit of a “perfect” solution result in the potential project stalling out.
- ❑ **Takes too long.** Many a project has failed to be completed because it takes too long and people lose interest. Be sure that someone is in charge and has developed a reasonable timetable to get it all done. Use realistic timetables in the CIP.
- ❑ **Gathers dust on the shelf.** Regardless of how good of a job you did creating the CIP, if it is

not utilized, a lot of time, money and effort will have been wasted. The CIP is a tool that should be used on a regular basis to guide decisions and should be updated as part of the annual budgeting process.

What are the steps in the Capital Improvements Planning Process?

A CIP is typically created through the following series of steps:

- ❑ **Gathering of Background Information.** Two forms of background information should be gathered: data that pertains to the community and the community's needs as a whole, and data that pertains to already existing infrastructure. If the community has recently adopted or updated a Growth Policy document, much of the data that pertains to the community and existing infrastructure should already exist. The inventory of existing infrastructure conditions can be conducted using a number of different methodologies, including site inventories and surveys, preliminary engineering studies of infrastructure condition, census data analyses, and observations of population and demographic trends. People within the community frequently have ideas about what is needed.

- ❑ **Setting Priorities / Evaluating Alternative Solutions / Identifying Projects.** Once the community's needs have been identified, residents and local government staff must work together to identify those needs that should receive the attention first. The setting of priorities usually occurs a number of times during the CIP planning process. Priorities are initially set during the needs assessment. However, a further evaluation of the community's prioritized projects will be needed, including: long- and short-term costs, maintenance requirements, public acceptance, associated impacts, available funding, and regulatory and other issues.

Potential solutions also need to be defined. Frequently, there may be several potential approaches that could be pursued. This step generally requires preliminary engineering studies to accurately estimate project costs to aid in the evaluation of higher ranked priorities. Once sources of funding are identified (in the next step), it may be necessary to re-evaluate priorities once again in order to fit available resources, application cycles of funding programs, and other regulatory concerns. As this process continues, priorities may be changed to reflect these various issues.

- ❑ **Evaluating Funding Options.** This step requires a comprehensive analysis of the ability of the local government to pay for the desired improvements as well as identifying outside grant or loan funding that might be secured for specific projects. This involves identifying the specific legal and administrative requirements that must be fulfilled, funding cycles and understanding grant and loan program criteria. This step also enables a local government to accurately portray its financial condition to potential funding sources and to the public.

- ❑ **Adopting and Implementing a Capital Improvement Plan (CIP).** The CIP documents created

through the planning process provide a schedule for implementing projects. The CIP summarizes the needs assessment, the project prioritization, the evaluation of funding options, and provides a schedule for implementing projects. Limited community and grant funding, lengthy grant review periods, and the necessity for preliminary planning and engineering work typically require that CIP projects be carefully scheduled. Sometimes projects are designed in phases to match funding capacity and availability. Once a particular project has been identified, it may take months or years before it can be completed. Accurate scheduling enables local governments to anticipate projects over a period of years and to measure their progress. With the completion of the project schedule, the local governing body typically adopts the CIP by resolution or ordinance after a public hearing.

The formal adoption of the CIP permits local officials and their staff to begin implementing the scheduled projects. It can also provide very accessible and concise information to elected officials who change over time. The information collected in the preparation of the CIP can assist with completing funding applications required by state and federal agencies that provide grants and loans for public facilities. This is particularly true for the information related to a community's identified needs, to its financial capacity, and to the evaluation of alternative solutions.

A CIP, which reflects thoughtful analysis and extensive public participation will serve a local government well over time. However, you must recognize that financing capital improvements is a continual, never ending process. Public facilities have varying life spans, new state or federal regulations require specific improvements to be made, and finally, communities grow and new businesses need infrastructure. The governing body should provide for a regular periodic review and update of the CIP. Preferably, this should be done annually and in conjunction with the local government's budgeting process. Once a CIP is in place, updates can be made easily within an existing format.

How does all this get done?

The capital improvements planning process takes substantial time and resources to complete. In addition, it can be accomplished in a variety of ways. The local government may choose to undertake the effort themselves, with outside assistance, or some combination of both. For example, in those local governments that have larger staffs, many of the CIP planning tasks are frequently accomplished, or at least, supervised by a particular position (planner, engineer, administrator, etc.). However, smaller local governments with limited staff might need to hire a consultant. In addition, technical issues are often addressed by a professional that is knowledgeable in a specific area of expertise. For example, civil engineering services may be needed to accurately determine both the condition of a facility and the nature and costs of any required improvement, especially for priorities ranked high. An engineer on staff might accomplish this or a consultant could do it. Before you get started, consider the following:

❑ **Initiating the Process.** The local government may initiate the capital improvements planning

process at any time. If a local government establishes a capital improvement planning process, it should be done as part of its annual budget process. Sometimes, the need for a CIP is triggered by a program requirement, e.g. eligibility for funding from a state or federal agency. Once created, the plan should include a process for regular, annual updates. After the decision has been made to complete a CIP, the local government should identify the various tasks and the appropriate person or persons responsible for getting the job done. A specific person should be assigned the responsibility for coordinating the preparation and eventually the update of the plan.

- ❑ **Allocation of Resources.** The capital improvements planning process will require the commitment of both human and financial resources. A substantial amount of time will be required to complete a CIP, especially if one has never been completed for a community before. Some of the information needed is generally available at the community level and can be assembled using existing staff or part-time help. A summer intern could be employed to collect and tabulate some of data, such as demographic information from the Census. If in-house staff is used, then arrangements should be made with respect to scheduling sufficient personnel. If a consultant is required, then funding sources will need to be identified. Funding will also be needed to cover the cost of public hearings, meeting notices, mailings, producing maps, and printing. The local government should explore funding opportunities from outside sources to assist with the process. The Department of Commerce's Community Development Block Grant (CDBG) Program and Treasure State Endowment Program (TSEP) have funding available for planning grants which could be used to prepare a CIP. The CDBG Program has also allowed grant recipients to prepare CIP's in conjunction with CDBG-funded public facility projects. The Department of Natural Resources and Conservation also has a program that provides planning grants that can be used to prepare a CIP.
- ❑ **Hiring Consultants.** In those cases where a local government requires the services of planning and technical consultants, the local officials should work with their staff to carefully define the scope of work that the consultant will complete. Local officials should anticipate the kind of information they may need to complete and implement the capital improvements plan. The solicitation for professional services should clearly state the type of services required (public facilitator, financial consulting, engineering, etc.).
- ❑ **Public Meetings.** Local officials should provide ample opportunity for public participation in the capital improvements planning process. Remember that public support of the CIP is essential. A variety of methods must be used to educate the public about the need for capital improvements. The local government may choose to hire an outside planner/facilitator to assist in making the process as meaningful and useful as possible. Ultimately, a draft CIP document should be distributed to the media and the public.
- ❑ **Progress Reports.** The public and local officials should be provided with regular updates on the planning process. Reports should include copies of needs assessments, community surveys, minutes of public meetings, engineering studies and cost estimates.

- ❑ **Preparing Funding Proposals.** The responsibility for completing funding applications must also be assigned. Once again, this task may be undertaken by the in-house staff, an outside consultant, or some combination of the two.

Resist the Urge to Give Up. Delays are common for many reasons. Projects such as CIP's may generate controversy within the community and the pressure on local officials and their staff may be intense. It is important not to get emotionally "burned out". Try to take a longer-term view, be positive, and be persistent.

Who is typically responsible for getting all of this done?

The following is a summary of the role that each of participants typically plays in the capital improvements planning process:

- ❑ **Governing Body** – The governing body represents the voters, makes policy, financial, and management decisions and is ultimately responsible for the planning process related to the CIP. For small municipalities, the mayor is a key figure because he/she directly supervises the staff, manages town issues, and formally represents the town with regards to public facility improvement matters. The city/town council (the policy makers) will ultimately make the final decisions. For a county water and sewer district, the board of directors makes the final decisions; however, a bond issue for the district may require the direct vote of all of the people in the district.
- ❑ **City or County Manager/Administrator** - In larger cities (and counties), a manager designates a CIP coordinator. In smaller communities, a manager may actually serve as the CIP coordinator. The manager is similar to a city mayor in that he/she supervises staff, prepares budgets and financial proposals and generally represents the City or County commissions with regards to public facilities issues.
- ❑ **Financial Analyst** - Someone should assume the role of lead person for researching and analyzing financial options. The analyst, working under the guidance of the governing body or manager, should identify financing alternatives and the advantages and disadvantages of each option. The individual who is most acquainted with your local finances is probably most suited to undertake your financial forecast. This could be your administrator, manager, budget officer, finance director, clerk, or treasurer. In small communities, this person may serve as the overall coordinator for preparing and carrying out the CIP. In smaller, incorporated cities and towns, this person is usually the city clerk. For county water and sewer districts, this person may be a member of county staff or a member of the district board.
- ❑ **Consultants** – Some consultants also have experience directing and preparing CIP's.

Engineering firms provide engineering and facility management expertise and many also offer additional services to their clients -- such as grant writing, rate studies, and financial option analysis. There are also numerous grant writing/administration consultants that provide this type of service. These consultants prepare complex grant and loan application packages, and frequently administer projects when grants are awarded. Some jurisdictions do grant writing with local staff, while many contract out this function to a consultant.

- ❑ **Public Works Director or Maintenance Superintendent** – The person that operates and maintains the community's public facilities probably has the experience needed to conduct an analysis of local infrastructure. Typically, this person will work closely with a consultant when one is used.
- ❑ **Local Government Attorney** - Many financing proposals involve legal questions and interpretations. The local government's attorney should be involved early in the process to address legal questions. Some types of financing require public notice and public hearings. An attorney should make sure that all procedures used by the local government comply with applicable laws. County water and sewer districts are not legally required to have an attorney; however, they should retain one on an "as needed" basis.
- ❑ **Planning Board and Planning Director** – The planning board advises the governing body and the CIP coordinator regarding the relationship of proposed public facilities improvements to the local government's Growth Policy (previously known as the Comprehensive Plan) to ensure that planning efforts are coordinated and moving toward a common vision. The Growth Policy is the overall plan for long-term development for the community. A CIP and individual improvement projects may be used to implement the development goals of the Growth Policy (see 76-1-601(3), MCA). If the town or county has a professional planning director, that person may serve as the CIP coordinator.
- ❑ **Bond Counsel** - If bonds are proposed as a financing alternative for public facilities improvements, a private bond counsel should be added early in the process. By getting a bond counsel involved early, you can avoid many pitfalls, avoid procedural errors, and save time and money. The counsel will help you to determine the proper amount of the bond issue, help with establishing repayment schedules and provide guidance on related matters.
- ❑ **The Public** – Public involvement is one of the most important aspects in the development of the CIP. The public's participation and input is essential to achieving their "buy in" of the completed CIP. The members of the public are the users of the local government's infrastructure and ultimately pay for it.

The role of the CIP Coordinator is critically important. Someone has to be in charge of pulling the information together from everyone involved in the process. The coordinator also serves as a troubleshooter and makes sure the necessary work gets done in a timely and efficient manner.

There is no simple answer as to who should be the coordinator. The governing body should formally designate the coordinator after careful consideration of who has the appropriate management, planning and financial skills to handle the job. If a consultant is chosen as the coordinator, the governing body must still supervise the consultant and make the final policy decisions.

Most local governments find that a team approach to preparing and carrying out the CIP is most effective. In this case, typically, a committee of the key officials, staff, and consultants compose the team. The CIP coordinator should make sure everyone knows what their tasks are and that the work gets done correctly and on time. Regular meetings of the committee should be scheduled.

Is it essential that we hire an engineer?

There are some limitations to preparing a CIP without adequate preliminary engineering studies. Engineering studies can provide a more accurate estimate of what the improvements will cost. Communities typically hire a qualified professional engineer to address needs or problems that local staff may not be prepared to undertake.

Consulting engineers can offer objectivity and expertise based on a wider range of experience. A consulting engineer may be needed if:

- the community lacks the staff or technical expertise in-house;
- a neutral party is needed to ensure an unbiased opinion;
- there are legal or political constraints that make doing it in-house impractical;
- the in-house staff do not have the time to take on an additional project;
- there are computerized models for systems analysis that a consultant can provide; or
- the project is large and complex, and beyond the technical resources of the community.

