

Proprietary & Confidential

FINAL REPORT



CAPITAL IMPROVEMENT PROGRAM ASSESSMENT

July 3, 2025

Baker Tilly Advisory Group, LP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500



As of June 3, 2025, Moss Adams LLP has merged with Baker Tilly.

This report is intended for the internal use of the City of Modesto, and may not be provided to, used, or relied upon by any third parties.

Table of Contents

I. Executive Summary	1
A. Background and Scope	1
B. Methodology and Objectives	1
C. Commendations	2
D. Summary of Observations and Recommendations	2
II. Observations and Recommendations	4
A. High Priority	4
B. Medium-High Priority	6
C. Medium Priority	7
D. Low Priority	12
Appendix A: Capital Planning Policy Best Practices	14
Appendix B: CIP Book Best Practice Comparison	18

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, operate under an alternative practice structure and are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

I. Executive Summary

A. Background and Scope

The City of Modesto (the City) engaged its internal auditor, Baker Tilly Advisory Group, LP (Baker Tilly), to conduct an assessment of the City's Capital Improvement Program (CIP) as part of the FY24–25 Internal Audit Program. The goal of this project is to assess the current state of the City's CIP and identify best practices and opportunities to improve the effectiveness of the City's capital planning and management activities. Our assessment included project identification, budgeting, planning, execution, and closeout.

This assessment was conducted from December 2024 through March 2025. Our analysis was informed by interviews with City leadership and staff, review of data and documents provided by the City, and comparison of current processes to industry best practices.

Specifically, in this engagement, we completed the following:

- Conducted interviews and walkthroughs with staff across the City engaged in capital planning and execution
- Reviewed capital program, planning, and budgeting documentation, including policies and procedures, the CIP book, and public communications
- Evaluates the efficiency and effectiveness of the City's policies and procedures managing capital assets, including new infrastructure and deferred maintenance, long-term planning, and responsiveness to resident and community requests
- Reviewed staffing levels and structure, skills, capacity, and efficiency as well as intra- and inter-departmental collaboration and coordination
- Leveraged best practices and benchmarked relevant information from peer cities
- Identified opportunities for improvement in planning and delivery, organization, operations, process efficiency, and customer service

B. Methodology and Objectives

The overall goal of this assessment was to help the City understand the current state of its capital planning and management activities, identifying challenges and opportunities for improvement. The assessment consisted of four major phases:

1. **Project initiation and management:** This phase concentrated on comprehensive planning and project management. It included selecting employees to interview, identifying documents to review, and providing project status reports.
2. **Fieldwork:** This phase included interviews, document review, and best practice research. We worked with leadership from the Public Works, Utilities, Engineering Services, and Finance departments to obtain the most up-to-date information and insights.
 - *Interviews:* We conducted interviews with 10 members of City leadership and staff involved in capital projects and capital planning throughout Public Works, Finance, and Utilities to understand strengths, weaknesses, and opportunities for improvement.

- *Document review:* We reviewed the current CIP plans and policies, project tracking collateral, and other documentation related to capital program processes.
 - *Best practice research and peer comparison:* We compared the City’s capital plan and processes to industry best practices and to cities with comparable capital budgets.
3. **Analysis:** In the assessment phase, we evaluated the results of our fieldwork to develop actionable recommendations.
 4. **Reporting:** We concluded the project by reviewing draft observations and recommendations with Public Works and Finance leadership to validate facts and confirm the practicality of our recommendations.

C. Commendations

We want to extend our heartfelt gratitude to all City employees who participated in this assessment. Throughout our work, we noted:

- Excellent collaboration between departments and colleagues
- A culture that looks for best practices and opportunities for improvement
- High employee morale and a positive workplace culture

It was evident from all employees with whom we spoke that there is a passion for the City, along with a genuine dedication to its progress and future. The insights and contributions from these dedicated employees undoubtedly elevated this report, and we again share our thanks.

D. Summary of Observations and Recommendations

Observations and recommendations were grouped into four areas: (1) high priority, (2) medium-high priority, (3) medium priority, and (4) low priority. A summary is listed below, and observations and recommendations are further detailed in in Section II of this report.

