



KING COUNTY AUDITOR'S OFFICE CAPITAL PROJECTS OVERSIGHT PROGRAM

SPECIAL STUDY ON CAPITAL PROJECT PRIORITIZATION CRITERIA

EXECUTIVE SUMMARY

At County Council's request, the King County Auditor's Office has drafted countywide criteria for prioritizing capital projects. The criteria can provide useful information to guide project decisions in the annual budget process while recognizing the unique characteristics of each project and differences in funding sources. They also address many of the goals included in the County's strategic plan. The draft criteria were adapted from current King County agency criteria and examples from other governments. They would need to be refined in partnership with the County Executive should County Council want to further develop countywide criteria.

King County's current prioritization process is decentralized, with each agency using its own process and criteria to select and prioritize capital projects for consideration in budget requests for capital improvement programs (CIP). There is no King County policy or code requiring countywide criteria or providing guidance for how agencies should develop criteria for their individual programs. There is also no comparison or presentation of relative priority of proposed projects considered during the budget process. We did not assess agency compliance to their existing prioritization guidelines or evaluate if King County's decentralized process needs improvement.

Our research confirmed the use of organization-wide criteria is identified as a best practice. We also identified numerous governments that use common criteria across their jurisdiction to prioritize capital projects. We interviewed two county governments to learn more about their programs. Both indicated they successfully use countywide criteria in combination with a joint executive/legislative review committee process to prioritize all major capital projects, including those funded by dedicated revenue sources. They reported this improved coordination among their capital programs. Depending upon the size of the capital program, a major time commitment by senior-level staff may be needed to follow this approach.

Limited information showing how capital project decisions are linked to agency prioritization criteria is readily available to the County Council and the public. Increasing the transparency of the existing process may provide benefits with less effort than developing and implementing new countywide criteria. We recommend that the County Executive explore ways to improve transparency into the current process.

Based on the experience of the other counties interviewed, there could be potential benefit to establishing countywide criteria for King County. Most notably, it could foster project coordination among agencies and facilitate clearer alignment of capital project decisions with the goals of the King County Strategic Plan.

Implementing a countywide prioritization process will increase the demand on council and agency resources already working on numerous countywide efforts to improve capital program management. We conclude that before deciding to further develop countywide criteria, policy-makers should weigh the potential incremental value of a countywide approach against the cost of and competing demands for the resources needed to implement and manage it.

King County Auditor's Office – Cheryle Broom, County Auditor

The King County Auditor's Office was created in 1969 by the King County Home Rule Charter as an independent agency within the legislative branch of county government. Its mission is to promote and improve performance, accountability and transparency in King County government through conducting objective and independent audits and services.

Capital Projects Oversight Program – Tina Rogers, Manager

The Capital Projects Oversight Program (CPO) was established within the auditor's office by the Metropolitan King County Council through Ordinance 15652 in 2006. Its goal is to promote the delivery of capital projects in accordance with the council- approved scope, schedule, and budget and to provide timely and accurate capital project reporting.

CPO oversight reports are available on the auditor's web site (www.kingcounty.gov/operations/auditor/reports) under the year of publication. Copies of reports can also be requested by mail at 516 Third Avenue, Rm. W-1033, Seattle, WA 98104, or by phone at 206-296-1655.

**ALTERNATIVE FORMATS AVAILABLE UPON REQUEST
CONTACT 206-296-1655 OR TTY 206-296-1024**

INTRODUCTION

As part of the auditor's office work program, the County Council requested that we identify potential countywide criteria for prioritizing capital projects. Such criteria could be useful for evaluating projects for funding during the annual budget process, while recognizing the unique characteristics of each project and differences in funding sources.

To fulfill this request, the auditor's office researched the current prioritization criteria and practices used by county agencies and reviewed the County's strategic plan. We also researched the capital project decision-making practices used or recommended by other government jurisdictions and professional organizations. We did not evaluate the effectiveness of either King County's current prioritization practices or the prioritization practices used by peer governments.