There are several reasons for using in-house staff to prepare an engineering study rather than a consultant. In-house staff:

- are familiar with the system, know what their needs and desires are related to the system, and ultimately, must live with the results;
- may have the time and ability to take on the additional work; and
- have a direct relationship with the people that operate and maintain the facilities.

Unfortunately, due to the cost of preliminary engineering studies, many local governments cannot complete studies for each public facility that may have a need. As a result, a preliminary engineering study is typically only completed for facilities with known problems and that are a high priority. However, the local public works director, engineer, or system operator generally has some knowledge of the deficiencies of a system and can frequently provide a “rough” estimate of what it would cost to complete the improvements.

Keep in mind that many funding programs will require a preliminary engineering report (PER) prepared by a professional engineer to be submitted with the application. The important thing to remember is that a PER is not essential for determining needs and estimating costs for a CIP, but a PER will provide more detailed and accurate information and will likely be required when the community applies for funding.

If your community determined it must hire an engineer, the following organizations can help:

- ❑ The Midwest Assistance Program (MAP) publishes a booklet titled "How to Hire an Engineer". To view this publication, visit the DNRC's website.
- ❑ The Community Development Block Grant Program has developed a grant administration manual which provides guidance on hiring consultants. To obtain copies of this information, call the CDD at 841-2770, or visit the programs' web sites at <http://comdev.mt.gov> to obtain it on-line.

What is the relationship of the CIP to growth policies and to land use regulations?

Local officials need to understand how a CIP relates to existing local polices such as Growth Policies (previously known as Comprehensive Plans), and subdivision and zoning regulations. Cities, towns, and counties benefit from having a Growth Policy, because they are a written statement or "blueprint" of how the citizens think the local government should develop in the future. Knowing the desired and projected development pattern for the community is very important before local officials undertake planning for major water, wastewater, or street and road improvements, or other community services such as parks or police and fire protection. In fact, Montana's growth policy statute requires that local growth polices include "a strategy for the development, maintenance, and replacement of public infrastructure, including drinking water systems, wastewater treatment facilities, sewer systems, solid waste facilities, fire protection facilities, roads, and bridges."

The CIP can be an important tool for implementing a local Growth Policy. For example, if new development is desired in a particular area, infrastructure improvements can encourage and serve that new development. In addition, many small communities do not have central water or wastewater systems, and as a result, new residential or commercial development can be difficult to achieve due to constraints for permitting on-site wastewater treatment systems and on-site wells. There are many existing situations where private property owners cannot expand existing home or businesses or develop vacant land without central water and wastewater systems.

Public facilities can markedly affect future growth patterns and the location of business and industry and other private development. Likewise, the location, design and type of development will affect the public costs of providing services. Local officials can direct growth by deciding

where it is most efficient and economical to provide public services, rather than merely responding to private development. Thus, local decisions on capital facilities can not only assure adequate services, but can also be an effective tool for influencing land use patterns and reducing costs of public services. So, it is critical that local policies for the extension of public facilities be developed within the context of a community's planning program and Growth Policy.

If a public facility has been well planned and designed to efficiently serve an area, the community may take the added step of protecting the adequacy of the design capacity. This can be achieved by adopting land use regulations to assure densities within the service area do not exceed the capacity of the system. Haphazard or high-density growth can particularly strain capacities of water and wastewater systems but can also affect roads and recreation facilities. Conversely, low-density growth can make it more expensive to extend water and sewer lines to serve new development. The land use patterns encouraged in the community's Growth Policy and zoning regulations can have a direct impact on the long-term costs of providing public services.

Your community's subdivision regulations also have a relationship to the CIP. Housing in new subdivisions will need water and wastewater facilities. Does your community want these new neighborhoods on central water and wastewater facilities? Is there enough treatment capacity to handle more subdivision activity? Are the design standards in your subdivision regulations adequate to assure quality development that would avoid unnecessary costs for future upgrades or high maintenance costs?

It is also important to consider how your CIP relates to your zoning regulations. For example, if you were improving sewer lines through a residential neighborhood that is zoned "single family residential use," you would not want to oversize the lines. Oversized lines are an invitation for future demands to rezone a neighborhood to allow apartments or commercial development that may disrupt the quiet nature of the existing neighborhood. This usually leads to intense disputes between the developers and the existing neighborhood residents, with the local government officials caught in the middle.

Local officials have found to their dismay that zoning sometimes cannot control the pressure for further development that oversized sewers unleash. Another related issue that needs to be considered is the ultimate population density that would be authorized by the community's zoning ordinance. This is called the "build-out density." The build-out density is simply the total number of buildings that could be built if all vacant lots and lands were developed at the maximum density allowed by the zoning ordinance. It is important to look at the build-out density to estimate the number of new water and wastewater hookups needed, as well as the new capacity needed for the planned water and wastewater lines and treatment plants.

Many local government officials in the State are being faced with issues relating to both the timing and location of future growth. Numerous municipal governments are facing requests by developers for annexation of new residential developments, including accompanying requests to extend community water, wastewater, and street systems to these new subdivisions. The CIP

can play a key role in encouraging development in those areas where future growth should be encouraged and, conversely, in discouraging growth in those areas where development should be avoided, such as in flood-prone areas or wetlands.

Local governments that want to build the basic framework for sound future community development must influence the timing and location of future development. This involves a coordinated effort to link their Growth Policy, subdivision and zoning regulations, and capital improvements plan, to a developed policy for the extension of public facilities. Without such planning and coordination, local governments will find themselves merely reacting to future development proposals and being placed in a defensive position regarding proposed developments. Unless they take action in advance of development, municipalities run the risk of finding themselves surrounded by low-density residential development, served by individual domestic wells and septic tanks, without the ability to direct or influence the overall growth and character of the community.

Is it necessary to adopt any policies in conjunction with creating a CIP?

Policies are very useful because they provide long-term guidance on how day-to-day decisions should be made, so that those decisions conform to the long-term community needs or desires. Local officials may wish to adopt a number of policies relating to public facilities, some of which may impact the decisions made when creating and adopting a CIP. Some policies related to land use were discussed above. Policies can also help when determining priorities, scheduling projects, and deciding which financing methods should be used to fund a project. Appendix A lists numerous sample policies dealing with basic fiscal and debt management, allocation of costs, project financing, extension policies, and planning, construction and management.

As a general rule, fees and assessments are set high enough to pay for all the costs of providing that particular service. There are a variety of methods of funding capital projects, and each has very real implications on who will bear the costs. As a rule of thumb, if a facility serves the community as a whole, all citizens, or all taxpayers, should pay the costs. This can be achieved through revenue bonds or general obligation bonds, user fees or general property taxes.

If a facility benefits people in a specific area, a community may want the people in that area to bear the costs. Special districts are formed to provide a means of assessing people within a specific area for the expense of providing public services that only serve that area. Special assessments also help to ensure that new growth pays its way for public services.

Caution should be exercised when planning public improvements in areas consisting of elderly or low-income families, or where neighborhoods are beginning to deteriorate, since in general the residents in these areas may have limited financial capacity to pay for new improvements. Local officials may wish to adopt a policy that allows them to deviate from a policy that requires special districts to pay all of the actual costs. The policy should be very explicit about the circumstances

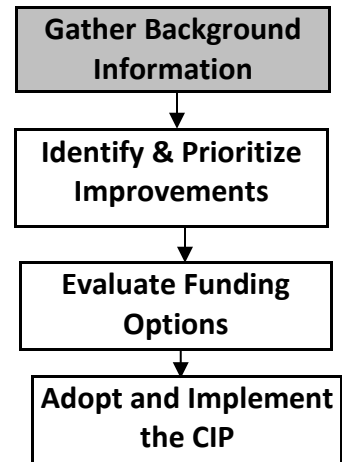
under which they would deviate from the more general policy. Local officials may want to identify areas or neighborhoods with concentrations of lower income families and pursue state or federal funding to help finance improvements in these areas.

Policies on bonding should limit the use of general obligation bonds to those facilities that do not have the capacity to generate revenues, such as parks, streets, administration buildings or fire stations. Revenue bonds should be used for revenue producing facilities, such as water, wastewater, solid waste or parking facilities. Use of revenue bonds saves bonding capacity for non-revenue producing facilities. Special assessment bonds are issued for facilities that benefit only a specific area.

Policies on the extension of public facilities typically place the burden of paying for roads or utilities on those receiving the benefits of the services. However, local governments may want to spread the cost of some capital improvements to all users in order to control development and land use patterns. Such a policy can still require developers to pay for improvements within their developments.

CHAPTER 2. GATHER BACKGROUND INFORMATION

Gathering background information and assessing public needs is the first step in the capital improvements planning process. It provides local governing bodies with a defensible basis upon which to make decisions regarding the allocation of human and financial resources. Needs can be determined using a variety of methodologies depending on the scope of the needs assessment process.



A. Introduction

Background information provides the foundation for any capital improvements planning process. Prior to the development of a capital improvements plan, a community needs to gather basic background information about their community and conduct an inventory of existing conditions.

Ideally, the community's capital improvements planning process should follow and be coordinated with the preparation or periodic updating of its Growth Policy. Background information and citizen outreach that would also be necessary for the development of a capital improvements plan should be gathered during the Growth Policy process,

There are two key aspects involved in the collection of background information in a capital improvement planning effort: an existing conditions inventory and an assessment of public needs.

In many cases, a local government may have already identified their infrastructure needs by preparing a community "Growth Policy." (Senate Bill 97, passed by the 1999 Montana Legislature, substituted the term "Growth Policy" for what was previously referred to as a "Comprehensive Plan" or "master plan" in state law.) The growth policy statute requires that local growth policies include "a strategy for the development, maintenance, and replacement of public infrastructure." Where a community has an existing, adopted Growth Policy, the Department of Commerce strongly encourages local officials to use it as a basis for preparing a CIP. Please contact the Department of Commerce for more information on the preparation of a growth policy at 841-2770.

B. Existing Conditions Inventory

Before the community begins the process of public outreach or the identification of possible projects, the local government should begin to assess and inventory its existing facilities. In the development of a comprehensive CIP, any and all valuable assets should be considered, at a minimum focusing on water, wastewater, stormwater, roads, streets, bridges, buildings, and other costly capital assets (e.g. police cars or garbage trucks) as applicable. Some jurisdictions, such as counties, may not have many of these items, and some jurisdictions may choose to expand on these efforts by considering planning and preliminary engineering documents, staffing expansion, and other less expensive capital improvements projects. If including these projects makes the document more valuable for the community, they should be included.

An inventory of existing conditions should focus on several different aspects of each facility, for instance:

- Where is the existing facility located? Maps can be used to help graphically represent the location. For something like a street system, a map of the jurisdiction's street system can be helpful to understanding the extent of the facility.
- Is the infrastructure located in a hazard area (floodplain, wildland urban interface, seismically prone, etc.)? If so, what are the interdependency between the infrastructure system? If one section of the infrastructure is inoperable following a flood, wildfire, earthquake etc. how will the community access critical facilities and services?
- What purpose does this infrastructure serve? How much of the community does this infrastructure serve? Is its existence critical to maintain public health and safety? What would happen if this piece of infrastructure was not maintained or went out of service? Questions like these need to be asked in order to gauge the impact of the facility on the community to help with the prioritization process.
- What is the current condition of this infrastructure?
- What is the expected lifespan of the infrastructure?
- What is the current value of the infrastructure?
- Does the infrastructure meet current or expected population or other demographic needs?
- Has a preliminary engineering study been completed for the piece of infrastructure in question? Preliminary engineering studies provide even more

detailed information about the condition of the infrastructure and alternative improvement strategies. Professional engineers, working with local government staff can help identify a variety of infrastructure deficiencies that might go otherwise unnoticed. Preliminary engineering studies are often required by public funding agencies prior to consideration of grant and loan funding applications. These studies can provide information in a standard format that can be easily reviewed by funding agency staff and can provide a good basis for the additional engineering work that must be done as the project progresses.

