Before delving into the details of the CIP process, it is useful to sum up common problems with capital investment in the absence of a proper process:

1. Capital investment plans do not include realistic assumptions about funding/financing and end up being a “wish lists.”
2. Capital investment decisions are made without reference to life cycle costs and management. This disconnect from the realities on the ground often occurs when capital investment is funded or planned at the central or regional level—or by donors—but management of the completed asset and the operations and maintenance costs are the responsibility of the LG.
3. Capital investments result in LGs taking on a level of debt that is unsustainable or that substantially constrains future activities.
4. Local governments plan or establish PPPs without a clear justification and without the capacity to manage them effectively.
5. Capital investment priorities are distorted by the availability or lack of funding for specific sectors/works. For example, the existence of grants or central government funding for specific types of projects may result in such projects being implemented—and increase the city’s O&M expenses—even if these projects are not priorities for the community.
6. Capital investment decisions are not transparent and allow opportunities for all sorts of abuses: from unnecessary “pet projects” promoted by local politicians or officials to conflict-of-interest deals to outright corruption.
7. Capital investment decisions are made without sufficient public participation, including by the business community.

Capital programming and budgeting is a dynamic process that generally involves four stages:

1. Financial planning
2. Project identification and prioritization
3. Program and project management
4. Monitoring and evaluation (M&E).

The complexity of the process depends on the law; the extent of central government regulations; and the LG’s size, organizational structure, staff capabilities, and financial condition. For planning, this process can be divided into a number of steps. Many elements of financial planning were considered in the previous chapter; the rest are presented in this chapter and the next and depicted in figure 2.19

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18 Note that the appendixes contain useful sample documents for most of the steps described in this chapter and the next. Many of these samples can be used as templates that may be adapted for local conditions by LGs that do not yet have their own forms.

19 This chapter draws partly from several documents produced by the Local Government Reform Project II/Croatia/USAID/Urban Institute during 2004–07 and the Municipal Economic Growth Activity/Serbia/USAID/Urban Institute, and other USAID-sponsored guidance documents.
<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Determine organizational structure</td>
</tr>
<tr>
<td>2</td>
<td>Establish policies for capital investment planning</td>
</tr>
<tr>
<td>3</td>
<td>Establish project selection criteria</td>
</tr>
<tr>
<td>4</td>
<td>Develop calendar, forms, and instructions</td>
</tr>
<tr>
<td>5</td>
<td>Prepare project requests</td>
</tr>
<tr>
<td>6</td>
<td>Review project requests</td>
</tr>
<tr>
<td>7</td>
<td>Prioritize project requests</td>
</tr>
<tr>
<td>8</td>
<td>Match projects to available funding</td>
</tr>
<tr>
<td>9</td>
<td>Draft capital program and budget documents</td>
</tr>
<tr>
<td>10</td>
<td>Adopt capital program and budget</td>
</tr>
</tbody>
</table>

**Source:** Remake based on various USAID-funded project materials.
**STEP 1**

Determining the Organizational Structure

The process of developing CIP documents requires coordination, oversight, and preparation of the project recommendations to be included in the CIP. It is therefore necessary to ensure an equitable and efficient process that complies with policies and guidelines. The organizational structure will depend on local circumstances, including the size of the LG. For midsized and large jurisdictions, a common approach follows:

A **CIP Committee** is responsible for drafting policies for CIP development, determining the process and the timeframe, overseeing each step and providing additional guidelines, reviewing project requests, organizing public participation, assigning priorities, and recommending the Capital Investment Plan to the Mayor. The committee’s composition is either defined by the elected body (local Council) or the Mayor.

There is no universal formula for selecting the members of this committee. In some jurisdictions, the committee includes members of the local council and business and professional communities. Other LGs’ CIP Committees are comprised of technical staff from key departments, public enterprises, and budgetary institutions. In deciding who should be a member of the committee, the following should be considered:

- This process requires knowledge, time, and commitment from the CIP members.
- Members of the committee should be officials and/or professionals who understand the importance of the plan.
- The CIP recommended by the committee must be supported by the local council and the public.
- The role of the committee is critical in balancing competing needs for capital funding in the CIP process. Having various interests represented on the committee, therefore, is crucial.

It is instructive to see the difference between two actual approaches (box 8).