OBSERVATIONS AND RECOMMENDATIONS	
High Priority	
1.	<p>The City does not currently have a uniform methodology across its departments for estimating and reporting project budgets which could lead to a reliance on initial costs rather than comprehensive project cost estimates. This creates an increased risk of inadequate funding for projects, as full estimated costs may not be consistently reported during the project design phase, leading to potential risks of financial shortfalls later in the construction phase, as well as reduced transparency within the CIP book’s reporting.</p> <hr/> <p>To ensure accurate budgeting and long-term planning, the City should develop comprehensive cost estimates for upcoming projects, such as implementing Government Finance Officers Association (GFOA) and other industry best practices, that encompass the full scope of expenses, rather than just initial costs, and ensure that the costs for the full project lifecycle are included in the CIP book reporting.</p>

OBSERVATIONS AND RECOMMENDATIONS	
Medium-High Priority	
2.	<p>The City's capital planning and project prioritization efforts are oftentimes conducted on a decentralized and somewhat subjective basis, which creates risks that capital project prioritization and funding are not transparent or consistently aligned with specific City priorities.</p> <p>A. The City should adopt prioritization criteria that appropriately weigh critical maintenance needs and support clear communication.</p> <p>B. The City should maintain an Unfunded Project list in priority order to identify critical project needs if alternative funding sources become available.</p> <p>C. The City should consider reestablishing the CIP Task Force.</p>
Medium Priority	
3.	<p>The City has some documented policies and procedures guiding capital planning and project management, but they are outdated and there are key gaps. This makes it difficult to ensure continuity of operations in an environment with personnel turnover.</p> <p>The City should establish a comprehensive and up-to-date set of capital planning policies and procedures informed by best practices, including project management resources that provide standardized templates, checklists, and forms.</p>
4.	<p>The City's CIP processes lack modern technology solutions deliberately designed for capital projects and is largely decentralized between different systems and departments, which makes it difficult to track and report on project status on a standardized basis.</p> <p>A. The City should establish a formalized project-tracking methodology.</p> <p>B. The City should develop regular reporting on key financial and project data to keep all stakeholders up-to-date.</p> <p>When possible, the City should invest in a modern project management system and the resources necessary to support its design, implementation, and maintenance regarding capital projects.</p>
5.	<p>Despite significant recruiting efforts, the City has struggled to hire an adequate number of qualified civil engineers due to an overall shortage in the labor market, which has resulted in the engineers that are currently on staff being responsible for larger than usual project loads, and has limited the number of new projects that the City is able to take on at a time.</p> <p>The City should review their current recruiting practices and update them where necessary in order to broaden their reach and attract a greater number of applicants. Additionally, the City should pursue innovations to streamline engineering processes and reduce overall workload.</p>
Low Priority	
6.	<p>The CIP book aligns with a number of industry best practices, but there are opportunities to improve public transparency, process descriptions, and financial and project data.</p> <p>The City should update the CIP book with best practice elements, including expanding on the planning and prioritization process descriptions, adding more detail to financial and project data, and providing a holistic narrative about the City's capital activities.</p>

II. Observations and Recommendations

Based on the input gathered from interviews and document review, as well as comparisons to best practices, we prepared a comprehensive set of observations and recommendations.

A. High Priority

PROJECT PLANNING AND BUDGET REPORTING

1. Observation	The City does not currently have a uniform methodology across its departments for estimating and reporting project budgets which could lead to a reliance on initial costs rather than comprehensive project cost estimates. This creates an increased risk of inadequate funding for projects, as full estimated costs may not be consistently reported during the project design phase, leading to potential risks of financial shortfalls later in the construction phase, as well as reduced transparency within the CIP book's reporting.
Recommendation	To ensure accurate budgeting and long-term planning, the City should develop comprehensive cost estimates for upcoming projects, such as implementing Government Finance Officers Association (GFOA) and other industry best practices, that encompass the full scope of expenses, rather than just initial costs, and ensure that the costs for the full project lifecycle are included in the CIP book reporting.

Current Conditions

The City does not currently have a uniform methodology across the departments for estimating and reporting project budgets, which could lead to a reliance on initial costs rather than comprehensive project cost estimates. While it was noted that individual departments followed defined internal processes for budgeting, and to ensure that adequate funding was available for their projects, often times the full lifecycle costs were reported for projects, as defined by GFOA and other industry best practices for CIP book reporting. As a best practice, the GFOA recommends that the full extent of the capital project/asset and the associated life cycle costs be determined when developing the multi-year capital plan with a focus on including a clear estimate of all major components that will be necessary to complete the project, and accounting for all ongoing life cycle costs of the project, as they will impact future operating budgets (please see Appendix B for additional detail).

Inquiry into the City's capital planning and project budgeting processes showed that there was not a uniform methodology across City departments for developing project budgets. In some cases, initial project budgets were submitted for approval and planning purposes, rather than a comprehensive estimate for the full project. In these cases, once a project enters the construction phase, budgets are updated based on the actual costs of the construction contracts for the main project scope. Additionally, to create efficiency, multiple projects from a single location are often packaged together after acceptance of an initial project in the location. While this practice can help to mitigate construction disturbances in neighborhoods and communities, on the project budget and planning side, it can also create an unclear delineation between the original and expanded scopes of work.

When the full estimated cost is not accounted for in the project budgets or long-term plans at project initiation, it does not provide an adequate level of transparency into project lifecycle budgets.