- ❑ Are there any other objective metrics that are inexpensively available that can help justify the condition of the facility? For instance, a wastewater issue could be apparent to an experienced wastewater operator, but a preliminary engineering report may not have been completed to identify the specific issues and alternatives for fixing the problem. In this instance, a community could note that they believe there are issues with a given facility and possibly decide to prioritize the development of a Preliminary Engineering Report to identify specific projects that can be included in subsequent updates to the document.

This information should be presented in the final capital improvements plan document in a fashion that makes it accessible to anybody who might review the document. Ideally, anybody, be it the public, newly elected officials, staff, or a potential funding agency should be able to review this portion of the capital improvements plan and have a fairly clear idea as to the condition of infrastructure within the community.

Wherever possible, photographs and maps can be used within the planning document to help make the document more accessible to those with less intimate knowledge of the facilities. For instance, a map of the city street system showing the current condition of the system can help elected officials and the public to more clearly understand the extent of the problem. Photographs of failing structures can also help the public to understand the need for repair or replacement of facilities.

This sort of inventory will also help those developing the remainder of the capital improvements plan to make informed planning decisions regarding future capital investments. Once a community has a full understanding of what their needs are and knows what facilities they currently have and what condition they are in, they can begin to identify and prioritize projects that can most effectively improve their community.

C. *Public Outreach & Needs Assessment*

Public participation is essential in the capital improvements planning process. While public opinion alone cannot demonstrate the need for a project, it does provide a critical perspective. The members of the public are the users of local government's public facilities and ultimately pay for it. Their participation and "buy in" regarding any major improvements are critical to having

an effective capital improvements planning process and accomplishing the project. Public comment can be solicited through public meetings, personal contacts, information booths at public events and public places, questionnaires in local newspapers, or enclosed with utility bills or tax statements. Various ways to involve the public will be discussed in the following section. Appendix B provides additional information on how to encourage public participation.

Public outreach can help local leaders in various ways. The process can:

- Increase citizen awareness of the value and importance of community planning,
- Increase citizen understanding of community problems and their effects on the community,
- Assess public opinion about community goals and priorities,
- Systematically evaluate existing programs and services to identify whether improvements are needed,
- Identify needs related to public facilities or services,
- Educate the public about why the needs are important to them,
- Build citizen support for local government decisions or projects, and develop a greater "sense of ownership" through public involvement, and
- Meet funding agency requirements for grants and loans.

Ultimately, it is the extent and critical nature of community needs that should convince members of the public and potential funding programs that financial and human resources must be committed to a particular need, in this case, infrastructure improvements.

It is important to remember that a community's needs change over time for a variety of reasons:

- All communities are in a continual state of change, and as a consequence, what once may have been an appropriate policy or program may eventually become inappropriate.
- The character and needs of a community can shift as a result of demographic and economic changes. The needs of a community are frequently related to its population characteristics and rate of growth. Fast growing communities are often faced with greater needs for schools and recreation areas to serve children and younger families. In communities experiencing declining populations and out-migration, the greatest needs may relate to serving senior citizens through facilities such as senior centers, medical clinics, or assisted living facilities.
- Sometimes people are not inclined to express their attitudes and feelings openly; it may take a crisis, such as the threatened or actual loss of a major employer, to motivate citizens to share their opinions about community needs and priorities.

There is a tendency for people to resist rapid change. Many people don't like change and they are even more resistant to major changes when they don't have adequate information, or when they have not been involved in making decisions. Public outreach is an excellent means of informing and involving the public in problem solving and developing local goals and priorities.

By including the people in your community in the process of identifying critical needs, people will feel that they have had a voice in the process and will be more likely to support the end result, which in some cases is a major public facilities project. For example, a major water or wastewater project that is being mandated by state or federal regulations may be resisted by many community members. This can educate citizens about a problem, explain why the issue is important to the community, and involve them in identifying alternatives to deal with it.

At the outset of the needs assessment process, local officials should define their objectives. Is this assessment to be limited in scope, dealing only with public infrastructure, or will it be comprehensive and identify all of the needs of a community? In order to define your objectives, answer the following questions:

- What do we want or need to know?
- Why do we want to know it?
- How will the information be used?
- Where can we find the information needed to answer our questions?
- How can we obtain this information?
- What sources of information already exist at local, regional, state, or federal levels?
- How can the data we obtain be organized, analyzed, and presented?
- What people and organizations should be involved in gathering the information? Why? How?

Once you have defined what it is that you want to accomplish, determine how much it will cost in time, dollars, and other resources to obtain the required information. Consider what funding is available, or where financial help could be obtained. Also, estimate the availability of human resources for planning, compiling, analyzing, and presenting information. If citizen volunteers are the primary means of carrying out the study, they may need to be reimbursed for their expenses, their time may be limited, and they may need guidance and support. On the other hand, highly skilled researchers can often be found in the volunteer community. Do not overlook agencies, organizations, and businesses that may be interested in community problems. The entire community is a potential resource.

Even though the assessment process may have a capable steering committee and the support of local officials, it needs leadership. Determine who is available to assume the leadership responsibility for the needs assessment and what their capabilities are to get the job done. One individual should be responsible for all the tasks associated with planning, defining the problem, monitoring the expenditure of funds, organizing a plan of operation, guiding the data collection, and serving as liaison. Someone will also need to oversee data analysis, its presentation, and its use.

The leader does not need to have all the answers or do all of the work. However, he/she should be able to organize, know how to maximize the involvement of all community resources, and understand the research methods used in conducting a needs assessment. At no time is a leader a substitute for community participation. With the right kind of leadership, occasional help from

local government staff or a consultant, and willing citizens, a community can produce a useful needs assessment for very little money.

“Community Needs” can be identified in a variety of ways. The assessment process should identify whether, and how well, needs are currently being met. In addition, the process should identify whether, and how well, needs would be met in the future given changing conditions. “Community Needs” can also be described as the gap between what is currently provided and what is desired in both the immediate future and the long term. While this handbook is primarily concerned with public infrastructure, the needs assessment process should look at all needs. As a result, a variety of techniques are discussed in this chapter that may be more applicable to a broad needs assessment or overall community planning process. A limited needs assessment, concerned with just public infrastructure or a specific portion of the public infrastructure (e.g. water system), may not use as many of the techniques for obtaining input from the general public.

A combination of methods can be used to determine and assess the nature and extent of a community’s needs. The quality of information about a community is only as good as the techniques used to gather the information. A single technique may be too narrow in the information it provides; while using too many may be costly in terms of time and dollars. Different information-gathering techniques are appropriate for different needs. It is important that the needs assessment process be designed as efficiently as possible, with respect to available resources.

When deciding which assessment technique is best, it is critical to take into account the people who will be involved. People are unique in the way they respond to an interviewer, a group discussion, or a questionnaire. This consideration alone may justify the use of more than one needs assessment technique. Particular techniques such as a citizens' advisory group, a steering committee, a community forum, or a questionnaire can provide a sharper perspective on local concerns, depending upon the audience.

The techniques used to assess needs can generally be grouped into one of two categories. The first category relies upon direct input by the public and includes advisory groups and task forces, community forums, small group discussions (nominal group process), key community members, and surveys. Direct input by the public means obtaining opinions from a community’s citizens about what is needed in the community and is an excellent way to involve the public in the capital improvements planning process. Utilize at least a couple of these techniques when going through a needs assessment. Always remember that getting public input is essential, because what the general public views as a need may be entirely different than what local officials and staff have identified.

The second category relies upon data and information gathering, typically performed by the local government’s staff or consultant. This technique does not rely upon public opinion, but rather upon gathering information already available or generating new information from inventories

and studies. In every community there is a wide variety of information available, if you know where to find it. Before new data is collected, a thorough check should be made of what is already available. Such information may not only provide valuable background information, but it could save time and money later. Existing studies or plans often provide insights into the community that most citizens are not aware of. In addition, community needs, goals and policies may have already been identified in these earlier studies and plans and would be worthwhile to revisit

D. Demographic Information

Generally, this information should be consistent with what is already found in a community's Growth Policy document.

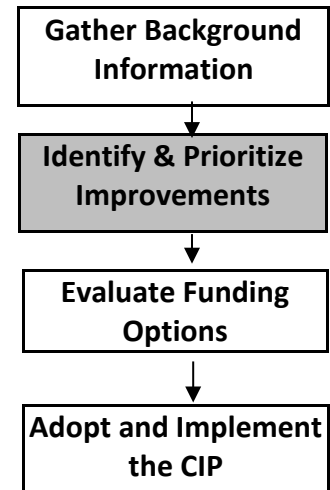
If a community has not already completed a Growth Policy, baseline information such as U.S. Census data is important to acquire. The Montana Department of Commerce Census and Economic Information Center maintains Census data for the state and additionally develops population projections for each community in Montana that can be used to provide insights into a community's population and settlement trends.

These projections can assist a community in projecting growth and decline and the associated impacts on public facilities. If available, economic and market data regarding industry trends can help identify potential areas for growth and associated infrastructure needs. Surveys of existing businesses might reveal expansion plans, anticipated changes in technology and the associated infrastructure requirements. While individual industries would likely come forward to request improvements to infrastructure to accommodate their specific needs, it is far better for a local government to anticipate growth over a period of years. This enables the orderly planning for infrastructure improvements based on the availability of financial resources and scheduling requirements.

If a community has knowledge about development that will occur that is not accounted for within available population data, such as the pending development of a new coal mine, or the planned departure of a major employer, the community should take this knowledge into account when assessing and identifying possible capital improvements projects.

CHAPTER 3. IDENTIFY AND PRIORITIZE IMPROVEMENTS

Once existing conditions have been inventoried and the public has been involved, the next step in the process is to identify and prioritize improvements. Typically, only the highest prioritized needs are given a detailed analysis for alternative solutions. The further evaluation of priorities brings many specific issues to light, which may affect their ranking and consideration by the governing body and members of the public.



A. Introduction

In this chapter we look at identifying and prioritizing improvements. Once a community has inventoried its existing facilities, gathered public input on the development of their community, and identified the means by which development will occur, the community can begin to identify possible projects to help implement the community's goals.

Priorities can initially be determined as background information is collected; however further evaluation of priorities is needed, including: cost in the long- and short-term, maintenance requirements, public acceptance, associated impacts, available funding, and regulatory permitting and other issues. Potential solutions also need to be defined, and frequently there may be a series of alternatives that can be pursued. Sometimes you will only have one solution per problem, while other times you might have multiple choices. Often this step requires preliminary engineering studies be completed in order to more accurately estimate project costs and to aid in the evaluation of the higher ranked alternatives.

Evaluating alternative solutions to identify proposed projects can be an exhaustive process, and therefore, it is most typically used to evaluate only the highest ranked priorities. Lower ranked priorities generally receive less attention. However, as the capital improvement plan is periodically updated, identified needs may "move up the ladder" and be given greater attention

and focus. Once sources of funding are identified for proposed projects (in the next step), it may be necessary to once again re-evaluate priorities in order to fit available resources, funding cycles and other regulatory concerns. As this process continues, priorities may be changed to reflect these various issues.

B. Identifying Projects and Developing Priorities for Capital Improvements

1. Financial Considerations

What are the capital costs?

When computing the cost of a capital project it is essential to include all expenses reasonably related to that project. Cost estimates should include all anticipated elements of the project:

- preliminary engineering (if not already completed),
- preparation of inventories of cultural/environmental resources (if necessary),
- selection of consultant,
- final design,
- preparation of bid documents,
- solicitation of bids and contractor selection,
- labor and materials,
- construction oversight,
- land purchases or right of way concerns,
- utility requirements,
- environmental mitigation,
- preparation of applications for grants and loans, and
- expenses related to obtaining a loan such as the issuance of a bond, holding an election, or forming a special district.

What are the operating and maintenance costs?

All of the costs associated with ongoing operations and maintenance (O & M) should be identified. Often, the primary reason for capital improvement projects is to reduce O & M costs. It is important not to underestimate the degree to which O & M costs affect your operating budget. Several studies have shown that for typical public facilities, such as street lighting or water main improvements, O & M costs over the useful life of the facilities are likely to exceed their initial cost of installation. Therefore, any capital improvements that can reduce operating costs should be seriously considered. For example, a water main replacement project may offer considerable savings over the continuing O & M costs related to making spot repairs on an antiquated system. On the other hand, the construction of a new municipal parking lot will

almost certainly increase O & M costs for your community. Once construction is completed, your local government will be called upon to provide a whole range of services including mechanical sweeping, snow plowing, landscaping, pavement resurfacing, daily checking of parking meters, etc. You also need to consider whether you have the capacity to perform this maintenance or whether it will need to be contracted out.