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**Box 8. Approaches to CIP Committees: Lessons from the Case Studies**

1. **São Paolo, Brazil.** São Paolo has a special consultative council, associated with the department in charge of capital planning (Case Study 2). The council has 17 members with 2-year pro bono terms:
   - Five members are elected directly by the population, 1 for each of the 5 big sectors of the city.
   - Three are nominated by professional and business associations: Instituto de Engenharia (Engineering Institute), Associação Comercial (Commercial Association) and Federação do Comércio (Commerce Federation).
   - One is delegated by the City Council.
   - Eight are nominated by the Mayor (all City Secretaries, 3 of whom are permanent members: Planning, Government and Participation, and Partnership).

   The responsibilities of the consultative council are to advise the Mayor and the Planning Secretary on public policies related to the multiyear plan and to monitor execution of its hundreds of programmed actions, ensuring that there is no overlap and that they comply with the city and sector policies.

2. **Nis, Serbia.** The CIP Committee has 13 members, including the Mayor and Deputy Mayor, but no representatives of citizens or businesses. Only five members of the CIP Committee were involved in project evaluation, further limiting representation.

The **Coordinator for CIP Preparation** should be a member of the CIP Committee and is responsible to:

- Coordinate the entire process
- Organize meetings of the Committee
- Ensure that the Committee makes all of the required decisions
- Ensure that all involved carry out their tasks on the schedule.
The CIP Coordinator usually is appointed by the Mayor (or the executive in charge) and should have sufficient authority in the LG to make the required decisions, direct others’ work, and resolve any disputes.

The Technical Support Office provides support throughout the process. The staff train government departments and enterprises on the CIP process and, in particular, on how to prepare project requests; compile data; help with needs assessment and cost estimates; review project requests; and draft a preliminary Capital Investment Plan for the CIP Committee to finalize.

**STEP 2**

**Establishing Policies for Capital Investment Planning**

One of the first tasks of the CIP Committee is to develop a clearly defined written policy for the capital investment plan. An illustrative sample policy is presented in appendix 5. The policy should cover, at least, the following:

- **Period covered by the Capital Improvement Plan.** As noted, the period usually is 3–7 years. In Nis, the period is 5 years (Case Study 1), and in São Paolo, 4 years (Case Study 2).

- **Eligible types of investment.** The policy should list the types of investment eligible for inclusion in the CIP and identify which types/components of cost should be included. For example, the policy presented in appendix 5 stipulates that rehabilitation, replacement, reconstruction of existing infrastructure, public-use facilities, and social-use and government-use properties under the mandate of the city government are eligible for inclusion. Also eligible are the construction of these types of new infrastructure facilities, if and when construction is economically and financially justified, and the acquisition of land for such construction. Acquisition of equipment and vehicles for public functions under the mandate of the LG also is allowed. With respect to cost components, the policy in appendix 5 states clearly which expenses must be funded and from which budget—capital or operating. Note that, if the policy identifies eligible types of projects clearly enough and the policy is followed in practice, it can prevent (or reduce) spending on “pet projects” by politicians that do not serve the public interest (such as commercial real estate).

The policy also may outline priorities for capital investment, which then should be reflected in the project selection criteria. For example, for cities that do not experience fast growth, the policy may state that the priority should be given to investment that preserves the useful lives of existing infrastructure and public facilities.

- **Definition of what constitutes a capital investment project.** In effect, this definition sets the minimum criteria for inclusion in the CIP (usually, the minimum cost and useful life of the asset). For example, in Case Study 1, capital investment projects are defined as costing not less than 100,000 Euro with a period of implementation (construction) not less than 2 years.

- **Assignment of organizational responsibility for capital investment plan preparation and submission.** Outlined above, under Step 1.

- **Methods of financing capital projects.** This policy should list specific sources that are available and that the LG intends to use, accompanied by the specifics of using these sources. For example, it can be very useful to state in the policy that net revenues from the sale of land and property will be used for capital projects only and to identify other revenue sources earmarked for capital investment. Such revenues may include a certain portion of the operating surplus and the total of various land-based revenues, such as the land development fee, revenues from selling development rights, and lease fee.

- **Borrowing limits.** These limits are defined in specific terms in compliance with national and subnational laws and regulations, in accordance with local views on borrowing, and based on a preliminary understanding of the LG’s current financial standing. Setting these limits in this policy does not imply that borrowing necessarily will reach the limits, because a more detailed analysis of the financial capacity later in the process may further limit borrowing (see sample schedule of the CIP process in appendix 7).