Recommendations

When developing budgets and conducting long-term planning, it is essential that the City creates and utilizes estimates for the total costs of its upcoming projects that take into account the full scope and project lifecycle rather than just the initial expected cost. To ensure that all project budgeting is conducted uniformly across the City and accounts for the full expected cost of the upcoming projects, the City should incorporate the following best practices into their project planning, budgeting, and CIP book reporting processes:

- **Establish clear project scope:** Clearly outline the project's objectives and create a comprehensive list of requirements, including specifications, deliverables, and constraints, to ensure all stakeholders have a shared understanding of the project.
- **Ensure clear estimates in CIP book reporting:** Ensure that CIP book reporting on project budgets contains a clear estimate of all lifecycle costs for upcoming projects in the next three to five years, as recommended by the GFOA and industry best practices (please see Appendix B for additional detail).
- **Utilize historical data:** Analyze cost data from similar past projects to inform current estimates and maintain a database of historical costs for various project types, which will facilitate more accurate future estimating efforts.
- **Incorporate comprehensive cost components:** Include all direct costs such as labor, materials, equipment, and subcontractor expenses while also accounting for indirect costs like overhead and administrative expenses.
- **Engage stakeholders early:** Involve project managers, engineers, and financial analysts in the estimating process to leverage their expertise, and gather input from community stakeholders and departments impacted by the project to ensure all perspectives are considered.
- **Conduct risk assessment:** Assess potential risks that could impact project costs, such as regulatory changes or market fluctuations, and include contingency allowances in the budget to account for unforeseen events or changes in scope.
- **Regularly review and update estimates:** Continuously monitor and update cost estimates throughout the project lifecycle to reflect changes in scope or market conditions, implement a formal change management process to evaluate conditions, and ensure reviews of cost estimates and revisions are completed and documented when project changes occur.
- **Document assumptions and methodologies:** Clearly document the assumptions, methodologies, and sources used in the estimating process to provide transparency and ensure that estimates are reviewed and approved by relevant stakeholders before finalizing budgets.
- **Implement technology solutions:** Utilize specialized cost estimating software to enhance accuracy and efficiency and leverage data analytics to analyze costs and identify trends that can improve the estimating process.
- **Train staff on best practices:** Provide training and resources for staff involved in cost estimating to keep them updated on best practices and ensure uniformity across City departments.

By following these best practices, the City's capital planning program can enhance the accuracy and reliability of project cost estimates, leading to better budgeting, resource allocation, and project execution.

B. Medium-High Priority

PROJECT PRIORITIZATION

2. Observation	The City’s capital planning and project prioritization efforts are oftentimes conducted on a decentralized and somewhat subjective basis, which creates risks that capital project prioritization and funding are not transparent or consistently aligned with specific City priorities.
Recommendation	<ul style="list-style-type: none"> A. The City should adopt prioritization criteria that appropriately weigh critical maintenance needs and support clear communication. B. The City should maintain an Unfunded Project list in priority order to identify critical project needs if alternative funding sources become available. C. The City should consider reestablishing the CIP Task Force.

Current Conditions

Currently, the City’s capital planning and project prioritization efforts are oftentimes conducted on a decentralized and somewhat subjective basis, which creates risks that capital project prioritization and funding are not transparent or consistently aligned with specific City priorities. Our interviews revealed that the methodology for determining how capital projects were prioritized varied between departments, with many processes relying on subjective judgment and lacking documented criteria or decision-making procedures.

Interviewees for the various City departments involved in capital planning noted that projects are typically discussed in annual meetings between departments and prioritized on an ad hoc basis, often in response to the availability of funding sources, such as specific grants. Furthermore, there is no centralized City committee overseeing prioritization; instead, it is assessed individually by each department. There is also no specific guide, decision tree, or Responsible, Accountable, Consulted, and Informed (RACI) matrix equivalent to assist in the prioritization process, which further contributes to inconsistencies and a lack of transparency. To mitigate these risks, it is essential that the project prioritization methodology is well-documented and consistent across departments, ensuring that all capital improvement projects are prioritized in an objective, transparent manner that aligns with the City’s long-term strategic goals.

Recommendations

The City should fully document their prioritization criteria and decision-making workflow for evaluating potential capital projects. Ideally, the City’s prioritization criteria would ensure that the City is making the most of its funding and personnel resources, as well as incorporate sufficient specificity to aid in understandable and transparent project prioritization. The GFOA recommends that governments first prioritize capital requests based on health and safety considerations, service, and asset preservation. While the City does approach prioritization this way, there are opportunities for the City to more clearly communicate how a project scores according to these criteria and weigh critical maintenance needs more heavily.