By clearly calculating the added long-term O & M costs that would occur from an expansion of capital facilities, local officials can accurately anticipate future increases in their annual operating budget. Those capital facility alternatives that would offer lower O & M costs over time may be more attractive, even if they are more expensive initially. You should also consider how long the improvement will likely last (what is its expected life)? Would an alternative that costs more to build, but lasts longer, result in a decrease in costs over time considering the longer life of the facility?

What are the impacts on local government financing?

What are the impacts to the local government's financial position? Does the local government have sufficient legal debt capacity to issue bonds, and how would the project affect your local government's capacity to fund other projects? Infrastructure improvements will either positively or negatively affect your jurisdiction's tax revenues or service charges. For example, a roadway extension constructed to serve a proposed manufacturing plant will help generate more local property tax income. Similarly, a sanitary sewer extension project will generate additional hook-on fees and monthly user charges. These revenue changes should all be considered when selecting alternative projects.

How will the improvements be financed?

One of the most important factors to consider is whether or not funding options exist for a particular project. If funding is available "right now" for a project, you probably would want to assign this project a higher priority ranking. Projects that are difficult to finance, or that do not have funding available at this time would normally be assigned a lower priority. It is also important to consider whether a project can be phased. This will defer some costs until a later time, and may result in the local government having access to additional grant funds. You should also look to see if there are opportunities for cooperative efforts. Can engineering services, construction or maintenance be shared by other local governments, or by state or federal agencies? Can other organizations such as a property owners association help finance the project over the long run?

2. Other Impacts That May Result from the Improvement

It is important to look at the various impacts that the project would have, including both negative and positive impacts:

What are the impacts on health and safety?

Many public works projects will have an important beneficial impact on the community. These impacts may be “indirect” (as when a water treatment plant project improves the appearance, smell or taste of drinking water), or “direct” (as when a water treatment plant project removes chemical or biological contaminants that threaten the public’s health)). While it is difficult to assign a dollar value, they represent perhaps the most valuable public service that any government can provide. The value of the project in lives saved or illness prevented should be clearly stated in your CIP. Make sure you communicate these benefits of the project to the governing body, media, and citizens. Projects that protect public health and safety should have a very high priority.

Will the project result in compliance with state or federal regulations?

A high priority should be assigned to projects that are required by state or federal regulations. Failure to comply with regulations could result in threats to public health or safety, damage to the environment, or fines levied against your local government.

Does the proposed project help to implement goals outlined in other planning documents?

An important question should be whether the project relates to your local governments’ Growth Policy. Proposed projects, particularly those that deal with changes in capacity, should align with the goals and objectives outlined in the community’s growth policy and be consistent with the future land use map. This helps to ensure that the community’s vision is being properly implemented. Does the project assist in economic and community development efforts? Does it address changing growth patterns and community development needs?

Are there environmental concerns?

Environmental considerations can play a significant role in the selection of a preferred alternative. Whenever federal funds are used for projects, the potential environmental impacts must be assessed under the provisions of the National Environmental Policy Act (NEPA). Projects that are funded by state dollars only are subject to the environmental assessment process established under the Montana Environmental Policy Act (MEPA). Are there wetlands or floodplain associated with a potential project area? These and other types of environmental issues can influence a project.

Often, funding applications will require that an environmental assessment be prepared in conjunction with the application. Project planning should include adequate time to conduct environmental assessments where appropriate to determine the nature of any anticipated impacts and how they might be mitigated. Each agency may have somewhat different environmental requirements, so it is important to contact each funding agency that might be

involved in the project.

What are the impacts on cultural issues?

Will the project result in your community being more livable? These questions generally look at the aesthetic or social condition of your community. Examples include: the reduction of traffic congestion, air pollution, and noise in a downtown shopping area or neighborhoods where you live; and greater opportunities for recreation or to socialize. You should also evaluate whether the project would impact historic, prehistoric, or other natural resources or scenic values.

What are the impacts on local economic development?

Economic development refers to business expansion and creation of new jobs. Since economic development is a major objective of many capital projects, it is important that local elected officials, business leaders and civic groups understand the close correlation between capital improvements and economic development. For example, the economic benefits of a project should be documented in the following areas:

- Expansion of the local property tax base,
- Increased property values,
- Increased employment or retention of existing businesses
- Increased investment in local economy, and
- Stabilization or rehabilitation of declining neighborhoods.

Once you have looked at all the positive and negative impacts, you should ask - Are the monetary and other costs of the project appropriate and reasonable when measured against the benefits derived?

Examples from Towns & Cities in Montana

- Increasing the use of the community's 10 acres of public park, baseball diamond, and wooded sites was mentioned in the CIP of a small central Montana town. To respond to the community's needs, they are also improving signage with the help of volunteers. To boot, there were recognized needs for the Senior Center included in the CIP, citing needs to re-roof and re-wire the building. Both projects improve the community culture; one encourages community connectivity and the other improves the lives of important residents.
- Due to widespread community use of the trails and parks throughout a small western Montana city, it was identified in their CIP to create another park near new home developments. On top of adding another park, the city wants to add more trails and paths around the city, to make it a more connected place, and improve community access. Adding another park and more trails accomplishes their goal of giving their residents more opportunities to recreate and socialize.

3. Public Acceptance

Is the proposed project acceptable to and supported by the public?

An important consideration should be whether the public supports the proposed project. Funding scenarios that call for increasing taxes or assessing new fees will likely be met with some resistance. If monthly charges become too high, the system's users may consider them unreasonable, which may result in the public opposing a proposed project. This is an important consideration if you are looking for state and federal grant and loan dollars, since lack of public support could affect the likelihood of being awarded funds. It is also important if the public will have to vote on a bond issue for the project.

If the project is delayed, will the public respond negatively? Various funding strategies may result in the postponement or phasing of improvements over time. The public may feel that the project should be undertaken immediately.

It is usually desirable to place a higher priority on projects that have generated a good deal of public support. If you have undertaken a citizen survey (by telephone, mail, or in person) or held a public hearing concerning your capital improvement program, it will be easier for you to gauge public support.

Without a sufficient degree of public support, some public projects (such as those funded by general obligation bonds or special assessments) simply cannot go forward due to statutory requirements for minimum levels of public support. Therefore, your local government should consider the level of public support, not only as a desirable justification for a project, but also as a critical prerequisite for most major public works projects.

C. Identified Project Narrative

A good capital improvements plan provides a list of identified projects and explains the need for and cost of these projects. For example, the City of Livingston, Montana, in their 2014 Capital Improvements Plan, provides a single page synopsis of every project that they have identified. This page includes photographs of the facility, a brief narrative, and an explanation of what the project does and why the project is good for the community. This is a very accessible way to document a list of possible improvements prior to prioritization.

D. Initial Prioritization of Improvements

Virtually every community will find it has more improvements than it can reasonably finance. In order to assist communities in narrowing down this list of improvements to a manageable level, it is necessary to develop criteria for determining which improvements should be concentrated on for further evaluation. These criteria should be established before actually prioritizing any

needs, thereby creating a policy for guiding the prioritization process. The use of ranking criteria can provide an objective means to help the community establish priorities for dealing with needs and decide on whether to apply to a particular state or federal program for help.

Some ranking criteria may readily determine how high an improvement should be prioritized. Improvements that would eliminate a hazard to public health or safety, and/or are necessary to meet state or federal regulations are typically considered to be a high priority. Improvements for which the funding and timing is inflexible - the improvement cannot be postponed without losing the opportunity for specific funds may possibly be considered a high priority.

Other criteria may simply offer guidance related to preference. For instance, improvements that conform to the community's Growth Policy, or other adopted plans or policies, might be given preference. Improvements that would extend the life of existing facilities might be given preference over projects that would require new facilities. Criteria based on the community's goals and policies, a project's urgency and immediacy, and the availability and flexibility of funding, are all important when considering how to prioritize a need.

Examples of the types of criteria that have been used by other communities include:

- the improvement involves the community's compliance with a law or regulation which has been mandated by a governmental agency;
- the community faces an existing or potential threat to public health or safety;
- the improvement is one that relates to the mission of a particular state or federal program;
- the improvement is necessary to stimulate and/or accommodate growth and development;
- the improvement affects the entire community as opposed to one neighborhood;
- the improvement is one on which a strong community consensus exists;
- the improvement is a long-term problem which has been identified in past plans or studies, or solution of the problem would have a long-term positive impact on the viability of the whole community;
- the improvement is one for which state or federal financial assistance is more likely to be available;
- the improvement is more likely to be competitive under state or federal grant programs; and
- the improvement is resilient to the future expected impact of natural disaster events.

E. Priority Rating System

As evidenced by the above suggestions, setting priorities is not always purely objective or scientific. Considerable value judgment is involved. The aim should be to use a system that provides as much consistency in the rating of projects as possible. For small communities with only a few projects to consider, a simple priority rating system likely will suffice. Larger jurisdictions with many projects may want to establish a prioritization matrix system to help assure consistency in the decision making process. Whatever criteria are used to set priorities, common sense should be a key ingredient.

The following is an example of a priority rating system that might serve a community:

PRIORITY 1:

- Projects already underway, or to which the local government is already committed (funding and all approvals are in hand).
- Projects that eliminate a hazard to public health or safety, and/or are necessary to meet state or federal regulations or other legal requirements.

PRIORITY 2:

- Projects needed to assure orderly residential, commercial or industrial development (e.g., a larger sewer trunk line to serve a growing commercial area).
- Projects that correct deficient or deteriorating existing facilities.
- Projects needed now, but funding and timing is flexible.

PRIORITY 3:

- Projects that are highly desirable, and funding is flexible.
- Projects that would assist orderly development, but not absolutely needed at this time.

PRIORITY 4:

- Projects that are not needed now, but maybe in the future.
- Projects that can be postponed without harming existing programs.

PRIORITY 5:

- Projects that are desirable, but of questionable need.
- Projects that may require more study before further consideration.

F. Prioritization Matrix

A more comprehensive way to rank capital improvements projects is to develop a prioritization matrix. An example of a good prioritization matrix was developed by a small community in eastern n Montana in their 2010 Capital Improvements Plan.

In their plan, elected officials and citizens decided on four priorities by which to rank identified capital projects: health and safety, public opinion, cost, and grant eligibility. Each ranking criterion was then assigned a weight based on how important each priority was to the community. Health and safety was determined to be the most important and was assigned a weight of 10. Grant eligibility was determined as the least important and assigned a weight of 4.

Each project was then rated on a one to five scale based on how well it met each criterion. For instance, the replacement of nitrate and water softening media was ranked as fully meeting the Health and Safety priority and was assigned a score of five. The criteria rating was then multiplied by the weights, and the weights were added together to arrive at a total score.

From there, projects were prioritized across departments to rank all projects from most important to least important. This provides a very objective means of ranking and prioritizing potential projects.

Priorities and their weights can and should vary between communities. Some communities may not see budgetary factors as a high concern, while others may place more or less value on public opinion. The ranking process should take into account the needs and objectives of each individual community, so that the resulting prioritization matrix represents the most useful possible ranking of projects to the community.

G. Documenting the Priority Setting Process

The needs assessment process should have been documented in order to show all of the needs that were identified. Likewise, the initial prioritization of needs should have been documented. For each of the higher priority needs that were evaluated, you will want to document what was learned. A summary sheet that contains specific information should be used to document this information so as to have a record for each proposed project. This summary sheet should be attached to the overall priority list. This information is very helpful in dealing with the governing body, the press, and the public. The following format could be followed to create a summary sheet:

- Name of Project:
- Anticipated Construction Date:
- Location of Project:
- Description of Project:
- Condition of Existing System:
- Land Acquisition/Easements Required:
- Adherence to Growth Policy:

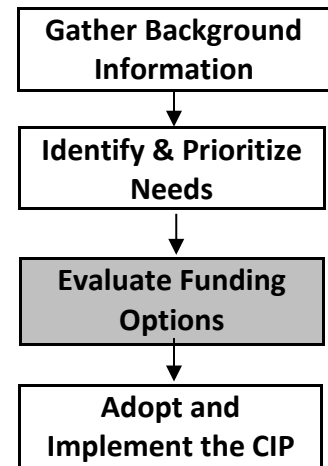
- ❑ Anticipated Benefits (Why Needed):
- ❑ Anticipated Construction Cost:
- ❑ Annual Operation and Maintenance Costs:
- ❑ Potential Funding Sources:
- ❑ Anticipated Tax and Economic Effects of the Project:
- ❑ Public Support for the Project:
- ❑ Estimated Life Expectancy of the Project:
- ❑ Date of Project Summary Update:

After each of the priorities, or at least the higher ranked priorities, have been further evaluated and documented, local officials, staff and members of the public should work together to re-prioritize needs if necessary and to select preferred alternative solutions. However, priorities may once again be modified based on availability of funding, which is discussed in detail in the next chapter.

