

## **CAPITAL PLANNING IN GOVERNMENT ORGANIZATIONS**

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The last 15 months have been challenging for citizens, businesses, and government entities. Prior to the pandemic, many government entities were not prepared for long term success in a systematic way. Today, increased uncertainty makes it even more important to do multi-year planning. While we here at Fahrenheit strongly recommend that leaders of every organization reassess their strategic plans due to the changing environment, we also recognize a more immediate need for government entities to address capital planning.

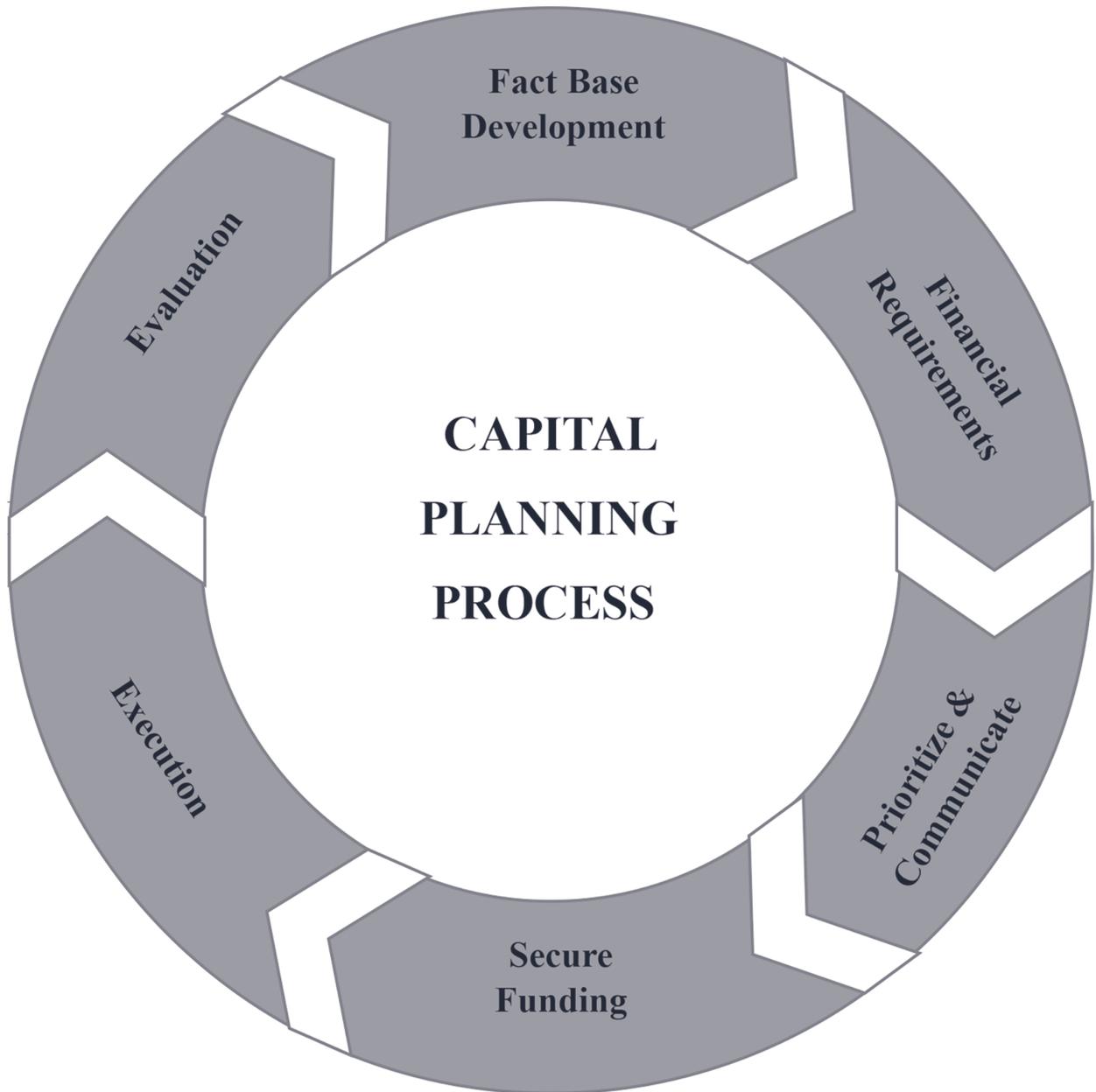
While capital planning is critical for both the private and public sectors, roads, bridges, and parks require a magnitude of capital that government entities struggle with at all levels. We are all painfully aware that infrastructure at the federal, state, and local levels need repair and this need has been woefully underfunded. Often, this is because other priorities emerge and it is easy to shift money from capital funds to pay for these priorities. However, this “kicking the can down the road” approach can lead to failing infrastructure, new taxes on residents, and ultimately community decline.

These actions also take place in the private sector, however private companies do not have the ability to raise revenue through taxation. Poorly run companies fail because customers can shop elsewhere. We have all seen companies go out of business (e.g., restaurants or fitness centers) and these closures are usually preceded by reduced investment.

Government entities do not have the option of closing their doors. Instead, communities decline through businesses leaving, fewer new business start-ups, residents moving away, home values declining and reductions in tax and license revenue. This decrease in revenue makes it more difficult to keep infrastructure in good repair and the cycle repeats itself. This raises several questions:

- How does your community ensure that it plans for and properly invests in its infrastructure?
- If your organization has not kept pace with its capital needs, how do you catch up and get back on track?

A properly implemented capital planning process creates a cycle of opportunity and prevents a cycle of decline.