Examples of prioritization processes and criteria from other cities that prioritize essential work include the following:

- Departments throughout the [City of San Diego](#) first identify their capital needs over the next five fiscal years that would allow them to meet their established service levels, operational goals, and overall core missions. Departments categorize their projects and needs as either priority (e.g., projects that address life, safety, and/or legal mandated needs that could potentially impact the core operation of an impacted facility or asset, or that are mayoral or council priorities) or discretionary (e.g., projects that would allow the City of San Diego to meet and exceed its services to the community and enhance the overall quality of life). Projects are then prioritized by a Review Advisory Committee that includes membership from nine different departments across the City of San Diego.
- To qualify for the [City of Pasadena's](#) CIP, a project is required to either address a particular safety issue, an existing maintenance effort that is no longer satisfactory to keep a facility in good repair, or an existing facility that is no longer adequate to meet demand. Projects submitted that meet one of these requirements are reviewed by the Finance and Management Services Division for completeness, then put into one of 14 broad categories (e.g., street lighting, parking, etc.). Projects are then returned to proposing departments for classification as high, medium, or low priority; preliminary cost estimates; and recommendation of a funding plan.

The City should also consider maintaining an Unfunded Project list in a priority order, as the [City of Oakland](#) does, to track projects that they would like to complete but do not currently have the funding for. This will enable the City to quickly identify the most critical unfunded projects should alternative funding sources become available.

We understand that the City previously maintained a CIP Task Force which is currently inactive. While our cursory search of the City's website revealed this information, we are not familiar with the intricacies of the task force's previous role or its effectiveness. However, the City may want to consider reactivating the task force as a means to establish prioritization criteria and maintain an Unfunded Project list.

C. Medium Priority

POLICIES AND PROCEDURES

3. Observation	<p>The City has some documented policies and procedures guiding capital planning and project management, but they are outdated and there are key gaps. This makes it difficult to ensure continuity of operations in an environment with personnel turnover.</p>
Recommendation	<p>The City should establish a comprehensive and up-to-date set of capital planning policies and procedures informed by best practices, including project management resources that provide standardized templates, checklists, and forms.</p>

Current Conditions

The City's policies and procedures related to the CIP are currently decentralized and fragmented between departments and lack comprehensive guidelines necessary for effective capital planning and asset management. Key deficiencies include the absence of dedicated sections addressing stakeholder departmental needs, insufficient prioritization frameworks for capital requests, and a lack of detailed policies regarding capital asset management practices.

Additionally, the existing CIP does not adequately incorporate long-term financing considerations, nor does it provide a structured approach to evaluating and monitoring capital projects. There is limited transparency in how decisions are made, and the policies do not effectively engage public and external stakeholders in the planning process.

In our review, it was noted that due to differences in how capital improvement projects are funded, there may be some differences in how each department approaches their capital planning policies and procedures. For instance, it was noted that the Utilities department utilizes the adopted utility master plans in order to assist department staff with the development of its capital improvement projects. However, for the City as a whole, the current state and lack of standardization and documentation of policies and procedures regarding capital planning reflects a need for significant improvement to ensure that the City's capital planning efforts are aligned with its strategic objectives, operational priorities, and community needs. Without these enhancements, the City risks inefficiencies in resource allocation, potential misalignment of projects with organizational goals, and challenges in maintaining and managing its capital assets effectively.

This situation underscores the importance of developing a cohesive and comprehensive set of policies and procedures that can guide the City in making informed decisions, fostering collaboration among departments, and ensuring accountability in capital planning and management.

Recommendations

The City should establish a streamlined and up-to-date set of capital planning policies and procedures informed by best practices. Ideally, the City would maintain the following policies and procedures related to the capital program:

- Capital Planning Policy
- Capital Request and Project Prioritization Policy (high priority)
- Financial Planning Policy
- Financial Impact and Cost Estimation Policy
- Capital Asset Management and Deferred Maintenance Policy (high priority)
- Project Monitoring and Reporting Policy
- Project Management Procedures

As the City develops these resources, it can consider storing and maintaining standardized templates, checklists, and forms in the same location. A list of capital planning policy best practices can be found in Appendix A.

PROJECT REPORTING AND TRACKING

4. Observation	The City’s CIP processes lack modern technology solutions deliberately designed for capital projects and is largely decentralized between different systems and departments, which makes it difficult to track and report on project status on a standardized basis.
Recommendation	<ul style="list-style-type: none"> A. The City should establish a formalized project-tracking methodology. B. The City should develop regular reporting on key financial and project data to keep all stakeholders up-to-date. C. When possible, the City should invest in a modern project management system and the resources necessary to support its design, implementation, and maintenance regarding capital projects.

Current Conditions

The City is not currently using a modern technology solution specifically designed for capital projects. As a result, project data outlining status and execution is largely decentralized across various systems and departments. For instance, instead of leveraging the existing Microsoft Access database, many project managers are tracking projects using Excel spreadsheets, which operate independently of a centralized system. This preference arises from perceptions among some City staff that the database is outdated and difficult to navigate. The lack of transparency complicates department management’s ability to track project status independently, hold teams accountable for timely and effective execution, and report to City Council on project progress.