Ideally, projects would be implemented in order of prioritization, but as discussed in the next chapter, the availability of funding will likely cause some lower prioritized projects to actually be implemented before others.

CHAPTER 4. EVALUATING FUNDING OPTIONS

Once needs have been identified and prioritized, the local government should take a comprehensive look at its capacity to pay for the desired improvements. Funding may have to come from local sources, but there may also be outside funding that could be sought for specific projects. If outside funding is contemplated, identify the specific program criteria, funding cycles, and legal and administrative requirements that must be fulfilled. Finally, funding strategies should be developed with respect to the local government's financial status and the availability and appropriateness of outside funding sources.



A. Introduction

Once needs have been prioritized and projects identified, the next step is to develop a corresponding funding strategy for implementing projects. First, study your government's existing financial condition and capacity to pay for the needs by preparing a simple financial forecast. Next, research and analyze alternative ways to pay for the projects. Funding options need to be evaluated in order to identify the various sources of funds that can be used to finance a project. Finally, determine the preferred method of financing for each project.

B. Determine Your Local Government's Financial Condition

Good fiscal planning can enhance a local government's ability to adequately address overall community needs, and a thorough analysis of local funding options is the first step. The following types of questions should be included in this analysis:

- Is the local government levying the maximum number of mills allowed under local and state statutes?
- Can the local government borrow funds or issue bonds to pay for projects?
- What economic and community development trends will affect the overall tax base?
- What are the general economic and demographic conditions in the local government's jurisdiction that might affect the ability of property tax payers to carry the burden of additional levies or assessments?

The financial evaluation begins with an analysis of the local government's current fiscal status, by looking at existing budgetary requirements and commitments for all sources of revenue. The analysis should also include a financial forecast of the public funds that are likely to be available

for financing improvements over the coming five to ten years depending on the time period that the CIP will cover. Without such a forecast, it will be impossible to estimate how many projects to schedule in each budget year of the plan. It will also be impossible to project how much money may be necessary from outside funding sources. Generally, a water or wastewater rate study is required to estimate financial impacts for large-scale water or wastewater projects. Where possible, the local government should analyze trends that might affect revenue sources. For instance, revenue fluctuations can occur as a result of population growth and decline, shifts in industrial production, and as a consequence of statutory or administrative changes at the state and federal levels (e.g. changes in the methods that the state employs in assessing property values). Once local financial capacity has been evaluated, the local government can consider outside sources to fill gaps where necessary. Proposals for outside funding must present a strong case regarding insufficient local financial capacity. In most cases, outside dollars will be awarded by a funding agency only to compliment local dollars rather than a convenient substitute.

The number of capital improvement projects that a local government can finance will depend on two factors. The first of these involves the capacity of the local government to bear general obligation bond indebtedness to fund future projects. Bonding capacity, in turn, will depend on the amount of general obligation debt that has been previously issued, as well as on the statutory limits on public indebtedness that apply to that local government. If your community has not reached its statutory debt ceiling and if you feel that the residents in the community will likely support additional debt issues, your revenue forecast should reflect additional bond issuance as a potential revenue source.

The second factor in forecasting revenues is the availability of funds from sources other than debt issuance. These sources may include the utilization of current cash balances, property taxes, user fees, motor fuel taxes, impact fees, etc. Ideally, a portion of such revenues should be placed in special accounts that are earmarked for the financing of capital improvements. In the case of impact fees, they must be reserved for public facilities projects. Several Montana communities have allocated revenues derived from local option tourism taxes to support major infrastructure projects.

Remember that while a local government may have various local funding options to address different needs, those resources may already be tapped to their limit for other uses. In order to obtain the financial resources to fund a major capital improvements project, the local government may be required to submit financing proposals to the voters for approval. For example, the local government may seek voter approval of a mill levy increase, a general obligation or revenue bond issue, or to create a special improvement district or rural improvement district. Voters may reject the notion of paying additional taxes or fees. However, voters may respond more favorably when it can be demonstrated that they are not carrying the entire burden, and that for each dollar they pay, they would be leveraging one or more federal or state grant dollars.

Once the revenue forecast has been completed, an expenditure forecast needs to be put

together. In developing your expenditure forecast, it is desirable to obtain information concerning historical trends for three types of expenditures: normal operating expenses, capital improvement expenses, and debt service expenses. It is possible to estimate future expenditures by calculating the average expenditure increase experienced in past several years. This estimating procedure must take into account, however, unusual fluctuations that are anticipated in the rate of inflation, or in the level of operating, capital improvement or debt service expenditures.

Upon completing the forecasts of revenues and expenditures, the community is in a position to compute the amount of funding likely to be available to finance new capital projects over the next five or ten years. The formula for making this simple computation may be stated as follows:

	Projected Revenues
(Minus)	Projected Operating Expenses
<u>(Minus)</u>	<u>Projected Debt Service</u>
(Equals)	Funding Available for Capital Projects

Thus, with your financial forecast in hand you are now ready to research other sources of funds.

C. Evaluate Funding Options

Figuring out how to finance a project is often the hardest part of getting a public facility project completed. Increasing taxes or user charges to pay for public facility projects is typically not the preferred method by most people in the community, but federal and state grant dollars are limited. In addition, different funding methods are appropriate for different facilities or under different circumstances. Most often, local officials will find that using several financing methods and sources is required. As a result, it is important to evaluate all available sources of financing.

Typically, local governments finance public facility projects by incurring debt through bonding. The different types of bonds authorized under state law have particular applications and requirements. It is important to realize that the nature of the proposed facility and type of local jurisdiction tend to dictate the appropriate type of bond, and little choice is really available to local officials. Other funding options may also be available and it is important to consider any that may be appropriate. Given the complexities of each of the options described below, you should do the following:

- Review each option and select those options that seem most applicable to your proposed improvements.
- If necessary, call the contact person for each outside funding program for up-to-date details. Keep notes and set up a file for each option under consideration.
- If the option is a grant or loan program ask about: local matching fund requirements, application procedures, what makes for a sound "fundable" project, sample applications from

good previously-funded projects, special program requirements ("strings"), etc. Some of the available funding sources, especially grant programs, have lengthy application review periods and funding may not be provided for months or years. For many programs, local governments should anticipate a lead-time of at least two to four years in advance of project implementation.

- ❑ Analyze each funding option - What are its advantages and disadvantages? How much money will the option raise? Are the limitations attached to the funding acceptable to the local leaders? What tasks will have to be carried out by the local government in order to use the option? How long will it take to complete each step to secure the funding?

As you review various sources of funding, you might want to develop a matrix or chart of information that can be useful when analyzing your financing options. A matrix can be a useful tool in making presentations at public meetings and as an aid in decision-making.

There are a variety of funding options including:

- ❑ **Revenue Bonds:** Revenue bonds are issued for facilities that generate revenues through user fees. Water, wastewater and solid waste systems are the typical types of facilities that obtain revenues through service charges, which can then be used to pay the principal and interest of the bonds (see discussion of fees below). Because revenue bonds are paid from user fees rather than from property taxes they do not affect a jurisdiction's bonded indebtedness. Thus, revenue bonds should be used to finance revenue-producing utilities in order to save the jurisdiction's general bonding capacity for those facilities that do not produce revenues. For these reasons, revenue bonds are the principal financing tool used by Montana communities for funding the construction of drinking water and wastewater system improvements.

When utilizing a revenue bond to secure a loan, municipalities are not required under Montana law to have a bond election; however, bond buyers view revenue bond issues more favorably if an election has been held that demonstrates community support. County water and sewer districts on the other hand may be required to have a bond election, which can sometimes be a formidable obstacle to getting the project built.

- ❑ **General Obligation Bonds:** General obligation bonds are repaid from revenues generated by a property tax levy. They affect the local government's indebtedness and contribute to the jurisdiction's statutory debt limit. The "full faith and credit" of the jurisdiction is obligated in the issuance of general obligation bonds. Thus, the interest rates are lower than for revenue bonds because the commitment of tax revenues provides greater security. However, a bond election is necessary to approve a "G.O." bond issue.

General obligation bonds should be used only for facilities that do not generate revenue and that will benefit all the people in the jurisdiction (e.g. fire stations, jail facilities, arterial or collector streets). Where a facility will serve only a particular geographic area (such as a neighborhood)

local officials may find that a special district with a special assessment on only those people benefiting is more appropriate than a community-wide general obligation bond.

❑ **Special Improvement District or Rural Improvement District Bonds:** Improvement districts may be formed to provide facilities for specific areas within a jurisdiction. Within municipal limits, “Special Improvement Districts” (SID) may be created; within unincorporated areas “Rural Improvement Districts” (RID) may be formed. These districts are formed to provide assessments to pay for improvements such as streets, curbs and gutters, sidewalks, and water and wastewater lines. Improvement districts are created as subordinate agencies of either municipalities or counties. The assessments are levied against properties within a district either on a linear front foot basis, or on the proportional area of each property. SID or RID bonds are issued to finance facilities within a district. The bonds do not affect the overall indebtedness of a municipality or county, but if a revolving fund is established as allowed by state statute, the revolving fund is financed from jurisdiction-wide tax levies.

❑ **County Water and/or Sewer District Bonds:** A county water and/or sewer district may be formed by petition to construct and operate water and wastewater systems in unincorporated areas. The district is governed by a board of directors and the board may assess user fees to pay the principal and interest on bonds and cover operation, maintenance, repairs and depreciation of the system(s). If the fees are insufficient to pay the principal and interest on bonds, the electors may vote to levy a tax on property within the district to generate revenues for debt retirement (7-13-2321, MCA).

❑ **Capital Improvement Fund:** Counties, municipalities, and special districts may establish a capital improvement fund for the replacement, improvement, and acquisition of property, facilities, or equipment that costs in excess of \$5,000 and that has a life expectancy of five years or more (7-6-616, MCA). The fund must be formally adopted by the governing body.

❑ **Grants and Loans:** A variety of state and federal programs provide both grants and loans. See the chart at the end of this chapter, which provides brief information about most of the grants and loans available to fund infrastructure projects.

❑ **Fees:** Fees, of several types, may be assessed to cover a variety of costs. The most common is the user fee; or charge for services. Local officials should set user fees, also known as a user rate, to cover all of the costs of operation including: maintenance, repair, replacement, and debt retirement. Utility systems should be self-supporting and not be subsidized by general fund moneys, nor be expected to subsidize other local government fund accounts.

A “Hook-up” or “Tap” fee should be charged to hook-up new customers. The fee should be high enough to cover the actual costs of physically connecting into a utility line. Those costs usually include the costs of excavating, connecting a service line into a main line, backfilling and replacing any disturbed public road pavement, curbs and gutters and sidewalks.

An "Impact" fee may also be charged to help amortize the debt incurred by constructing the facility. As with a hook-up fee, an impact fee is a one-time fee, most often associated with new subdivision development. Usually, impact fees, when assessed are added to and included as part of the hook-up fee. (See 7-6-16, MCA)

❑ **Current Revenues:** Local governments may finance the construction of facilities on a cash, or "pay as you go" basis. The revenues can include fees, taxes, cash reserves and service charges. This method allows a community to save interest costs on borrowed money, protects the bonding capacity and saves the costs and effort of bond issues. However, paying for facilities from current revenues can prevent purchasing facilities when they are needed, can place a strain on the current year's tax rates or fees, and inflation will reduce the buying power of accrued funds. It also encourages "piecemeal" projects that may not be cost-effective.