The criteria we identified are presented on page 5. If the County Council wishes to pursue use of countywide prioritization criteria, these draft criteria could be used as a starting point for development of a process to refine and use common criteria to inform decisions on capital projects.

KING COUNTY'S CURRENT PRIORITIZATION PROCESS

The current prioritization process is decentralized. Code provides only limited guidance on prioritization. The transparency of the current process could be improved.

King County Code Requirements

The County's existing prioritization process for selecting capital projects for funding is decentralized. King County Code (KCC) does not provide countywide prioritization criteria or define how divisions should develop their own:

- KCC 4.04.020.O.1.h. "Capital improvement plan" requires that user agencies prepare "a schedule, that extends over a minimum of six years, for the implementation of projects included in capital improvement plans, based on overall user agency priorities and projected available revenue."
- KCC 4.04.247.A.2. "CIP supporting data – procedures" for submitting capital budget appropriation ordinances to council, requires the executive to submit for each project, "a brief description of the project and the project's purpose, including importance with respect to the implementing agency's priorities and goals, and consequences of deferral or disapproval."
- KCC 4.04.266.A.3. "Major maintenance financial program" requires a "proposed major maintenance program plan, which is the prioritized list of projects transmitted to the council with and funded by the annual major maintenance fund budget request..."

Prioritization information at the agency level is available from a variety of sources, including annual or biennial capital budget requests, agency strategic plans, and agency websites. Attachment A provides a summary of the prioritization criteria shown for the County's major capital improvement programs.

Transparency

Information available to the County Council and to the public regarding how capital projects are prioritized by individual agencies is limited. There is no countywide summary of capital improvement program priorities. While we located a list of criteria considered by each agency, we found limited information on how these criteria are used to inform which projects are included in capital budget requests. We did not find information on why certain projects move forward to a budget request while others do not. This makes it difficult to monitor agency progress meeting their capital program goals. This is inconsistent with the best practices identified in the studies on capital project decision-making summarized below.

Recommendation

The County Executive should explore ways to improve the transparency of agency capital project priorities.

BEST PRACTICE STUDIES AND COUNTY GOVERNMENT EXAMPLES

Two national studies recommend using organization-wide criteria as a best practice for capital project decision-making. Other counties report benefits from using countywide criteria.

Best Practice Studies

Our research found two national studies on capital project financing and decision-making that recommend use of organization-wide prioritization criteria as a best practice. Both studies identify best practices in other areas of capital program management that are important to effective use of capital program investments.

U.S. Government Accountability Office (GAO) Study

GAO included prioritization in a 1998 study requested by Congress on capital program decision-making titled “Executive Guide: Leading Practices in Capital Decision-Making” (GAO/AIMD-99-32). GAO studied the capital planning processes used by four Fortune 500 companies, five states, one county, and two cities identified as “leading” organizations by academia, professional/industry groups, and the news media. The federal Office of Management and Budget adopted GAO’s recommendations on best practices for capital project selection and monitoring in its “Capital Programming Guide,” for use by federal agencies. They include:

- Assessing capital projects as a portfolio across the organization, including ranking and selecting projects based on pre-established criteria reflecting the long-range vision embodied in the strategic plan.
- Using executive review committees to make project selections.
- Developing measurable goals and performance measures.
- Tracking project cost, schedule, and performance.

National Association of State Budget Officers (NASBO) Study

NASBO researched prioritization as part of a 1999 study titled, “Capital Budgeting in the States.” The study reviewed the capital budgeting practices used by all 50 states and the Commonwealth of Puerto Rico. NASBO identified the following “good practices” based on the feedback received from their members and an analysis of each state’s capital financing results:

- Identifying the criteria used in selecting capital projects and assessing how actual project selection compares to the priority list.
- Ensuring that effective legislative involvement occurs throughout the capital budgeting process, including establishing specific oversight boards, if needed, to help foster communication between the legislative and executive branches.
- Defining all program outcomes for capital investments, including linking performance measures to capital projects to mirror the effort going on in operating budgets.
- Establishing a tracking system to keep projects on schedule and within budget. It should be ongoing and serve as an early warning device for projects that are exceeding cost and schedule projections.