While it was noted that the Utilities department had a system in place for monitoring the financial status of projects—utilizing bi-weekly reporting through the COM Project Status Inquiry—there did not appear to be a centralized or standard process for the City as a whole. Without accurate, transparent, and regular reporting, City leaders lack proper insight into capital project advancement. However, staff have indicated that scaling up reporting could overwhelm their current workload, potentially leading to more frequent project status check-ins than desired.

Recommendations

The GFOA recommends that jurisdictions 1) plan and design systems to collect, store, and analyze project data and to report results, and 2) regularly monitor capital projects’ financial and project activity information.¹ To achieve this, the City should implement the following recommendations.

The City should establish a formalized project-tracking methodology.

The appropriate technological solutions for project accounting, scheduling, and reporting may take the form of spreadsheets, customized databases, ERP systems, or project management software. Often, more than one solution is used. Regardless of the specific tracking and reporting format, the City can begin by establishing standard practices for tracking capital projects. Whether staff are

¹ <https://www.gfoa.org/materials/capital-project-monitoring-and-reporting>

tracking projects in Excel or in an ERP system, all projects should be tracked in a systematic and uniform way.

In the short term, this could be accomplished by assigning a staff member to work with project managers to maintain and regularly update a centralized spreadsheet that captures project status, progress toward key milestones, the budget expended, and any changes to the budget or project.

The City should develop regular reporting on key financial and project data to keep all stakeholders up-to-date.

Though reviving the end-of-year status update on in-progress projects will be an improvement to the City's reporting environment, it is best practice to provide ongoing holistic project-level performance reporting on a regular basis. The GFOA recommends that regular performance reporting include the following project information presented in a straightforward and clear manner:

- A comparison of actual results to the project plan, including:
 - Percent of project completed, including budget, forecast, commitment, and expenditure information
 - Percent of project budget expended
 - Progress on key project milestones
 - Contract status information, including time remaining and percentage used
 - Revenue and expenditure activity
 - Cash flow and investment maturities
 - Funding commitments
 - Available appropriation
 - Comparison of results in relation to established performance measures
- Reporting of changes to project scope, budget appropriations, costs, schedule, or funding
- A regularly reported snapshot of key schedule, cost estimate, and available funding information to establish baseline data for performance measures and report components

When possible, the City should invest in a modern project management system and the resources necessary to support its design, implementation, and maintenance to support capital projects.

Comprehensive project-tracking and reporting capabilities are essential to effective capital project operations. The City's capital program is large and complex as well as requires a modern solution to manage projects, track progress, allocate resources, and facilitate communication. While a project management solution requires resource investment and time to implement and learn, the risk of continuing to operate without a modern solution likely outweighs the risk of investing in such a system. The implementation of a project management solution will require collaboration with the City's Information Services Department (ISD) equivalent, in addition to sufficient staffing within both the City's operational departments and ISD equivalent to manage the technology investment effectively, provide expertise to users, and oversee training.

STAFFING

5. Observation	Despite significant recruiting efforts, the City has struggled to hire an adequate number of qualified civil engineers due to an overall shortage in the labor market, which has resulted in the engineers that are currently on staff being responsible for larger than usual project loads, and has limited the number of new projects that the City is able to take on at a time.
Recommendation	The City should review their current recruiting practices and update them where necessary in order to broaden their reach and attract a greater number of applicants. Additionally, the City should pursue innovations to streamline engineering processes and reduce overall workload.

Current Conditions

The City has struggled to hire an adequate number of qualified civil engineers due to an overall shortage of prospects in the current labor market. Interviews conducted reveal this is consistent across various departments that require engineering roles to carry out capital projects, including both Utilities (wastewater design, water design, and water resources) and Engineering Services (land development, construction administration, surveying, transportation, and parks planning and development). This inability to locate and hire qualified candidates has created an increased burden and a large workload for the civil engineers currently employed by the City. Team members from every group we met with reported that while other roles had adequate staffing levels, they had been unable to adequately staff their engineering roles for several years. This has resulted in the engineers on staff being responsible for larger than usual project loads, limiting the number of new projects the City can undertake at any given time. Engineers in these departments are crucial for tasks such as designing infrastructure, conducting feasibility studies, ensuring regulatory compliance, and overseeing construction activities.

In an effort to fully staff these positions, the departments have worked in conjunction with human resources on a number of initiatives in order to attract new talent to the City. These initiatives have included conducting a detailed and benchmarked compensation study, increasing the pay range for all licensed engineers, conducting a mailing campaign that reached out to 2,000 licensed engineers throughout California, and advertising job openings through a wide range of services and professional organizations. While these vacancies have been difficult to fill, team members noted that the City has utilized outside consultants when available and has been actively working to attract new talent to address these gaps in the engineering teams.