D. Additional Financing Methods

If the previously listed methods of financing a project are unacceptable or more funds are still required, it may be possible to utilize some alternative arrangements to fund a project. There are a number of different options that could be pursued. This section is by no means intended to be comprehensive.

❑ **Interlocal Agreements**

Often two or more units of local government can realize greater flexibility or economies of scale by jointly financing common facilities. Montana law provides for units of local government to enter into interlocal agreements for sharing costs and facilities.

❑ **Lease and Lease-Purchase Arrangements**

Units of local government may enter into lease arrangements with private companies to provide facilities. Leasing a public works project relieves the government of incurring debt or providing initial capital and other financing. An alternative approach is lease-purchasing, where a project is leased from a private firm and after a specified term the government acquires title to the facility. If the purchase of the facility is required by the lease agreement the cost must be included in the government's indebtedness. Leasing has been used successfully for solid waste collection, and for obtaining heavy equipment.

❑ **Privatization**

"Privatization" is an agreement where a private investor or company will obtain an interest in a public sector facility by being the financier, lessor, lessee, operator, owner, or any combination thereof. Privatization can include one of the following forms:

1. The public sector owns the facility and it is operated by the private sector.

2. The public sector designs the facility, but it is built with private sector funds and then operated by the public sector.
3. The public sector designs the facility, but it is built with private sector funds and operated by a private sector operator.
4. The private sector designs the facility, arranges financing, gets public sector acceptance and approval, and the private sector operates it.
5. The private sector designs the facility, arranges financing, gets public sector acceptance and approval, and the public sector operates the facility.

"Privatization" has typically been used most often for financing solid waste systems, and a few water and wastewater systems. In Montana, the more common trend in recent years has been for communities to purchase privately owned water systems and convert them to publicly owned and maintained systems. For further information on privatization, interested local officials should contact an attorney or a financial brokerage firm with experience in public works privatization.

□ Fund Raising and Other Innovative Ideas

A local government can use other financing mechanisms to pay a small portion of the improvement costs. To help pay for pothole repair, a few municipalities have created "adopt a pothole" programs. Since there is never enough tax money to fix all the potholes, property owners can purchase the repair of a pothole in the street adjacent to their property. Under this approach the property owner pays \$5, \$10, or \$15 per pothole (depending on the size.) In return, the municipality guarantees patching of the pothole within 48 hours (as opposed to a waiting period of several years if tax money is used).

Other ideas such as "adopt a fire hydrant", "adopt a park", or "work a free day with the local government" are also possible. However, these programs may provide limited amounts of new money to pay for public works repairs.

E. Financial Depreciation

Capital facilities, such as buildings, equipment, and water and wastewater systems deteriorate over time, and eventually must be replaced. To deal with normal ongoing long-term deterioration of infrastructure, local governments should plan for their future replacement. It is possible to roughly gauge when various system components may fail in the future. Knowing this, it is possible for the local government to reserve money and plan ahead so that when infrastructure begins to wear out in the future, money is available to repair or replace it. This procedure is called "financial depreciation".

Financial depreciation is an excellent means of ensuring that funds are available for replacement of the facility. Under this accounting and budgeting technique, local governments structure their user fees (or taxes) to reflect both day-to-day operation and maintenance of the facility, and the cost of repairing or replacing the facility, spread over its expected useful life. A portion of the user fee, or taxes, is set-aside in a special fund for repairing or replacing the facility.

In the private business context, financial depreciation is an accounting tool used to estimate the extent to which a capital facility ("fixed asset") wears out annually. Federal income tax breaks are provided to businesses that use depreciation schedules. The resulting savings in taxes can be used or invested by private businesses to help offset the costs of replacing fixed assets such as factories, buildings, equipment and machinery.

In the local government context, the financial depreciation process works somewhat differently. Local governments do not pay federal income taxes nor do they receive income tax breaks. However, the fundamental principle involved -- accounting for annual deterioration of a capital facility and setting up an on-going means to help finance replacement of the facility -- is similar to the private business context. For local governments the depreciation schedule for a specific facility, such as a water system, can be established. Then the user fee or taxes used to finance on-going operation of the facility are adjusted or increased to incorporate earmarked funds to pay for the replacement of the facility. The replacement funds are set aside in a reserve fund or the capital improvement program fund authorized by Montana law. Municipal governments are authorized to incorporate replacement and depreciation into water and wastewater user fees under 7-13-4307, MCA. Districts are authorized to incorporate depreciation into their water and wastewater user fees in 7-13-2301(2), MCA. Counties may create road and bridge depreciation reserve funds under 7-14-2506, MCA. The reserve funds build up in direct proportion to the gradual deterioration of the facility. When facility replacement is necessary, funds are available. One of the benefits of setting aside replacement funds is that it reduces the financial "pain" of large user fee increases. Through this process replacement funds are gradually reserved over a period of years. In contrast, if user fees do not account for replacement, major infrastructure improvements often cause huge user fee increases at one time.

F. Special Concerns Related to Financing Water and Wastewater Improvements

State Utility Laws for Municipalities

Section 69-7-101 through 69-7-201 of Montana Code Annotated (MCA) governs municipal utility rates in Montana. Municipal officials and staff should thoroughly review this law with the help of their attorney. The law gives a municipality the power to regulate, as it considers proper and prudent, all rates, charges, and service classifications. Rates, charges, and classifications must be "reasonable and just". Municipalities are required to publish public notice and to hold public

hearings when rate increases are proposed.

❑ **Setting Water and Wastewater Rates**

Revenue bonds, which are often combined with state or federal grants, are the single most common method used to fund major water and wastewater improvements. Debt repayment comes through user fees, which are set after the completion of a rate study. Several methods are used to set fees. A person or a firm with rate design experience should be consulted with for this very important function. There are two non-profit technical assistance providers that can provide support:

- ❑ Montana Rural Water Systems, Inc. at (406) 454-1151 (<http://www.mrws.org/>), and
- ❑ Midwest Assistance Program at (406) 580-4812 (<http://www.map-inc.org/>).

One of the challenges in rate design is responding to public reaction to the need for rate increases. Although the governing body, their technical advisors and state or federal agencies may be aware of the need for system improvements (from a consumer service, environmental protection, or public health standpoint), the average citizen often is not adequately informed. The negative consequences of not making improvements or raising rates are often not apparent to the layperson.

Representatives of local government need to present the reasons for the proposed rate increase in terms that are understandable to laypersons. For example, citizens may need to know the answers to the following questions: Will people get sick if we don't do something? How is my family affected? Will we run out of water? Should we continue to pollute the river with our sewage or should we stop? How old is the system and what is its condition?

Another issue in designing new rates is that public perception of the need to increase rates is often based on each individual's "personal financial health". It is common in small towns and districts for a high proportion of the population to be of low or fixed incomes. Thus, even when the need for improvements is supported, many people may feel that they do not have the financial ability to pay for a rate increase.

Another problem in persuading citizens of the need for a rate increase is that rate payers do not have "benchmarks" available to compare the rate proposed for their town with an existing rate for another utility serving a similar population size. They may think that going from \$30 to \$50 per month for water is unfair and outrageous, but do not realize that the average rate for towns in Montana in their population range is \$50 to \$60 per month for a system that provides good drinking water and is in compliance with all state and federal regulations.

There are no magic answers for these issues. However a fair, open, public discussion of the issues

coupled with a well thought-out and extensive public information program can help to reduce some of these problems. For example, some towns have used an "open house" to explain the importance and complexity of water/wastewater treatment facilities to the public.

❑ Water Meters

For community water supply systems, it is highly recommended that water meters be installed and rate schedules set up to promote water conservation through favorable meter rates. Water meters are beneficial for the following reasons:

- ❑ Meters reduce costs for the local government and the ratepayer. Because water is a "refined" product, significant costs are added for each gallon of water that is treated, pumped, and distributed. Metering reduces consumption, which significantly reduces costs for chemicals and pumping.
- ❑ Meters are the only fair way to distribute costs. With meters, customers pay only for what they use. Without meters, some customers pay more than their share while other users receive unfair subsidies.
- ❑ Meters promote water conservation. Treated and potable water supplies are limited and sometimes expensive. It is environmentally unsound to waste water. Per capita water consumption is generally three times greater in homes without meters, compared to those with meters.

In order to promote customer confidence in metered billing methods, a preliminary educational effort should be made to explain why water costs money. Also, a meter testing and replacement program should be part of the annual budget in order to maintain a high level of customer confidence in meters and to assure fair billing.

Examples from Towns & Cities in Montana:

- After conducting a resident survey, a central Montana city noted that the highest area of concern was the water quality. Throughout that portion of the CIP they used a variety of in-depth information, especially with their treatment system, storage and distribution, to try and find ways to improve the water quality. The wastewater assessment they did was also thorough, with recommendations that fit their current needs while having a reasonable time frame.
- In the CIP for a north-central Montana city, a comprehensive analysis was produced regarding the metered use of their water, as well as distribution, and water demand. Additionally, the city added ratios of water use to growth, and developments that could increase the water use within the time frame of the CIP. Population increases were estimated for 10 years after the CIP was written. Health and safety were included in the projects mentioned for the water and wastewater, giving it a high priority.

G. *Develop a Comprehensive Funding Strategy*

Once funding sources have been identified and evaluated as to their applicability to various projects, the next step is to match projects to funding sources. After determining the most appropriate funding scenario, you will need to enter that information on the summary form. Many times, projects will be financed through a combination of funds. Each project identified in the CIP should have a corresponding funding scenario in keeping with the following:

- specific program criteria (e.g., does this project address job creation, or the needs of low and moderate income persons?),
- the availability of funds over time,
- grant or loan matching requirements,
- grant or loan ceilings,
- local administrative requirements (resolutions, ordinances, elections, preparation of bond sale documents, creation of special districts, etc.), and
- resources available for the preparation of applications including the assembly of the necessary documentation.

Funding strategies that make use of a variety of funding sources are likely to be more successful. Most funding entities prefer to see other funding sources as part of the financial package, where their investment can leverage funds from other entities (local and outside). Also, funding strategies that are not necessarily dependent on one specific source are less vulnerable to changes in funding availability.

Before proceeding with any particular project, develop a strategy for funding the proposed project. Financing mechanisms most often used for this purpose include:

- utilizing a community reserve fund that has been accumulated with existing user fees or taxes,
- selling bonds (revenue or general obligation)
- obtaining grants and/or loans from state and federal agencies, or typically
- a combination of the three previous options.

A funding strategy is simply a detailed plan for obtaining funds for a proposed project. By looking at the various sources of funding available, communities can determine whether it is feasible to fund a project.

When evaluating grant and loan sources it will be important to look at the characteristics of each program, such as their goals and eligibility requirements, funding levels, limitations on the use of funds, when you can apply, and when funds would become available. It is important to discuss your options and your proposed plan with any of the funding programs you are considering applying to before submitting any applications to ensure that your plan is feasible. Finally, you

want to have alternatives if you are unsuccessful in obtaining a grant, since delays are almost always going to result in increased project costs.

In order to help you develop a funding strategy for a proposed project there are several questions that you should be able to answer. These questions are taken from the Uniform Application for Montana Public Facility Projects and are required to be addressed when applying to most grant and loan programs in Montana.

❑ What are the conditions on the use of each source of funds?

For each source of funds discuss the following: total amount, whether a grant or loan, the type of instrument used to obtain a loan (for example, revenue bond), rate and terms of the loan, specific conditions or other program requirements that would affect when funds would be obtained and used, ineligible expenses, etc.

❑ When will each source of funds listed be available?

For each proposed source of funds discuss any key dates that would affect when funds would be available, for example: when an application would be submitted, when funding would likely be approved, when the funds would likely be available to the applicant, whether interim funds are likely to be used, etc. An important question at this point is “What is the likelihood that the funds will be obtained?” This is especially important if a community is attempting to get grant funds, which are direct appropriations from Congress. It is also an important question if the system users or taxpayers have to vote to pass a bond election, which is required for county water and sewer districts.

❑ Is there any additional information on the level of commitment for each source of funds listed?