- **Criteria for prioritizing projects or how and who will establish the criteria.** The policy should establish who is charged with developing (drafting) these criteria and
who will approve them. Typically, the CIP Committee drafts the criteria for prioritizing CIP projects, and either the local council adopts them as an ordinance or the Mayor establishes them in a special decree.

**Methods and timing of public participation.** The policy may state that the CIP Committee is responsible for securing public participation and indicate during which periods, but may leave it to the Committee to define specific methods.

This policy (or set of policies) usually is approved by the local council as a special local ordinance and becomes a binding document that should be followed in the CIP process, under CIP Committee supervision.

**STEP 3**

### Establishing Project Selection Criteria

The project evaluation and prioritization process is more objective and rational if criteria are predetermined and clearly defined. It is important that the CIP Committee involves key individuals, including key staff, the Mayor, and members of the representative body, in defining the selection criteria. Public participation through **focus groups** and **suggestion boxes** can be used to provide citizens and the business community with an opportunity to participate in the formulation and review of selection criteria. To provide guidance to those drafting the requests, evaluation criteria should be established prior to the preparation of project requests (Step 5).

However, no evaluation system is perfect. Not all criteria will apply to every project. Good judgment, common sense, and political considerations will continue to play important roles, particularly when a local council approves a CIP in which project priorities were established using the selection criteria. Nevertheless, carefully prepared criteria will sharpen distinctions among projects, narrow the range of disagreement, provide a basis for discussion, and, hopefully, make the entire process more transparent. It is critical that project selection be supported by accurate and relevant information. Moreover, practical experience shows that it is desirable that the priority setting process have the following characteristics\(^{20}\):

- Is understandable to both participants and users of the process
- Is practical in terms of cost, time, and personnel available to carry it out
- Considers all major consequences of a project
- Is supported by reliable, relevant information
- Avoids double-counting evaluation criteria (use of two highly interrelated criteria)
- Indicates clearly whether the key value judgments (for example, assigning “weights” to each criterion) are to be made by technical experts or elected officials
- Provides information not only on the relative ranking of projects but on their individual merits or value
- Identifies critical and noncritical projects
- Is applicable to a wide range of projects
- Considers the interdependence of the suggested projects.

Priority setting is guided either by ranking projects or by calculating a total score for each. In the latter case, the total score is the sum of the project scores for each criterion. The higher the total score, the higher the priority. Sometimes the score for each criterion is weighted in the total with predefined weights.

Appendix 6 provides two examples of simple project rating systems. Under the first option, all projects are sorted into 4 priority groups. A project goes into the first (highest) priority group if it satisfies 6 or more criteria from a predefined list of 6–10; it goes into the second priority group if it satisfies only 4 criteria, and so forth.

**STEP 4**

### Developing Calendar, Forms, and Instructions

**Calendar**

Capital programming should be scheduled to begin well before the operating budget cycle to avoid an excessive staff workload and ensure adequate time for review. Initiating capital programming several months prior to the

\(^{20}\) Adapted from Hatry and others 1984.
development of the operating budget also provides valuable information on the potential effects of capital projects on the operating budget. In addition, adequate time needs to be allowed for the CIP Committee and local council to review project requests and obtain public input before the city staff and local council must focus on the operating budget. Appendix 7 furnishes a sample CIP calendar.

**Forms and Instructions**

Project request forms are used to collect detailed information on each proposed project. Obviously, there should be consistency between the project selection criteria and the project request forms. The forms should contain the information and data needed for project rating. Pertinent project information includes department/enterprise, project name, location, description, purpose, priority according to department/enterprise, justification of need, expected useful life, estimated capital costs (total and annual), recommended sources of financing, status of planning and engineering, construction data, net effect on annual costs (M&R, operations), effect on local revenues, relationship to other projects, and conformance with local plans. Completed forms make it possible for the CIP Coordinator or CIP Committee to compare projects, assign whole-of-government priority, and even determine suitability for the CIP. An incomplete form often is the first sign that a project is not ready to be considered for the CIP.

Appendix 8 provides two sample project request sheets. In developing a local form, it can be a good idea to review forms that are required by national or donor agencies for capital projects. For example, in developing its project request form, the City of Nis in Serbia slightly modified a form needed to apply for funding from the National Investment Fund (Case Study 1).

Use of standardized forms and instructions ensures uniformity and completeness of the information supplied by various departments and enterprises. The CIP Coordinator should design the forms and instructions. A common mistake to be avoided is to require information that is not needed for review and evaluation.