### Capital Planning Cycle

**Fact Base Development** – The most important aspect of good decision making is using unbiased facts and data from which to base those decisions. This data needs to give you information to answer many questions:

- What is the current condition of your infrastructure including roads, bridges, parks and buildings?
- What is the average age of your equipment and vehicles? How does this compare to their expected lifespan?
- What is the normal capital replacement/major maintenance cycle? How does your current situation compare to market norms?
- Are there any emergency, life-safety related issues that have been ignored and need to be addressed immediately?

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**Financial Requirements** – Turn the fact base that is developed into information that can be used to drive decisions. The data should be used to understand the financial needs of the organization regarding capital, including:

- What is the projected annual cost for a normal replacement cycle?
- If you are behind this cycle, what is the cost to “close the gap” and return to normal over a 5 to 10-year period?
- What are the costs associated with emergency repairs?

**Prioritize & Communicate** - Every organization has more needs than capital to fund them, which requires spending prioritization. This can be accomplished once you understand the facts and financial needs. These priorities should be based on several factors that include life safety needs, public safety needs, emergency requirements, quality of life, wants versus needs, and fiscal constraints.

Throughout the process, communicate with stakeholders (i.e., constituents, businesses, etc.) to solicit input to help better define these priorities. Communication is critical because it helps stakeholders “buy into” the capital plan that is developed which will improve execution.

**Secure Funding** - The prioritized list of capital needs will need to be funded. First, understand the funding mechanisms that your organization currently has and if those existing mechanisms can fund a “normal” annual replacement cycle and annual capital maintenance.

If the answer is yes, any excess funding can be used for catching up or for new capital projects. However, if the answer is no, critical decisions will need to be made:

- Can operational efficiencies directly lower the capital costs or create savings that allow for these costs to be paid for?
- Can new on-going revenue sources be implemented that can close the gap and allow the organization to fund its capital needs on an on-going basis?
- Are all the capital requirements truly needed or can they be cut?

A critical step in this phase, is identifying other funding sources including, but not limited to, federal and state funding programs. These can often be used to fund a variety of an organization’s ongoing projects, freeing up funds to “catch up” on capital needs or fund quality of life related projects for your constituents.

**Execution** – A great fact base and plan means nothing if it is not properly executed. Proper execution requires expert sourcing, contract management and project management. All of these can be performed in-house or outsourced as the situation warrants.

**Evaluation** – As with all processes, track your organization’s performance relative to the plan. This information needs to be part of a continuous learning process for your organization and factored into the capital planning process going forward to make you more efficient and better stewards of your capital dollars.

The circumstances of the last year have brought many capital related issues to the forefront and highlighted the need to address these issues immediately. The pending federal relief funding may provide municipalities with an opportunity to address many of these needs. Organizations with a well-developed capital planning process will be in a better position to effectively use this funding to help your community take advantage of this opportunity and thrive in the future.

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**Fahrenheit Consulting Group, LLC** generates market insights to help clients focus on delivering what customers value most; develop and implement value maximizing growth strategies; and align an organization's strategy with the people responsible for execution. Fahrenheit combines senior advisor experience and a collaborative style to generate tangible action plans for clients. Fahrenheit's services include internal assessments, market assessments, growth strategy development, evaluation and planning and implementation. Industry experience includes government, manufacturing, construction, energy, medical devices, financial services, education, retail, residential services, technology and professional services.



**Keith Pekau** is a founding partner of Fahrenheit Consulting Group. Keith has over 20 years of management and business experience in the areas of strategic and capital planning, growth strategy, M&A due diligence and business valuations. Keith holds a B.S.E. in Aerospace Engineering from Arizona State University and received his MBA from the Fuqua School of Business at Duke University, graduating as a Fuqua Scholar. In addition, Keith is the Mayor of the Village of Orland Park, IL and has extensive experience in government planning and execution.



**David Rhoads** is a founding partner of Fahrenheit Consulting Group and Three Point Consulting with over 25 years of consulting experience in the areas of growth strategy, commercial due diligence and aligning incentives with major organization objectives. David has significant experience working with private and public schools in the areas of compensation, resource allocation and planning. David holds a BS in Economics from the University of Pennsylvania and received his MBA from the University of Chicago. In addition, David spent 10 years on the Board of Michelman, Inc., a global additives and coatings company in Cincinnati, Ohio.



**Jeff Kinsey** is a partner with Fahrenheit Consulting Group with 25 years of private sector senior executive management and 10 years in government/military service. He has extensive experience in long term strategic planning, allocating capital resources, and driving focused execution. He has an MBA from Northwestern University's Kellogg School of Management, a Bachelor of Science in Electrical Engineering from University of Cincinnati, and a Masters of Aerospace Science from Embry Riddle University.

## Services We Offer

### Financial Modeling

- Understand short and long term financial impacts of critical decisions
- Evaluate budgetary trade-offs

### Strategic Planning, Development and Evaluation

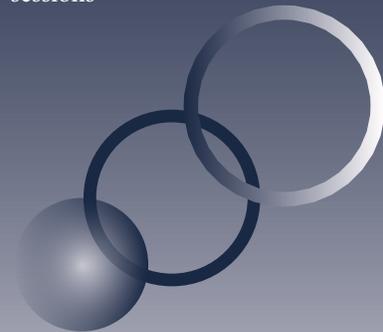
- Develop comprehensive strategic plans based on your community, values and objectives.
- Identify strategic alternatives
- Value and select alternatives

### Develop Compensation Plans

- Set performance goals
- Align compensation with goals
- Negotiation support for employment agreements and public sector contracts

### Execution Plans

- Implementation plans
- Communication strategy
- Documentation for public and executive sessions



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