For each source of funds provide more detail regarding the level of commitment of funds, for example: application has been submitted but not approved, a letter is available from the funding agency indicating all paperwork is complete, a contract has been signed, or the local government is authorized to spend funds.

❑ How will funding sources be coordinated with each other?

Explain how the funds from each of the funding sources listed will be coordinated, for example: timing of receipt of funds, use of funds for specific eligible activities, etc.

❑ Will interim-loan funds be required as part of the project? If yes, how will they be used and coordinated with other funding sources?

Discuss whether interim financing will be required and how it will be coordinated with other

funding for the project.

- ❑ **What other sources of funds from public and private sources have been considered for this project? Explain why they are not being pursued or used for this project.**

Discuss why any program that may appear to be a reasonable source of funding is not being considered. For each funding source, explain the reason it is not being pursued or used, for example: not eligible through the program, applied for funding but denied, not appropriate for the type of project, etc.

- ❑ **If a particular source of funding is not obtained, how will the applicant proceed? Explain how the funding strategy will change if particular funding is not received.**

Discuss backup funding alternatives in the event a preferred funding source is not available. Many grant funding programs are competitive and not all applicants are funded. Discuss how the loss of a funding source would impact the continuance of the project. For instance, would the applicant wait and re-apply to the funding source, would the applicant be willing to increase the amount of debt it will incur, would the applicant apply to an alternative funding source, or would the project not move forward?

- ❑ **What is the level of local financial participation in the project and is that level the maximum that the applicant can reasonably provide?**

Describe the use of cash reserves, and the community's projected monthly user fees given your proposed level of local financial participation. Include supporting information such as financial statements and target rate analysis.

H. Capital Improvements Timeline

Once all projects have been prioritized by expected year of completion and funding sources have been identified, it is often helpful to develop a project implementation timeline that can serve as a quick reference. It is helpful to use a table. The table would show all prioritized capital improvements, their expected year of completion, the projected cost, and projected funding sources. Suggested headings for the table are shown below. This table shows a five-year horizon and makes it easy to see what funding sources will be applied in which years, as well as which projects will be combined into one funding application.

<u>Year</u>	<u>Capital Improvement</u>	<u>Cost Estimate</u>	<u>Project Year Goal</u>	<u>Potential Funding Sources</u>
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I. Conclusion

After answering the questions above, the community may determine that the initial funding plan

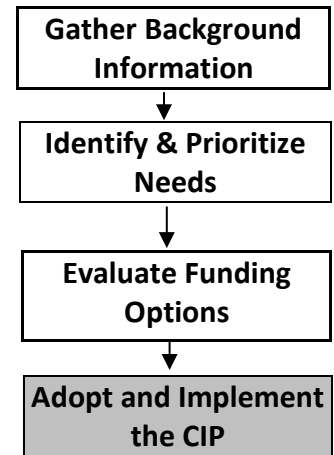
is not feasible for various reasons. First, it may be necessary to phase the proposed improvements for a couple of reasons:

- 1) The cost is simply too high, and the cost of the proposed project must be reduced to a more affordable level by funding the project in separate stages;
- 2) A particular funding program needs to fund the project in phases due to a limited amount of funds being available in any one year. In addition, you may discover that a particular funding source is not a good fit for the proposed project because of timing of the funding cycle or the special requirements that are associated with that particular program; or
- 3) The community can maximize its opportunity for grant assistance by submitting applications for multiple phases of a project over time.

At this point the community should have a realistic strategy for funding a project. With this plan of action, the funding for the project is more likely to come together and the project constructed. In addition, you will be ready to provide information to the various funding programs concerning how you plan to fund the project and whether you appear to have a viable financial package.

CHAPTER 5. ADOPTING AND IMPLEMENTING THE CAPITAL IMPROVEMENTS PLAN

Once the local government has defined and prioritized needs, and identified funding strategies, all the elements are present to adopt and implement a CIP. The formal adoption of the CIP provides the mechanism for local officials to implement the projects identified. The CIP is typically prepared for at least a 5- to 10-year period and should be reviewed annually in conjunction with the regular budgeting process. The adoption and implementation of the CIP should also be incorporated into the overall process of community planning.



A. Introduction

The elements of a CIP have been described in the previous three chapters, i.e., the needs assessment, the prioritization of projects, and an evaluation of financing options. For each of the highest priority needs, the local government should have identified alternative project solutions, costs, and suggested funding scenarios. The next steps in the planning process include the preparation, adoption and implementation of the CIP.

B. Putting Together the CIP Document

Once the CIP has been assembled, it should contain information summarizing the work that went into producing it. The process should be briefly described, and the results summarized. The CIP should list all of the needs identified during the needs assessment. It should also discuss how those needs were prioritized and what criteria were used to determine the priority list. Information about the financial condition of the local government should be shown, since this establishes some of the parameters for local funding of projects. The various funding options should also be described, since this is how many of the projects are likely to be funded. A descriptive list of projects, along with information about when and how they will be funded is the heart of the document. The document should discuss how the projects are to be implemented including the tasks necessary for implementation from the time the document is adopted. The plan should specifically identify who (the department or individual) is responsible for ensuring that each project is implemented. Without this component, projects may never get done. Finally, the CIP should include a section about when and how it will be updated.

A Capital Improvements Plan should be designed and written in a way that makes it accessible to those without technical knowledge of public infrastructure. Ideally, any member of the public

should be able to open a community's capital improvements plan and have some understanding of the projects a community is trying to fund and the goals that those projects are trying to help implement. The document should clearly indicate what the community's deficiencies are, the reasons why those deficiencies were identified as such, and the projects that can be implemented to help remedy those deficiencies and move the community forward.

Capital improvements plans funded by the Community Development Block Grant Program or Treasure State Endowment Program must cover at least a five-year period and include the following minimum information:

- An inventory of existing facilities and their general condition. This information should be general and will typically be obtained from the persons responsible for managing and operating the system. It is not expected that a detailed engineering analysis be performed to obtain this information;
- Population projections and their impact on existing facilities;
- Identification of needs or projects;
- Prioritization of projects;
- Estimated cost for each of the projects;
- Identification of the amount and potential sources of funding for each of the projects;
- Timeline for completion of each project; and
- Summarization of any specific requirements and timing associated with obtaining funding for the projects.

The Community Development Division has copies of capital improvements plans for some Montana's cities, towns and counties that can be provided.

Appendix C of this manual contains a checklist for developing a Capital Improvements Plan, with the Montana Department of Commerce's recommended approach for formatting a CIP.

C. *Adopting the Plan*

The governing body should adopt the CIP by resolution or by ordinance after conducting preliminary public meetings and holding at least one formal public hearing. In addition, the governing body should adopt year one of the CIP as part of the annual budget. Each following year the governing body should adopt the next year of the CIP as part of the annual budget.

For the CIP to work over the long run, newly elected officials and new staff need to understand the capital improvements planning process and the adopted CIP. The chief elected official and the CIP coordinator need to brief new staff or elected officials on the process, the status of pending projects, and the costs and benefits of making improvements.

As stated above, the plan should include a mechanism for regular updates that will occur during the five to ten years to which it applies. For example, the CIP may call for yearly updates, in conjunction with the overall annual budget preparation. When updated, another year is added to the plan in order to maintain its five- to ten-year coverage. In addition, the CIP may have to be revised periodically to reflect unexpected changes in the local government's revenue stream (e.g., changes in its industrial base, new residential developments). If the CIP is not updated on an annual basis, the existing plan would need to be substantially amended or replaced by a new plan at the end of the time period that the plan covers.

It is important that the CIP be reviewed on an annual basis. Several factors necessitate such periodic updates, among them:

- Inflationary trends will increase the cost of projects, thus requiring that financial data be modified.
- The need for new projects may come to your attention, requiring that they be added to the list. For example, new state or federal regulations may require your local government to make new improvements.
- Projects that have been completed should be removed from the list.
- The unanticipated receipt of a grant or an increase in local revenues may cause you to change the timing of a particular project. Conversely, the failure to obtain a grant may also change the timing of a particular project.
- The interest of a business in locating in your community may cause you to add a previously unanticipated project to the list.
- Planned projects may be delayed due to circumstances beyond your control.

D. Implementing the Plan

The formal adoption of the CIP enables the local government's staff to begin implementing the projects identified. The CIP provides a useful guide for individual project development and often contains the information required to prepare funding applications to various agencies. The plan also provides informative and accessible information about the previously adopted plan to successive elected officials who change over time.

During the implementation of the CIP, obstacles are likely to arise. Grants may be denied, rate increases may be rejected, or improvement districts may be voted down. Any of these situations will result either in a project stalling for lack of funding or a search for new sources.

E. Maintaining the Plan

A capital improvements plan will only be useful to a community if it is reviewed and updated on an annual basis. During a community's annual budgeting process, the CIP should be reviewed. At that time, completed projects should be "crossed off" the list and new information should be incorporated into the document to keep it as useful as possible. For instance, if a PER were commissioned to study the community's wastewater system in the preceding fiscal year, the results of that PER should be incorporated immediately into the following year's Capital Improvements Plan so that the community can begin to budget and plan to implement the results of that study. The community should document these updates and re-release the new plan annually so that it is clear to prospective funding agencies that the community is actively using and working with their CIP. Annual updates also ensure that the public, newly elected officials, and new staff members have access to a document that clearly indicates the community's budget priorities.

These annual updates do not have to be a comprehensive update of the entire document. If existing conditions have changed, the new conditions should be added into the document every year. A community should review its needs during a Growth Policy review and update at minimum every five years and incorporate that information into the CIP. Annual, incremental updates to a CIP are likely to be more cost-effective and of more benefit to a community than the complete recreation of a CIP every five to ten years.

APPENDIX A

POLICIES TO CONSIDER ADOPTING FOR CAPITAL FACILITIES PLANNING

❖ Basic Fiscal and Debt Management

- Total incurred debt will not exceed 75% of that allowed by statute.
- A minimum reserve of bonding capacity will be maintained at a level of 30% of the statutory limit.
- State grants may be used for capital expenditures where authorized.
- Payment-In-Lieu-Taxes will be used toward purchase of equipment and capital facilities, rather than to augment annual operating accounts.
- A capital improvements fund account will be established and maintained to help fund capital expenditures.
- Capital facilities will be planned and scheduled to assure that a sound cash flow can be maintained.

❖ Allocation of Costs

- Where a capital facility serves the general public as a whole, all users or taxpayers will bear the costs.
- Where a facility serves a specific area or segment of the community, that area or segment will bear the costs. Exceptions may be made where a high percentage of elderly, retired or low-income persons are affected.
- Where a facility will serve an area of new development, the residents or firms within that area will bear the costs.
- A special district must be formed to recover the costs of facilities serving only a specific geographic area.
- Rate structures will be designed to be fair and equitable to all users.
- Revenue generating facilities will be self-supporting. Users of the facilities will bear the costs. Fees and charges will be set high enough to retire bonds and recover the costs of proper operation, maintenance, repair and replacement. However, utility rates will not be set higher than needed to fund the systems.

❖ **Project Financing**

- ❑ Available grants will be used for urgent and high priority projects to reduce the jurisdiction's share of the cost.
- ❑ For lower priority or non-essential facilities the required matching local share and future maintenance and operating costs will be closely examined to fully understand the local financial commitment that a grant program may impose.
- ❑ Revenue bonds will be used to fund revenue-generating facilities.
- ❑ General obligation bonds will be used for non-revenue generating facilities.
- ❑ Special assessment bonds will be used to fund facilities that serve a specific area.
- ❑ The term of any bond will not exceed the expected service life of the facility.
- ❑ Where a facility is planned to meet rapid population growth, bond terms will be no longer than the expected duration of the high population levels.
- ❑ Conservative projections of population and number of users will be used in determining revenues from fees, charges and taxes in order to minimize the financial risk if growth is less than expected.
- ❑ Replacement funds will be maintained and allowed to accumulate to a level of 10% of the cost of the facility, unless statute, grant regulations or acceptable experience indicates a different level.

❖ **Extension Policies**

- ❑ Those benefiting from the service will finance the extension of the facilities to serve the new areas.
- ❑ If extensions must pass by undeveloped properties a reimbursement agreement should be provided to allow an appropriate share of the developer's costs to be recovered as the intervening properties are developed. The reimbursement agreement will be valid for up to seven years.
- ❑ Extensions will meet engineering and construction standards and specifications approved by the governing body.
- ❑ The governing body will finance main and trunk lines and arterial and major collector roads if

they meet the goals and objectives of the growth policy. Developers will finance improvements within a subdivision or development.

