CFO's guide to capital planning

Everything you need to know to set up your agency's capital program for success

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Contents

If you are a current Chief Financial Officer (CFO) or aspiring to be one, this guide will explain how the CFO and their team play an intricate and crucial role in an agency's capital program. While every agency is modeled and operated differently, specific responsibilities are typical in any organization. Their associated goals and strategies should be considered when growing and managing the finance team.

A dedicated financial leader is essential to an agency's success. A CFO is responsible for compliance with all laws, rules, and standards that govern the organization's fiscal operations. They must provide accurate and objective information for key stakeholders and ensure the most efficient use of state or local resources. This is no small task.

Having the right finance team in place will help the ship sail smoothly. This guide will provide a broad outline of key members that ideally should be on the finance team and their responsibilities.

01

An introduction to the finance team

Many finance arms of an agency organize themselves to carry out financial tasks successfully. Having the right team in place should be a priority when evaluating the financial department within your agency. Typically, there are two critical activity groups for this team.

Accounting: The management of the fiscal activities of the funds that the agency *has* spent.
Finance: The management of the fiscal activities of the funds that the agency *will* spend.

Derivations from these two overarching groups can justify additional groups in the organizational chart, such as a business office or a Capital Planning & Programming Director. While every agency is structured differently, and some finance groups include non-financial activities, such as human resources or procurement and contracting, these core fiscal roles can be used as a guideline for the positions you may look to include.

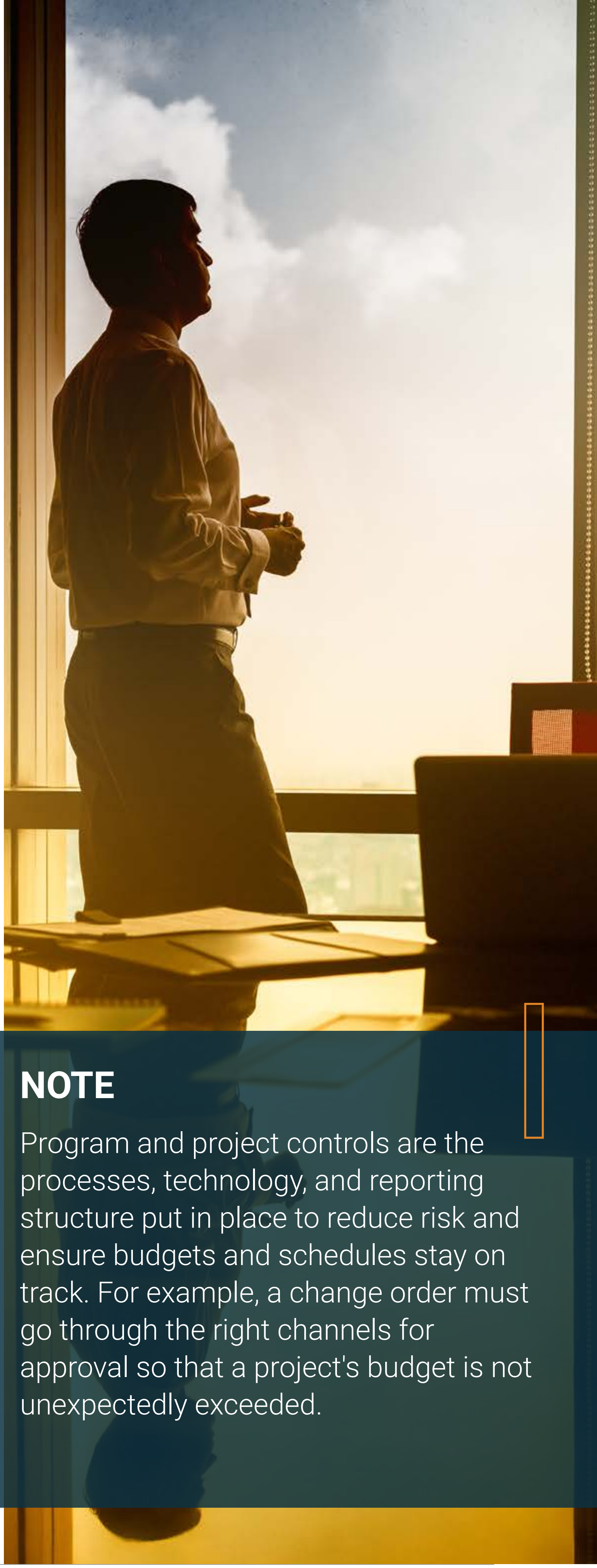
It is important to note that the CFO will be the person setting the precedent for predefined processes of essentially everything the capital planning team does. From approving a budget or updating a project's state, a good CFO and team will establish consistent processes, resulting in quicker turnaround times, faster onboarding, and transparency regarding project statuses.