Recommendations

The City should review their current recruiting practices and update them where necessary in order to broaden their reach and attract a greater number of applicants. When reviewing and updating their current recruiting practices for civil engineering positions, the City should consider the following:

- **Consider offering signing bonuses:** The City should consider offering signing bonuses or other incentives such as relocation bonuses in order to attract qualified candidates.
- **Continue to recruit through established channels:** The City should continue working to recruit qualified engineers through established channels to ensure they are reaching the greatest number of qualified candidates.

If the City continues to struggle to hire and maintain an adequate number of licensed and experienced civil engineers, they should consider the following options to reduce the workload for their current engineering staff:

- **Reduce administrative workload:** The City should reduce the engineering team’s administrative workload by delegating administrative tasks to support teams to allow the current City engineers to focus on critical project tasks.
- **Outsource non-core tasks:** The City should consider outsourcing certain tasks or projects to outside firms and consultants to reduce the workload of current City engineers.
- **Utilize software tools:** The City should invest in project management and engineering software that can streamline or automate workflows, allowing engineers to focus on higher-value tasks.

D. Low Priority

CIP BOOK BEST PRACTICES

6. Observation	The CIP book aligns with a number of industry best practices, but there are opportunities to improve public transparency, process descriptions, and financial and project data.
Recommendation	The City should update the CIP book with best practice elements, including expanding on the planning and prioritization process descriptions, adding more detail to financial and project data, and providing a holistic narrative about the City’s capital activities.

Observation

The City develops a five-year CIP budget that is communicated in a CIP book. The CIP book is a public document that contains information crucial to City operations. It is intended to link the City’s comprehensive fiscal plans and the physical development of capital projects, and inform the public of the capital improvement projects that the City plans to begin in the next two years. Due to the plan’s importance, it is crucial that the City ensures that the plan and the CIP planning process are aligned with industry best practices. The current CIP book adheres to several best practices, including the following:

- **Accessibility:** Programs should be written in plain language, avoid jargon, and include a welcome message.
- **Timeline:** Programs should document at least three to five years of upcoming projects.
- **Definition of terms:** Readers are aware of what constitutes a capital project and what constitutes a significant capital maintenance project.
- **Planning and prioritization process:** Programs should include a description of the budget process.
- **Capital maintenance:** Programs should include significant capital maintenance projects.

A full comparison of the City’s CIP book to best practices can be found in Appendix B.

Recommendations

There is an opportunity to align the CIP book with best practices in the following areas:

Planning and prioritization

The City should enhance the CIP by developing a comprehensive framework that outlines the planning and prioritization process for capital projects. This framework should include:

- A specific section detailing how each stakeholder department will fulfill its operational and financial requirements, providing a consistent approach across all project types to ensure alignment with the City's strategic objectives and operational priorities
- A comprehensive description of the CIP review committee, including its membership composition and the responsibilities of both the committee and its members, to enhance transparency and clarify the governance structure overseeing the CIP
- A detailed explanation of the role of the public and other external stakeholders in the capital improvement process, outlining the expected level and type of public participation to ensure consistency with community expectations and previous engagement efforts
- A clear articulation of the decision-making process within the capital planning framework, including a structured approach for prioritizing project needs and allocating limited resources, thereby ensuring transparency and alignment with the City's strategic objectives

By implementing this framework, the City will create a more effective and transparent capital planning process that fosters collaboration among stakeholders and enhances the overall management of capital projects.

Financial planning and project data

The City should enhance the CIP by incorporating comprehensive financial and project data that includes:

- A detailed inventory of unfunded capital improvement projects, along with their overall estimated costs, presented in an appendix to provide a clear understanding of the City's capital needs and facilitate future planning and resource allocation
- Adjusted cost projections for inflation for all projects scheduled beyond the first year, ensuring more accurate budgeting and financial planning that reflects the true costs of future capital improvements
- All required project information for each funded project, with a specific focus on providing clear estimates of lifecycle costs, including land acquisition, design, construction, contingency, and post-construction costs, as well as anticipated ongoing impacts on the City's operating budget

By implementing this financial and project data, the City will improve transparency, enhance decision-making regarding resource allocation, and ensure the sustainability of capital projects throughout their lifecycles.

Appendix A: Capital Planning Policy Best Practices

The following table details the elements that should be covered in key capital planning policies.