If the CIP process is being organized for the first time, the CIP Coordinator should work closely with 1 or 2 key departments in developing the forms to ensure that the staff will be able to successfully use them. Pilot testing the forms and instructions will help to identify and correct problems prior to a city-wide introduction of the form. The CIP Coordinator should provide training for all project-submitting departments and enterprises on how to prepare the forms. During the request preparation period, s/he should provide continuing TA to departments.

It is important to note that even when LGs use relatively sophisticated project request forms in the CIP process, these forms often are less detailed and have fewer supporting materials than may be required at a later stage. The request for additional information usually arises once the project is approved as a part of the CIP, especially if the project will need external financing from lenders or grantees. Therefore, “packaging” the CIP-included projects to present them to lenders and grantees is a separate activity and reviewed in chapter 6.

**STEP 5**

**Preparing Project Requests**

See Chapter 2 on the identification of investment projects at this stage of the CIP process. Note that LGs with substantial deferred maintenance and deferred investment in existing assets should be particularly diligent in assessing their past unsatisfied needs and should include them in the project requests.

**Starting the Annual Cycle**

This step on the CIP calendar should be officially announced by the Mayor (or executive in charge of CIP) to the LG representative body. The CIP Coordinator should send out requests for project proposals, instructions for their completion, and a timetable to all contributing departments and enterprises. These documents should be signed by the mayor (or executive in charge of CIP). If departments sense that top management is not involved or not committed to the CIP process, they are likely to reduce their efforts.

Local government staff should not expect too much too soon. If this is the first year of developing a CIP, staff
should have realistic goals. The CIP Committee and CIP Coordinator might want to introduce a simple program in the first year and add new features in subsequent years. The first year may be spent working with department heads and gathering important information on a few of the most important projects. The CIP Coordinator should ensure that the first departmental CIP meeting takes place at a time when most participants are able to meet. The first meeting is to review the forms and calendar and to answer questions.

After carefully reviewing the forms, the CIP Coordinator should be very clear about the timetable. Offering separate meetings with the staff who will fill out the forms can be useful. During this period, while departments and enterprises are preparing project requests, the CIP Coordinator should follow up with telephone calls and personal visits to these departments and enterprises, to see what progress is being made and/or whether any major obstacles have been encountered.

**Addressing challenges.** When departments or enterprises prepare project requests, this step poses a number of challenges to the entire CIP process:

**How does a LG balance the schedule and resource constraints of the CIP process with project preparation needs?** Preparation of accurate project requests requires substantial work that is lost or becomes outdated if the project is not included in the CIP. For example, it is not efficient to complete all of the needed feasibility studies, including financial and economic analyses (especially for large scale projects) and impact studies; and to make accurate cost estimates before the project is approved for the CIP. In fact, in practice, these procedures are beyond the technical and financial capacity of most LGs. However, without such studies and reliable cost estimates, LGs are at risk of approving projects that turn out to be substantially more expensive to implement than initially planned, or not feasible at all due to legal or ecological factors that were not identified in the requests.

- For example, it could turn out that a city does not have clear ownership of a land site on which it had planned to build a school. Resolving this legal issue could postpone the project for a long time. It could happen that the site has serious soil contamination, which was not known when the request was prepared and approved. As a result of these unforeseen factors, cost and time overruns on government capital investment projects are very common.

- There is no universal way to handle this challenge, and LGs usually find compromises in their approaches that are acceptable in their particular local situations. For example, some governments, especially when the CIP process is not yet fully developed, allow rough cost estimates in the project requests, but later have a second phase to clarify these estimates with project-specific data for the projects selected for inclusion in the draft CIP. Furthermore, in well-established CIP systems, project requests show how the requested amount will be distributed over time (see sample forms, appendix 8). For large projects, first-year expenditures usually are for studies and other preparatory work, including clarification of the costs for the later stages of the project. These activities can be undertaken before the projects are considered for the CIP.

- Another very common practice is that the CIP itself, even after being approved, is not a budget document, so it does not provide any spending authorization. Instead, only the first-year requests for funding from the CIP are included in the annual budget and authorized (table 4).

- Another practical approach is to stipulate in the CIP documents that as soon as a project is approved as a part of the CIP, relevant departments or enterprises may use their budgets to pay for studies, surveys, investigation of options, and engineering advice.