Accounting/Controller

The Controller is your team's Certified Public Accountant (CPA), who will focus on the funds the agency has spent. The Controller will understand the organization's fiscal laws, rules, and standards. A suitable Controller allows the CFO to focus on strategy, not daily minutia. This group certifies the Comprehensive Annual Financial Report (CAFR), coordinates with auditors, oversees payroll, handles accounts receivable and accounts payable, while ensuring that the organization manages its financial affairs 'by the book.' A Controller may or may not handle 'controls' for the programs and projects within the organization. Despite the position's name, another group may oversee those responsibilities within the organization.

Finance/Budget Director

The Budget Director is a forward-looking individual who understands the implications of policies on revenues and expenses. Some organizations bestow significant authority to this role as the gatekeeper of funding. At the highest budget level, the Budget Director forecasts revenue streams (sources) and manages how those revenues should be allocated (uses). At the project or program budget level, the Budget Director may be responsible for controls and change management by either overseeing or facilitating the movement of funding. Some agencies will even grant this position authority in change management related to scope and schedule.



NOTE

Program and project controls are the processes, technology, and reporting structure put in place to reduce risk and ensure budgets and schedules stay on track. For example, a change order must go through the right channels for approval so that a project's budget is not unexpectedly exceeded.

Business Office/Analyst

The business office will handle a capital organization's day-to-day transactions. This office requires continual interaction with those that deliver the capital program, adjust project and program budgets, coordinate with other agencies on jointly funded projects, keep a watchful eye on project schedules, and handle other important tasks. With the proliferation of technology and data, these roles have evolved to provide more helpful analyses that support strategy and decision making throughout the organization.

The Business Analyst is your technology expert who will not only know the ins and outs of your finance software but also how to interpret, visualize, and explain the data. Therefore, this group may be vested with performance reporting, which could be related to just finance or all the agency's performance measures.