County Government Examples

Through internet research, we found five counties, four states, and five cities nationwide that use organization-wide criteria to prioritize capital projects. We did not conduct an exhaustive survey, so cannot say how widespread this practice may be. We selected Orange County, FL and the City and County of San Francisco, CA for further study because their capital programs are similar to or exceed the size and scope of King County's effort. In addition to reviewing the materials included in their websites, we interviewed the key staff in charge of the prioritization process for the capital programs for both counties.

Exhibit 1 compares the capital programs of the two selected peers to King County's CIP.

Exhibit 1: Capital Program Comparison

Capital Improvement Program (CIP) Criteria	Orange County, FL	City and County of San Francisco, CA	King County
Most Recent Adopted CIP Budget	\$1.2 billion (2011-2015)	\$14.5 billion (2012-2016)	\$2.7 billion (2011-2016)
CIP Scope Compared to King County	<u>Missing Programs</u> <ul style="list-style-type: none"> • Regional Medical Center <u>Additional Programs</u> <ul style="list-style-type: none"> • Convention Center • Fire Department • K-12 Public School System 	<u>Missing Programs</u> <ul style="list-style-type: none"> • None <u>Additional Programs</u> <ul style="list-style-type: none"> • Convention Center • Major International Airport • K-College Public School System • Major Port • Fire Department • Police Department • Library System • Museum System • Regional Water System (covers entire cross-county Bay Area) 	N/A

Both Orange County and San Francisco use the practices below to prioritize capital projects as part of their annual budget process:

- Countywide prioritization criteria.
- An executive review committee process to review all major capital project requests:
 - * Committee membership includes department heads and senior legislative staff.
 - * Committee members evaluate all projects, including their own.
 - * Projects funded by dedicated revenue sources are included.

Neither county ranks projects in priority order, allowing them flexibility to consider unique opportunities and input by elected officials. San Francisco reported their process involves a significant time commitment by department heads and senior legislative staff, including meetings every two weeks for six months during capital budget development and monthly meetings thereafter. Most meetings last approximately two hours. Their committee also reviews all supplemental capital budget requests. San Francisco publishes a countywide list reporting on the status of its major capital projects, including explaining the reasons behind delays, holds, or cancellations. This list is published on a website called “OneSF – Building Our Future” (<http://onesanfrancisco.org/>) which provides extensive information about their capital improvement program.

Orange County reported their recent review process has involved only two to three annual meetings, each lasting approximately two hours. This may be because they are not planning any new capital improvements due to revenue shortages. Also, their committee reviews only initial appropriation requests.

Countywide Prioritization Benefits

Orange County and San Francisco reported that the countywide prioritization approach has been successful for them. Both counties cited improved coordination among capital improvement programs. San Francisco reported that their program, including the web-based “OneSF” outreach effort, has improved public understanding of their capital improvement funding needs and how projects align with their strategic plan. They believe this has contributed to voter approval of three capital bond measures totaling \$1.5 billion since 2005.

DRAFT PRIORITIZATION CRITERIA FOR KING COUNTY

The auditor’s office has drafted countywide criteria shown in Exhibit 2 in response to County Council’s request. The criteria reflect our review of the County’s strategic plan and the existing prioritization criteria published by King County agencies and peer governments. We developed the draft criteria to recognize differences between project types, funding sources, and individual agency goals. To be useful for evaluating projects for capital budget decisions, the draft criteria would need to be refined, and definitions, rating metrics, and a review process developed. Based on our research, development and implementation should involve collaboration between the executive and legislative branches of county government.