POLICY CATEGORY	POLICY	BEST PRACTICE ELEMENTS
Capital project monitoring and reporting	Project Monitoring and Reporting Policy	<p>Policies related to project status and activity monitoring should include a minimum requirement that regular reports will:</p> <ul style="list-style-type: none"> ● Provide a comparison of actual results to the project plan, including: <ul style="list-style-type: none"> ○ Percent of project completed ○ Percent of project budget expended ○ Progress on key project milestones ○ Contract status information, including time remaining and percentage used ○ Revenue and expenditure activity ○ Cash flow and investment maturities ○ Funding commitments ○ Available appropriation ● Compare results in relation to established performance measures ● Highlight significant changes to project scope, costs, schedule, or funding <p>An annual snapshot of a project’s key schedule, cost estimate, and available funding information should be taken to establish baseline data for performance measures and report components.</p>
CIP planning	Capital Request and Project Prioritization Policy	<p>Capital request prioritization policies should help evaluate capital requests so they can be prioritized based on the following:</p> <ul style="list-style-type: none"> ● Health and safety: Priority should be given to high-risk safety issues that require a capital project to correct ● Asset preservation: Capital assets that require renewal or replacement based on the capital asset lifecycle ● Service/asset expansion: Infrastructure improvements needed to support the government’s policies, plans, and studies

POLICY CATEGORY	POLICY	BEST PRACTICE ELEMENTS
		<p>These policies should include:</p> <ul style="list-style-type: none"> • Guidance for when the initial prioritization process may be impacted by legal requirements and/or mandates • Procedures for coordination with related entities • Procedures for allowing submitting agencies to provide an initial prioritization • Guidance for collecting and incorporating input and participation from major stakeholders and the general public • Policies for considering the impact on operating budgets resulting from capital projects • A practice of applying analytical techniques for evaluating potential projects (e.g., net present value, payback period, cost-benefit analysis, lifecycle costing, and cash flow modeling) • Details for a rating system that will facilitate decision-making • Procedures for ensuring CIP projects align with and support the City's Master Plan
	Financial Impact and Cost Estimation Policy	<p>Policies to ensure that the full extent of capital projects/assets and the associated lifecycle costs are considered when developing a multi-year capital plan should include:</p> <ul style="list-style-type: none"> • Procedures for defining the scope and timing of a planned project in the early stages of the planning process • Guidance for identifying and using the most appropriate approaches when estimating project costs and potential revenues • Procedures for procuring outside assistance if internal resources are not sufficient to estimate a capital project's costs, revenues, and/or lifecycle costs • A practice of adjusting cost projections based on anticipated inflation for projects programmed beyond the first year of the plan • Guidance for providing a clear estimate of all major components required to implement a project, including acquisition needs, design, construction, contingency, and post-contingency costs • Guidance for quantifying the ongoing lifecycle costs associated with each project and identifying funding sources for those costs
Capital asset management and deferred maintenance	Capital Asset Management Policy	<p>Policies related to capital asset management practices should include:</p> <ul style="list-style-type: none"> • A requirement for a complete inventory and periodic measurement of the physical condition and existence of all capital assets • A requirement to establish condition and functional performance standards to be maintained for each type of capital asset

POLICY CATEGORY	POLICY	BEST PRACTICE ELEMENTS
		<ul style="list-style-type: none"> ● A requirement to evaluate existing capital assets to determine if they still provide the most appropriate method to deliver services ● Consideration of developing financial policies that identify and dedicate fees or other revenue sources to help maintain the expected service levels of capital assets ● A requirement to allocate sufficient funds in the multi-year capital plan and annual operations budget for condition assessment determination and reporting, preventative maintenance, repair, renewal, and replacement of capital assets to continue providing services that contribute to public health, safety, and quality of life ● A requirement to monitor and communicate progress toward stated goals and the overall condition of capital assets, with appropriate controls to ensure the validity and accuracy of this information ● A requirement to provide, at least once every three years, a “plain language” report on capital assets to elected officials that is also made available to the general public
Capital project monitoring and reporting	Project Monitoring and Reporting Policy	<p>Policies related to project status and activity monitoring should include a minimum requirement that regular reports will:</p> <ul style="list-style-type: none"> ● Provide a comparison of actual results to the project plan, including: <ul style="list-style-type: none"> ○ Percent of project completed ○ Percent of project budget expended ○ Progress on key project milestones ○ Contract status information, including time remaining and percentage used ○ Revenue and expenditure activity ○ Cash flow and investment maturities ○ Funding commitments ○ Available appropriation ● Compare results in relation to established performance measures ● Highlight significant changes to project scope, costs, schedule, or funding <p>An annual snapshot of a project’s key schedule, cost estimate, and available funding information should be taken to establish baseline data for performance measures and report components.</p>

POLICY CATEGORY	POLICY	BEST PRACTICE ELEMENTS
Project management	Project Management Procedures	<p>Project Management Procedures include tactical guidance on the following topics:</p> <ul style="list-style-type: none"> ● Contract administration and management ● Bid and procurement management ● Change order and scope management and controls application ● Expenditure management controls ● Design and construction budget management controls ● Project close-out controls

Appendix B: CIP Book Best Practice Comparison

The following table compares the City's CIP book with best practices.