**Are all costs recognized and accounted for?** In their CIP processes, governments and their departments commonly recognize components of the investment costs21 and include them in cost considerations and planning. However, governments often do not include in their analysis and decisionmaking other cost components, such as the cost of financing and components of life cycle costs such as R&M (chapter 2). For example, Case Study 1 indicates that, in the City

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21 The investment costs include feasibility and planning studies, engineering and architectural design, land acquisition, demolition, construction and construction management, contingency, site improvements, equipment, and furnishings.
of Nis, departments and enterprises participating in the first CIP process did not include future operations and M&R costs in their project requests. As already discussed, including even rough estimates as part of the financial analysis is important. Guidelines for making these estimates are suggested in chapter 2 and appendix 1.

- **Are material cost savings attempted in project requests?** Construction technology and materials are changing rapidly, but municipal utilities and departments of public works often either are not familiar with these new opportunities or are not concerned with potential costs savings from the use of cheaper contemporary materials, equipment, and technology. For example, a municipal utility may suggest upgrading a sewage network using cast iron pipes, which were used in the past. However, using plastic alternatives could save up to 33 percent of the cost. This example indicates that scrutinizing technologies and the costs of material inputs is very important for capital investment planning. A challenge for LGs, especially small- and medium-sized ones, is to ensure that their technical staff have the capacity and incentives to keep up to date on cost-effective technical solutions.

- **Can simple life cycle savings be found?** Savings of this kind are not necessarily difficult to achieve or complex (box 9). Looking for such opportunities should be encouraged as a part of asset management and CIP.

- **When should projects for donors be “packaged”?** Some projects are expected to be cofinanced through external funding (grants, borrowing). These projects will require much more careful and detailed preparation (“packaging”) for presentation to potential sponsors than is typically needed for financing through the LG’s own sources. The implication is that after such a project is included in the approved CIP, the project will need to undergo the second, in-depth appraisal and “packaging.”

- **When is the right time to consider PPP options?** As mentioned, another challenge is to identify projects that are suitable for PPPs. The short period allocated for project requests in an annual CIP preparation cycle is not sufficient to carry out the initial steps to identify whether a particular service/investment need can appropriately be considered for a PPP. A possible solution to this timing challenge resembles the one suggested above for large projects: to allocate resources from the operating budget or the special funds to conduct the required studies before the project enters the CIP cycle. As noted, given the complexity of such PPPs, not many cities are expected to use them to create and operate capital facilities. However, globally, a broad range of local properties, facilities, and infrastructure have been built and operated through PPPs (box 10). Before undertaking such PPPs, LGs are well advised to build their capacities to manage contractual relations by starting with simpler, short-term contracts.

Finally, although the finance staff should provide recommendations for capital financing alternatives, it is beneficial for the operating departments and public enterprises preparing project requests to recommend financing sources. Individual staff in these entities sometimes possess financing source information not otherwise available. Suggestions of proposed financing methods should be recorded as specifically as possible in the project request forms.

### Box 9. Cost Savings from a Simple Life Cycle Costing Decision

The Park District of Urbana, Illinois in the United States maintains detailed expense records for each of its land and property assets. The business office, which maintains the records, discovered that the heating expenses for one of its properties were very high. An inspection and cost-benefit analysis revealed that changing the old heating system to gas would pay for itself in two years and permanently decrease operating expenses. This replacement was included in the Park District’s budget and implemented.

*Source: Kaganova and others 1999.*

### STEP 6

**Reviewing Project Requests**

At this point in the process, the completed project request forms have been received from the operating departments and public enterprises. The first step is for the CIP
Coordinator to review the forms, checking each for completeness and accuracy. During this initial screening, no judgment is made regarding the merits of the proposed projects. Project ranking and selection occur later in the process, once all of the information required to evaluate the projects has been compiled.

In this first round, the CIP Coordinator, with the assistance of the technical support staff, reviews project request forms to determine whether the information appears “reasonable.” Written project justifications should demonstrate the level of planning and care that has gone into preparing these project proposals. In reviewing the applications, the reviewer needs to ask six questions:

1. Is the project appropriate for submission for funding through the capital budget?
2. Is the information complete and accurate?
3. Has the project justification section been written with enough detail and specificity to be useful in the evaluation?
4. Does the project overlap with submissions from other departments? Can two or more of the proposals be consolidated?
5. Are cost estimates reasonable? Can these estimates be used to develop a capital program and budget? Note that this question requires expert review because departments and enterprises are not always realistic in their assumptions and can underestimate cost components, particularly the cost of land acquisition or borrowing.
6. Do projects with large costs need to be broken down into phases that can be financed and built separately?

A sample checklist for reviewing project requests appears in appendix 9.