Exhibit 2: Draft Countywide Prioritization Criteria with Strategic Plan Alignment

Criteria (Not in priority order)	King County Strategic Plan Alignment
<p><u>Project Urgency</u> <i>Projects addressing <u>imminent</u>:</i> a. Life safety emergencies b. Public health emergencies c. Legal liability d. Threats to county operations</p>	All goals
<p><u>Strategic Plan Alignment</u> <i>Project relationship to:</i> a. County strategic plan b. County space plan c. Division strategic plan d. Division operational master plan</p>	All goals
<p><u>Government Effectiveness</u> <i>Projects supporting:</i> a. Critical program or service delivery b. Customer service improvements (access, timeliness and satisfaction) c. Quality workforce goals d. Operational cost savings e. Regional collaboration</p>	<u>Service Excellence</u> Financial Stewardship <u>Quality Workforce</u> Public Engagement
<p><u>Community Vitality</u> <i>Projects contributing to:</i> a. Public health, safety, and welfare b. Social justice and equity c. Economic growth d. Cultural and recreational opportunities</p>	<u>Health & Human Potential</u> Economic Growth & Built Environment
<p><u>Environmental Sustainability</u> <i>Projects contributing to natural resources and environmental:</i> a. Protection b. Restoration c. Impact reduction</p>	<u>Environmental Sustainability</u> Health & Human Potential
<p><u>Financial Stewardship</u> <i>Projects offering:</i> a. Cost effective solutions b. Revenue potential c. Outside funding and partnership availability d. Impact on ongoing operational costs</p>	Financial Stewardship
<p><u>Asset Preservation</u> <i>Projects preserving existing assets:</i> a. Scheduled replacement b. Deferred maintenance c. Historical value</p>	<u>Financial Stewardship</u> Economic Growth & Built Environment

BENEFITS AND LIMITATIONS OF IMPLEMENTING COUNTYWIDE CRITERIA

The auditor's office did not estimate or compare the benefits and costs of implementing countywide criteria for King County. Agency resources are limited and are currently working on numerous countywide efforts to improve other aspects of capital program management.

Potential Benefits

We did not evaluate the extent to which establishing a countywide process might benefit King County, but based on our study, there would be some potential benefit. Both county governments interviewed told us that including all capital programs in the same prioritization and review process fosters project coordination among agencies. In addition, development and use of countywide criteria could facilitate the alignment of individual agency capital program priorities with the goals of 2010-2014 King County Strategic Plan adopted July 2010.

Limitations

We did not estimate the cost of developing a countywide prioritization process for King County. Implementing an organization-wide prioritization process could require substantially modifying King County's current prioritization framework. Refining the criteria and developing metrics and a project review process may be a major undertaking. Ongoing review of project priorities, using newly developed criteria and a joint executive/legislative branch review committee process following the best practice guidance could require a substantial time commitment by department heads and council and agency staff.

Revenue restrictions, state law, and debt service obligations limit the County's flexibility to allocate funds to projects in one capital program from another program. Although the other county governments interviewed also face this limitation, they include all capital programs in the same prioritization review process to confirm project priorities within dedicated revenue sources and help foster coordination of projects among agencies.

The County has engaged in efforts to improve capital program management since the County Council requested this study. In some cases, the benefits of recently completed initiatives may not yet be fully realized. To varying degrees, each of the initiatives described below involves ongoing investment of agency resources to develop and implement changes. The demands on agency resources for these efforts should be considered in any decision to modify the current prioritization process.

- Executive Order CIP 8-1 "Development and Implementation of Consistent, Comprehensive Standards for Reporting, Management, and Performance Measurement of Capital Projects"
- Ordinance 16764 Enhanced CIP Reporting and Phased Funding Requirements for High Risk Projects
- Accountable Business Transformation Program (ABT) capital budgeting and finance system improvements
- Executive's proposed revision to King County Code Title 4.04, "Budgeting and Reporting System"

CONCLUSION

Before moving forward with further development of countywide criteria and a countywide system of applying it, policy-makers should weigh the potential incremental value of this approach against the cost of and competing demands for the resources needed to implement and manage it.