POLICY CATEGORY	SOURCE	BEST PRACTICE	THE CITY'S CURRENT CONDITION	RECOMMENDATION
Accessibility	Industry best practice, GFOA	Program books should be written in plain language (avoiding jargon when possible) and include a welcome message and/or guide to describe how to read and use the report. This is done to make the document more accessible to members of the public.	The CIP book is aligned with best practices.	
Timeline	GFOA	Program books should document at least three to five years of upcoming projects. While only the current year will be approved and funded, this long-term planning provides transparency for City leadership and enables more strategic decision-making.	The CIP book does contain information on upcoming projects; however, the available budget reporting does not adequately reflect the full project lifecycle costs.	
Definitions of terms	GFOA	Program books should include a clear definition of what constitutes a capital project and significant capital maintenance project.	The CIP book is aligned with best practices.	
Planning and prioritization process description	GFOA	Program books should include a description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.	The City's CIP book does not include a section that outlines how stakeholder departments will meet operational and financial needs of the organization. Instead, in the sections for specific issues such as Public Safety, it provides a couple of pages describing the issues, how they've been solved,	

POLICY CATEGORY	SOURCE	BEST PRACTICE	THE CITY'S CURRENT CONDITION	RECOMMENDATION
			<p>and future projects. This isn't consistent across every project type.</p> <p>AD 7.14 CIP Policy does a good job of explaining how different groups plan, manage, and coordinate capital planning.</p>	
	GFOA	The process should include a description of the program's review committee, identification of committee members, and a description of the committee's and its members' responsibilities.	There is mention made on Page 7 (page 10/389) of the CIP Task Force and the City of Modesto Planning Commission, but no further explanation of who this team is made up of.	
	GFOA	The process should include a description of the role of the public and other external stakeholders in the process. The level and type of public participation should be consistent with community expectations and past experiences.	The CIP includes information about the external agencies who are involved in the process, but does not mention the role of the public.	
	GFOA	The program should note how decisions will be made in the capital planning process, including a structured process for prioritizing needs and allocating limited resources.	<p>The CIP book mentions that proposed projects are reviewed by the City of Modesto Planning Commission for General Plan Conformity before being forwarded to the City Council for review.</p> <p>Additional documents provided state the same (i.e., lack of detail and depth).</p>	
	Industry Best Practice	Program books should include a description of the budget process.	The CIP book is aligned with best practices.	

POLICY CATEGORY	SOURCE	BEST PRACTICE	THE CITY'S CURRENT CONDITION	RECOMMENDATION
Capital maintenance	GFOA	CIP books should include significant capital maintenance projects.	The CIP book is aligned with best practices.	
Financial and project data	Industry best practice	CIP books should include a description of the funding sources used to support CIP projects.	<p>Each project has a small mention of where the fund is coming from, but uses general blanket terms such as “Capital Fund” and “Capital Grants.” It is unclear if the funding is through grants, private borrowing, or City revenues.</p> <p>The Policy section in the AD 7.14 CIP Policy document outlines where funding will be received and some of the criteria needed to pursue each funding opportunity.</p>	
	Industry best practice	Program books should include a summary report of total dollar amount (for both sources and uses) of the capital program for the current budget year. Funded projects can be presented in a variety of ways, including by funding source, project by department, and project by project category.	The CIP book meets some of the requirements, choosing to break out projects by project category, but does not provide a summary report of the total dollar amount of the capital program for the current budget year.	
	Industry best practice	Program books should include a description of unfunded capital improvement projects, including overall estimated costs. Many cities include a full inventory of all unfunded projects in an appendix.	There is no list of unfunded projects in the CIP book. All projects in the CIP book seem to have some kind of funding; even projects that are in the design phase have some kind of funding behind them.	

POLICY CATEGORY	SOURCE	BEST PRACTICE	THE CITY'S CURRENT CONDITION	RECOMMENDATION
	Industry best practice	For projects programmed beyond the first year of the plan, cost projections should be adjusted for inflation.	CIP book does not meet this requirement.	
	Industry best practice	<p>For each funded project, program books should include project information, including at a minimum:</p> <ul style="list-style-type: none"> ● Project title ● Category ● Short project description ● Project status ● Funding source ● Clear estimate of lifecycle costs (including land acquisition needs, design, construction, contingency, and post-construction costs) ● Estimated anticipated ongoing impacts (operations and maintenance costs) to the City's operating budget (including costs to operate, maintain, administer, and renew or replace the capital asset) 	Although some of this information (e.g., description, title, and category) is included, the CIP book does not contain estimates of anticipated ongoing operations and maintenance costs or lifecycle costs. It was noted in our review that for some projects, the reported budgets were not reflective of the full project lifecycle.	