An LG should not be surprised if the first submission of project requests contains a large number of incomplete forms, especially if this is the first CIP cycle. Incomplete forms may be due to confusion, because not all of the information is readily available or because department representatives underestimated the amount of work involved. The LG should reserve as much time as possible in the schedule for this step. If information is missing, the CIP Coordinator should contact the appropriate department representative, who should supply the missing information.

Department heads also may be consulted if further clarification is necessary. If an important department fails to submit project requests, the CIP Coordinator should speak immediately to the department head. If the department head cannot commit to submit the requests on time, the Mayor (or executive in charge) needs to be notified and her/his assistance requested. This kind of delay can cause enormous problems for the CIP Coordinator and the CIP process. In fact, at this juncture, the CIP Committee and the Mayor (or executive in charge) need to come to a joint decision as to whether to proceed to the next step without all of the projects having been submitted and reviewed.

Sometimes, for the sake of efficiency, especially in large jurisdictions, the CIP Committee may decide to simplify scoring and prioritizing projects. For example:

- Conduct a preliminary screening of submitted project requests and reject some outright (because the data provided is not complete or the project is not desirable) For relatively inexpensive projects, request less information
- Focus the review on the most important projects, or

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Box 10. Local Public Facilities Built through PPPs

Around the world, local public facilities built through public-private partnerships (PPPs) include roads and bridges, parking garages, passenger and freight railways and stations, light rail systems, metros and subways, ferries, bus lines and terminals, multimodal public transport hubs and terminals, airports and ports, water treatment and distribution, sewage systems and wastewater treatment, solid waste management systems, power generation and distribution, central heating and cooling systems, hospitals and jails, city government offices, sports facilities and auditoriums, police and fire stations, libraries, school, dormitories and social housing, and farmers’ markets.

Source: CDIA 2010.

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22 Hatry and others 1984.
Focus on projects near the “cutoff” point, that is, projects whose inclusion in the CIP is problematic (for example, controversial projects), and put less effort into evaluating projects that clearly will be included in the CIP.

By the end of this step, the CIP Committee will have a list of projects eligible for inclusion in the CIP. Based on the individual project sheets (numbered consecutively), the CIP Coordinator should create a summary sheet (table 2). Usually future M&R and operations costs are not included in the summary (but they should be recorded on individual project sheets!). However, future costs should be included in the financial planning simulations of the LG budget (chapter 3). If a requesting department or enterprise suggests borrowing, the cost of borrowing should be included in the summary. Note that the CIP Committee must be clearly informed about which costs are included in such a table and which are not.

A useful appendix to this list—and, later, to the final list of CIP projects—can be a list of capital projects in the LG’s jurisdiction that are sponsored by higher levels of government for the period for which CIP is being developed. It also may be possible to find out what the sponsors of such projects expect the future maintenance and repair (M&R) and operations costs to be—and whether these costs will be the LG’s responsibility. At least three benefits can be expected from adding such an appendix to the CIP:

1. If the future annual costs are expected to be paid out of the local budget, the budget forecast should incorporate them (chapter 3 and appendix 3).
2. The appendix may result in modifications to schedules or other details of local projects and prevent waste of local resources. For example, it makes no sense for the LG to put new pavement on the main street in June, if the central government plans to dig it up in September to replace a sewage main.
3. The list of CIP projects and the list of potential central projects may be a tool for the LG to guide central project selection by making local priorities explicit and known to the central government.

**STEP 7**

**Prioritizing Project Requests**

If Steps 3, 5, and 6 have been done carefully, Step 7 is made much easier. In this step, the CIP Coordinator needs to exert all possible skill to manage the work of the CIP Committee. The first stage is to review with the procedural rules, schedule, and desired outcome with the CIP Committee. It also is necessary for each committee member to understand the purpose and scope of each project before attempting to provide a rating. Conveying this understanding is accomplished by convening the first meeting and asking one person from each department to explain each project and to answer questions. Depending on the number of projects that need to be evaluated, going through all of these explanations may take one or more meetings.