ACKNOWLEDGEMENTS

We appreciate the cooperation of the following county capital improvement programs during our study: Airport, Facilities Management Division, Office of Information Resource Management, Parks and Recreation, Roads, Solid Waste, Metro Transit, Water and Land Resources, and Wastewater Treatment. No presentations to County Council are scheduled at this time. Should you have questions or comments regarding this study, please contact Tom Wood, Capital Projects Oversight Analyst or Tina Rogers, Capital Projects Oversight Manager.

DISTRIBUTION

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ATTACHMENT

Attachment A—Capital Improvement Program Prioritization Criteria

Attachment A

Capital Improvement Program Prioritization Criteria

Capital Improvement Program	Prioritization Criteria
Airport	Regulatory, Safety, Efficiency, Business plan
General Government Technology	Accountability, Customer service/accessibility, Efficiency, Risk management (note consistent criteria applied to technology projects in all Capital Improvement Programs)
General Government Major Maintenance	Scheduled replacement year, Building importance, Safety, Asset preservation, Operational efficiency, Facility appearance
General Government Facilities	Critical long-term policy need, Adequacy to meet need, Essential service or program, Programmatic need in operational or facilities master plan, Service delivery improvement, Revenue enhancement, Life-safety, Minimal operational standard, Critical implementation
Health - Harborview Medical Center	Life-safety, Clinical and patient needs, Operational efficiency, Asset preservation
Housing	Feasibility; Geographic distribution; Strength of application; Addresses adopted priorities and strategies; Addresses needs of target population; Agency past performance, experience and stability; Distribution across housing needs and target populations
Law, Safety, Justice Facilities	Remedy deficient health, safety, security condition; Regulatory; Master plan, Cost savings with sufficient return; Asset preservation; Capacity expansion; Staff effectiveness and efficiency
Open Space	Wildlife habitat or rare plant reserve; Salmon habitat and aquatic resources; Scenic resources; Community separator; Historic/cultural resources; Urban natural area/greenbelt; Park, open space or natural corridor addition; Passive recreation in area with unmet needs; Educational opportunity; Threat of loss; Feasibility; Partnership; Identification in plans; Transfer of development credits
Parks	Safety, Asset stewardship, Revenue potential, Operational partnerships, Supports new programs without new maintenance costs, Transfer of pools/parks in urban areas

Attachment A (cont.)

Capital Improvement Program	Prioritization Criteria
Roads	<p>Bridges – Sufficiency rating, Seismic rating, Geometrics, Hydraulics, Load limits, Traffic safety, Serviceability, Importance, Useful life, Structural concern</p> <p>Transportation – Safety, Efficiency, Assess preservation, Capacity addition</p>
Solid Waste	<p>Regulatory mandates, Comprehensive and site development plans, Asset Preservation, Capacity evaluations, Customer/operations impact</p>
Surface Water Management	<p>Stormwater – Problem severity; Urgency; Number affected; Legal liability/obligation; Service commitment; Community interest, opportunity, need and expense; Project readiness; Cost-benefit; Scalability; Availability of funding</p> <p>Rural and Regional – Ecological benefit, Effectiveness, Readiness, Urgency, Geographic spread, Availability of external funding/match requirements</p>
Transit	<p>Asset preservation, Aging fleet replacement, Service delivery per strategic plan, Efficiency/productivity enhancement offsetting cost, Partnerships</p>
Wastewater Treatment	<p>Major Capital – Regional capacity needs; Public health, safety, and property; Regulatory or contractual requirements; Natural resources protection; Cost savings</p> <p>Asset Management – Service disruption and impacts from failure, Employee safety, Regulatory or contractual requirements, Useful life, Cost savings</p>