- ❑ If a developer is required to construct facilities larger than needed for his development; the governing body will provide a means of reimbursement for the oversized portion. Reimbursement methods may include cash, a term refunding contract or credit against other fees.

❖ **Planning, Construction and Management**

- ❑ Where possible, facilities will be designed for ready incremental expansion. Extensions will be phased in accordance with incremental demands of growth.
- ❑ New connection fees and user rates will be implemented before new growth occurs.
- ❑ Facilities will be maintained and operated by properly trained personnel. Personnel will be certified where appropriate.
- ❑ Facilities will be designed and constructed to standards and specifications approved by the governing body.
- ❑ All construction and installation will be properly inspected.
- ❑ Facilities will be properly maintained and operated according to approved procedures to assure minimum deterioration and need for repair.
- ❑ New or expanded utility systems must have a plan identifying the:
 - ✓ Service area;
 - ✓ Expected number of users;
 - ✓ Expected timing of growth or development;
 - ✓ Proposed locations of various land use types; and
 - ✓ Expected level of demand for service.
- ❑ The level of service desired from a proposed facility will be determined and articulated. The costs of the facility will relate to the level of service.
- ❑ Where possible, facilities will be designed and constructed to minimize maintenance and operation costs.
- ❑ Before a capital facility is approved, the governing body will assure that funding for all associated future costs will be available.
- ❑ Public facilities will be approved only in locations that will minimize the public costs of providing services to future development resulting from the public facilities.

APPENDIX B

PUBLIC EDUCATION AND INVOLVEMENT

Public support of the CIP is one of the most essential elements of the entire planning and financing process. Ultimately, citizens will pay for the improvements and they must be convinced that such improvements are necessary. The best, most logical CIP may be rejected by the public due to lack of public education and awareness about a community's infrastructure problems.

Most citizens are probably unaware of the many fundamental public works issues that exist including: scope of the problems, health and legal consequences (health risks, fines levied by the State or Federal government), short-term costs versus long-term savings, "fair" rates for services, how facility repairs can be made affordable, etc. Local leaders have to work extra hard to inform and educate citizens on these issues. This appendix outlines the process for involving the public.

The CIP Coordinator or whoever is assigned the role of being the "spokesperson" for the capital improvements planning process needs to keep the following points in mind in order to encourage meaningful public participation:

- ❑ One of the biggest mistakes that you can make is to fail to adequately inform the public about the public works needs from the very beginning of the project. The time to begin the education process is as soon as the public works director and the governing body are aware that there is a need for major repairs or improvements. At the onset, the local officials and their staff should set forth what the planning process will entail, including a proposed schedule. Information might include how many public meetings will be held, which staff and/or consultants will be involved in the process, what areas of infrastructure will be addressed and *how* public input will be incorporated into the plan. Sometimes, at the outset, information about the needs and costs may be sketchy. Nevertheless, it is important that the public be provided with what information is available. Start early in the process to inform and educate the public. Do not "hit the citizens" with a final plan just before a governing body vote on the issue. People support projects in which they are partners and in which they see personal benefits. Public education is a continual process.
- ❑ Attention should be given to the role of the public as decision makers. This is their plan, and ultimately, the responsibility for its implementation is through their elected representatives. Members of the public should be involved in every step of the process, from setting priorities, selecting alternatives and voting on specific financing mechanisms (if required). Often members of the public can be asked to serve on special committees to select consultants, to review interim proposals and to evaluate financing alternatives.
- ❑ Public participation can be sought in a number of ways. Busy schedules often make it difficult to attend frequent meetings. Where possible, information can be distributed through existing organizations (chamber of commerce, conservation district, professional trade organizations, etc.).

- ❑ The use of an outside facilitator can help make public meetings productive. Facilitators use methods of soliciting input that provides opportunities for everyone to participate while preventing a few from dominating the meeting. Assistance can be obtained from county extension agents, regional economic development agencies and RC&Ds (Resource, Conservation and Development Organizations). RC&Ds are regional technical assistance providers, which are funded in part by the Natural Resources Conservation Service of the U. S. Department of Agriculture. Trained facilitators, whether from one of the groups mentioned or a consultant, can provide impartial leadership in this process.
- ❑ Have sound technical information. No one can argue with the facts. Don't let your message get too complicated with complex technical details or terminology. Historical maintenance cost records and engineering studies are very valuable at this point. Provide the citizens with concise written summaries of the needs, proposals, benefits and consequences. Keep your public education "message" simple and focus on the "big picture." Your message should concentrate on basic issues such as: the need for the improvements, the consequences of not making the improvements (such as health risk, higher operating costs, state or federal lawsuits), benefits of the project to the public, and costs of the project.
- ❑ Have relevant data available for the public. Project summary sheets as described in Chapter 3 are extremely helpful in explaining project needs. Type up a preliminary summary sheet for each individual project before going "public" with your information.
- ❑ Approach the governing body with your preliminary information. Stress the need for the project, the benefits, and the economic payback. Explain the consequences of not doing the project. For example, it is often far more expensive to make temporary repairs ("patches") to water mains than to replace the mains.
- ❑ After receiving the governing body's support, carry out a comprehensive public education program. The public education program should be a team effort. The governing body, public works director, lead financial researcher, finance officer, and planning board should be involved.
- ❑ Individual citizens find out about a community need or proposed project in a variety of ways. Many people don't get "the word" at first. They may be busy at work or out of town. Some persons don't read newspapers. Others may not watch TV. Therefore, you must use a variety of education methods and continually repeat your message. Repeat, repeat, and repeat your message.

Resource materials are available through the American Water Works Association (AWWA), the Water Pollution Control Federation (WPCF), the American Public Works Association (APWA), and the Montana Rural Water Association (MRWA). Use these materials to help you set up a public education program. You can use the following techniques to help educate the public:

- ❑ Insert "bill stuffers" to go out with utility bills that explain the functions of the Public Works Department (or County Water and Sewer District). The AWWA has particularly helpful "bill stuffers."
- ❑ Initiate a school education program with the help of the school principal, environmental education coordinator, or biology teacher. Arrange for school tours of community treatment facilities. Both AWWA and WPCF have excellent school education packages available at very nominal rates. These include "picture" books, teachers' guides, and posters written in understandable terms for various age groups of children. Remember, the children are the ratepayers of the future!
- ❑ Consider setting up periodic "open houses" to educate the public on the importance and complexities of water and wastewater treatment. A public open house can also include a tour of a troublesome street intersection or other problems with the streets.
- ❑ Develop a visual aid program, usually a slide show that you can show to civic groups. The slides should include pictures of typical problems that the public does not see, such as corroded bolts, old tapping saddles, corroded water mains, infiltrating manholes or sewer pipe segments (from television records of the sewer), and street potholes.
- ❑ Develop a collection of water system and wastewater system components showing what new components look like as opposed to old deteriorated ones. An example is a new mechanical joint bolt versus a corroded one.
- ❑ After rehearsing it, take the presentation to the governing body. Seek their input. Seek their approval.
- ❑ After receiving governing body approval, take the presentation to civic groups, such as the Elks or Rotary clubs, the League of Women Voters, Chamber of Commerce, a church group, or a neighborhood council, that might be interested in the cause of infrastructure improvements. Members of the governing body and the key participants that produced the CIP should be involved with making presentations to these civic groups.
- ❑ Consider, with your elected officials, developing a Capital Improvements Planning Advisory Committee to achieve full citizen participation. The planning board can fulfill this function [76-1-601(3) and 76-1-106(2), MCA].
- ❑ Call the local TV station and or newspaper that serve your town. Invite a reporter over to see the various infrastructure needs. Explain to the reporter the problems, and the consequences to the community, if nothing is done. Explain the savings to the taxpayers if a rational CIP is adopted. Make sure you have your facts straight before you call the reporter.
- ❑ In consultation with your elected officials, consider the possibility of conducting informal public information meetings regarding the CIP. This provides the opportunity to see where political problems lie before proceeding with the labor-intensive pursuit of funding. This process may

also allow you to "count your chickens before they hatch", and help you modify your education program and, if necessary, to increase public support for your projects.

- ❑ Publish a draft copy of the CIP and Summary Sheets in the local newspaper. Make sure you explain why the projects are needed and the consequences to the community if the projects are not completed. Include pictures of problems with existing facilities.
- ❑ Send a special letter to the citizens explaining the town's infrastructure repair needs and the benefits of making the necessary repairs. Include pictures or photographs. People respond well to pictures.
- ❑ Set up a "photo board" display. A photo board is a series of photographs arranged on a corkboard or similar display board with captions for each photo. The photos and captions can illustrate and explain the problems and repair needs of your water system, wastewater system, or streets.

APPENDIX C

Draft Capital Improvements Planning Checklist

- I. Introduction
 - a. How was the plan developed?
 - b. Provide a brief discussion of the benefits of capital improvements planning
 - c. How is the document intended to be used?
 - d. How frequently will the plan be updated?
 - e. What aspects of jurisdiction's infrastructure are covered?

- II. Background Information
 - a. Discussion of ties between CIP and Growth Policy
 - b. Discussion of general planning efforts
 - c. Brief discussion of background conditions – should be consistent with growth policy.
 - i. Demographics
 - ii. Population trends and projections
 - iii. Various other need drivers (e.g. the impending opening of a mine)
 - iv. Impact of conditions on capital need

- III. Identified projects
 - a. Department/type of infrastructure
 - i. Inventory of existing features
 - 1. Use maps and photographs to demonstrate various types of conditions and the extent of features
 - 2. Where the infrastructure is located
 - 3. What purpose the infrastructure serves
 - 4. What condition the infrastructure is in
 - 5. What expected lifespan of infrastructure is and how old the infrastructure currently is
 - 6. Current value of the infrastructure
 - 7. Any objective metrics that are inexpensively available that can help justify the condition of the facility should be included.
 - ii. Identification of needs
 - 1. List, by department or type, the capital projects identified from the inventory of existing features. Where possible, specific construction projects/items for purchase should be identified, but planning projects can be identified too (e.g. commission a PER to study water treatment facility). Once the results of planning projects are known, they should be implemented into the CIP in the next cycle.
 - 2. Each capital project should include:
 - a. Maps and photographs where applicable
 - b. Narrative about the need
 - c. Cost estimate for each need
 - d. Timeline for need
 - e. Importance of need
 - f. Possible alternatives to need
 - g. How to pay for need
 - h. What impact the project would have on future operating budgets

- IV. Prioritization
 - a. Establish evaluation criteria in order to objectively weigh projects across departments- examples:
 - i. Urgent health and safety concern?
 - ii. Necessary to maintain the same level of service?
 - iii. Necessary to improve the level of service provided?
 - iv. Would reduce costs or make the provision of services more efficient over the long run?
 - v. Supports economic development and/or revitalization?
 - vi. Cost relative to the number of people served/dollars saved?
 - b. Identify needs across departments, objectively weigh the need for projects against each other using evaluation criteria.
 - c. Master project timeline that shows the project, agency or department in charge of project oversight, its importance relative to other projects, an estimated timeframe for completion, and the major funding mechanisms.
 - i. Timeline should identify top priority projects for immediate completion, then look at less-immediate projects for prioritization as top priorities are completed.

- V. Discussion of possible funding sources
 - a. Internal revenue
 - i. General financial health of the jurisdiction
 - ii. Status of current funds that can be used for capital projects
 - iii. Projected increases or decreases in expenditures or revenues over the next five years
 - b. Public and Private Grant opportunities
 - i. List funding sources, identify some of their general requirements and when they are open for applications
 - c. Loan and other finance opportunities
 - i. List financing opportunities, identify some of their general requirements and when they are open for applications
 - d. User fees
 - i. Where new capital improvements can be partially funded by rate increases or user fees, this should be taken into consideration.
 - e. Mill levies
 - f. Special Improvements Districts/Tax Increment Financing
 - g. Interlocal agreements
 - i. Are there opportunities to share infrastructure with other jurisdictions? Would that create a cost savings?

- VI. Adoption and Implementation