Second, the criteria need to be reviewed again by committee members and used in a hypothetical review of several projects. The hypothetical review doubtless will reveal many unanticipated consequences, and there will be ques-

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### Table 2. Projects to Consider for CIP
(units of local currency)

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Name</th>
<th>Dept.</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Total</th>
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<tr>
<td>C-13</td>
<td>River Bridge Replacement</td>
<td>C</td>
<td>7,800,000</td>
<td>8,400,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>16,200,000</td>
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<td>C-7</td>
<td>Drainage System Improvements</td>
<td>C</td>
<td>120,000</td>
<td>6,000,000</td>
<td>6,000,000</td>
<td>6,000,000</td>
<td>18,120,000</td>
<td></td>
</tr>
<tr>
<td>F-3</td>
<td>Fire Station no. 3 Renovation</td>
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<td>0</td>
<td>180,000</td>
<td>220,000</td>
<td>0</td>
<td>0</td>
<td>400,000</td>
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</table>
tions about using the criteria. If appropriate for the system of criteria selected, the CIP Coordinator should prepare evaluation sheets for each evaluator to use in rating each project. It is important to realize that this exercise requires more judgment than precision. In addition, the amount of work required by the CIP Committee will depend on the number of projects to review. Evaluation may take a few meetings or a few months of regular meetings.

The process should enable CIP Committee members to hold discussions about individual projects and to change their minds and revise their evaluation scores if needed. Changes often occur as committee members hear from other members and are a natural part of the process. Remember that this evaluation is not a mathematical exercise but a process to identify the projects that will most benefit the community.

The final product in this step is a list of all eligible projects in order of priority and arranged by category. A summary report should be compiled that shows the projects arranged in priority order according to the categories used in the scoring process.

Public participation in this and the next step can be secured through nongovernmental members of the CIP Committee (box 8).

**STEP 8**

**Matching Projects to Available Funding**

Ideally, one output of the financial analysis would be a table of revenue sources available for capital financing for the first year and forecasts for the subsequent years of the CIP (chapter 2, financial sources; chapter 3; appendix 3).

This information is the basis for selecting projects for year one and the subsequent years of the CIP program. Continuing projects should be funded first. High-priority projects need to be matched with the remaining available funding sources. If some of the sources have special earmarks, projects that qualify for these eligibility rules should be matched with these funds.

The CIP Committee needs to work closely with the finance department on Step 8. Several iterations may be required to reconcile the budgetary forecast and list of suggested projects.

Due to limited funding, it is common that many projects will not be matched to any funding sources. For example, in many US cities, available annual funds can pay for approximately only 10 percent of the total need. Furthermore, projects with the highest priority occasionally do not receive funding, but the next projects in line do. Being passed over can occur for several reasons, such as special earmarking (for example, from international donor organizations) and because very large projects often exceed all funding available so must be skipped temporarily.

As mentioned, there are no hard rules for deciding how each project should be financed. Relatively small projects often are funded from the city's own resources or the resources of its service enterprises, whereas bigger projects require multisource financing.

The final product in this step is for the CIP Coordinator to develop summary tables. Two of them will be key. The first is a short list of the projects suggested for inclusion in the CIP, with their ratings and suggested cost allocations among finance sources (Case Study 1, table 6). The second key table will show, for each project, the suggested timing of expenditures during the CIP period and the spending prior to it. In the second table, after both the CIP and the annual budget are approved, the first year's spending becomes part of the annual capital budget for the upcoming year (table 4).

**Other Summary Schedules**

Other project summaries should be prepared that arrange the projects by department and prioritize projects by purpose. A list of unfunded projects from the CIP process also should be created, as it will be the starting point for the next year's CIP. (High priority unfunded projects may get funding later in the year as new funding sources become available.) Debt and debt service schedules also should be provided. Tables showing forecasts of total revenue available for capital expenditures and total capital needs should be prepared for each year of the multiyear funding cycle (table 3).
The CIP Coordinator or the CIP committee should transmit the results of this step to the Mayor (or executive in charge) in a memorandum.

**STEP 9**

**Drafting Capital Program and Budget Documents**

The Mayor (or executive in charge) finalizes the recommended capital program and the budget and submits them to the representative body (local council). The CIP program and budget may be combined in one document or be presented as two separate documents. Typical components of the document are:

- Capital program message or transmittal letter
- Summary schedules
- Detailed project information for the projects recommended for funding in the first year.

A narrative statement or letter of transmittal summarizes key issues that have influenced the selection of projects in the proposed capital improvement program and budget (for example, financial trends, condition assessments, and new development).

**STEP 10**

**Adopting Capital Program and Budget**

The schedule should include enough time for the public and for the representative body to review the program and budget. Workshops and study sessions for the local council offer an informal setting in which to discuss project proposals with the CIP Committee and technical support staff. Site visits also are a valuable educational tool.

The first step in engaging the public is to disseminate information about the CIP process through newsletters, radio and television programs, and social media. Second, the public should have a chance to provide input. Focus groups and public hearings are good means of obtaining input from businesses and residents. When the citizens and businesses participate in the process, they develop a better appreciation of the challenges facing local officials and the tradeoffs involved (box 4). Public hearings also provide the residents with an opportunity to consider how the program affects their community. Public meetings take two forms: public hearings and community meetings.

1. **Public Hearings**

A public hearing is a structured event used to gather residents’ and businesses’ comments concerning the CIP prior to its adoption. A public hearing reaches a large

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**Table 3. Sample Summary of Requested Project Costs, Available Revenues, and Unfunded Difference**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–11 Requested project costs</td>
<td>93,386</td>
<td>208,692</td>
<td>145,104</td>
<td>138,792</td>
<td>49,911</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>635,884</td>
</tr>
<tr>
<td>2007–11 Available revenues</td>
<td>32,009</td>
<td>11,764</td>
<td>18,077</td>
<td>13,040</td>
<td>10,300</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>85,189</td>
</tr>
<tr>
<td>Unfunded difference</td>
<td>61,377</td>
<td>196,927</td>
<td>127,026</td>
<td>125,754</td>
<td>39,611</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>550,695</td>
</tr>
</tbody>
</table>
number of people and provides opportunities for them to comment directly on an issue. Open hearings enable major objections to the program and budget to be discussed before the representative body formally adopts the CIP. A public hearing may result in the need to amend the preliminary capital program and budget. These changes should be made before submitting the final capital program and budget to the representative body for adoption.

2. **Community Meetings**

Meetings with local residents can be held at the community or neighborhood level. Meetings can be scheduled during the CIP process to solicit citizen input on proposed capital projects. The informal structure of these meetings enables for indepth discussions, direct and immediate response to questions and comments, and clarification of facts or ideas.

To ensure adequate public notice for the meetings, the CIP Coordinator or other designated individual should place an advertisement in the local newspaper or radio announcing where and when the public meetings will occur enough in advance to enable public participation. The CIP Coordinator also should develop a process for conducting the public meetings.

Organizational issues to consider include:

- Who will represent the LG
- What procedures will be used for obtaining public input, including who is eligible to speak and the time limitations on remarks
- Whether written comments will be accepted
- How information collected through the public hearing process will be used
- How meetings results (including changes to CIP) will be reported back to the public.

After completing its review of staff recommendations and public opinion, the representative body should adopt the capital program and budget (for at least the first year) to demonstrate its commitment to the program and to confirm its policy regarding the community’s approach to meet its future capital needs. Adoption of the program is not a binding commitment to fund projects other than for the first year (table 4).

Some representative bodies object to formally adopting the program because they believe it restricts their policymaking authority and flexibility. They may decide to approve it in principle or merely accept it. Acceptance is not binding for the representative body. Instead, the body may only adopt the capital budget and appropriate funds.

Failure to adopt the program as a binding document does not eliminate its value. The program still serves as an effective planning and management tool. Moreover, it keeps the representative body informed of the LG’s capital needs and helps the body respond to public inquiries about the status of projects.

<table>
<thead>
<tr>
<th>#</th>
<th>Project</th>
<th>Requesting dept./enterprise</th>
<th>Score</th>
<th>Before 2010</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total (thousand €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Airport Reconstruction and Upgrade</td>
<td>Municipal enterprise “Airport”</td>
<td>73</td>
<td>0</td>
<td>1,467</td>
<td>533</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,000</td>
</tr>
<tr>
<td>2</td>
<td>Social Housing Project # 1</td>
<td>Municipal housing enterprise</td>
<td>70</td>
<td>0</td>
<td>0</td>
<td>1,200</td>
<td>2,100</td>
<td>1,200</td>
<td>0</td>
<td>4,500</td>
</tr>
<tr>
<td>3</td>
<td>Livestock Cattle Quarantine</td>
<td>Department of rural affairs</td>
<td>67</td>
<td>81</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>106</td>
</tr>
</tbody>
</table>
Once the CIP process is established, it produces a rolling product. The following year, the column for the past year (2010 in table 4) will be removed, and a new column (for 2015) will be added, with the necessary adjustments to the list of projects and cost estimates.

Responsibility for managing an approved project normally is delegated to an operating department. However, the implementation of capital projects requires multiple steps and activities by various departments and actors. At this stage, multiple inefficiencies and delays commonly happen, even if the land and financing are available.