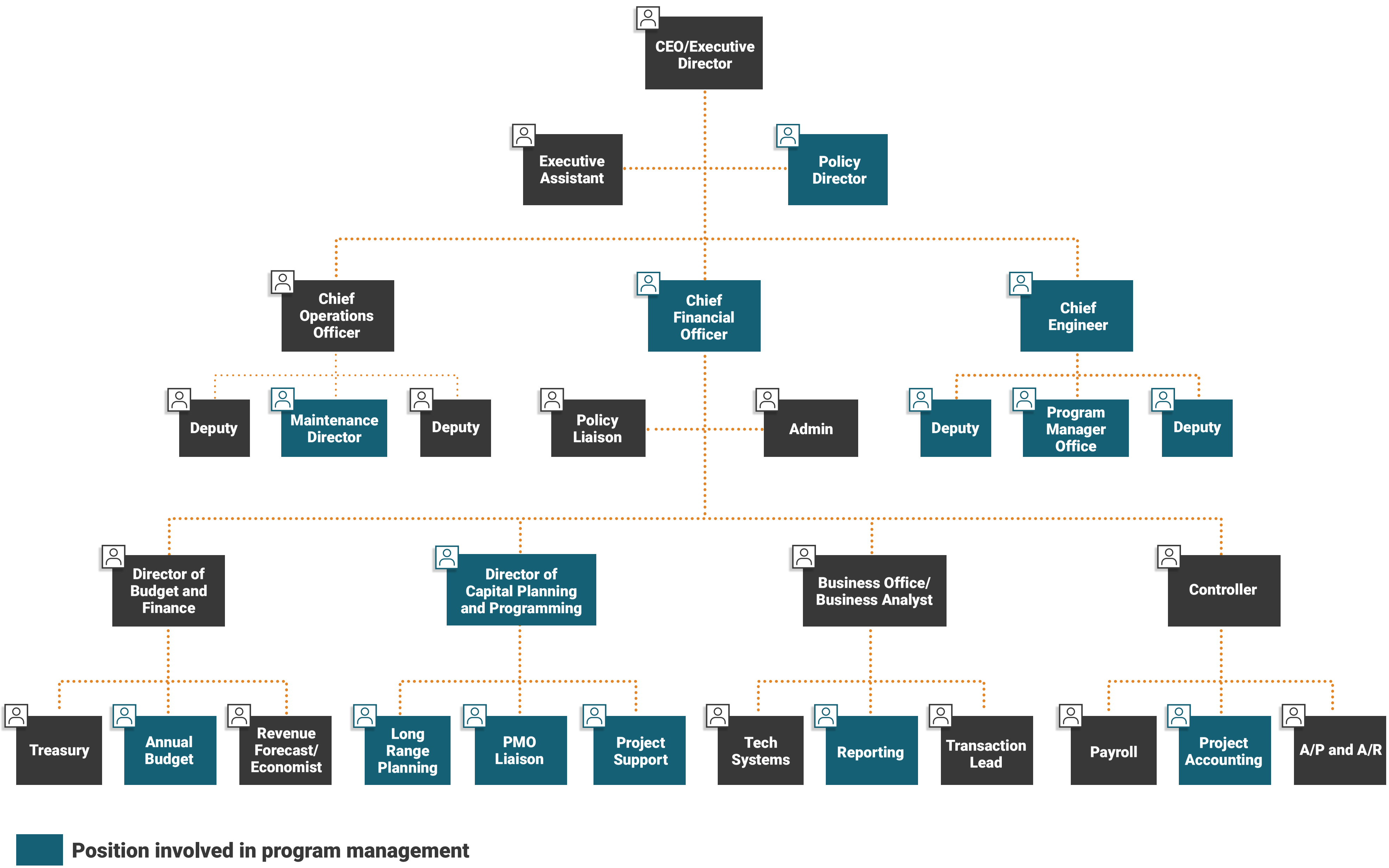
Capital Planning/Program Director

Your Capital Planning Director will mediate between the finance department and the engineering team. This link between the two is critical for communication. Many organizations spread these activities among the three prior groups. Organizations that focus on capital programs, such as state departments of transportation, may contend that capital planning and programming is the core function of the Budget Director. However, other organizations, such as cities or counties, have many missions beyond capital projects and, for this reason, may create a separate group to work with those projects' deliverers. Depending on the CFO's authority, this group may help prioritize tasks, influence the project's scope, and serve on change boards or other committees that set capital planning and programming policies.

Administrative roles

For this document, this group serves as a 'catch-all' to pick up activities assigned to the CFO. This may have less to do with finances and more to do with operations. These operations may include specific responsibilities related to legal agreements, procurement and contracting, human resources, and other essential tasks. As many of these activities have little direct connection to capital planning, they will not be covered here.

Organizational Chart | From the CFO's perspective



02

Areas of responsibility

Controller

Transactional responsibilities

The accounting team typically handles day-to-day transactions for the organization: accounts payable (due to others) and receivable (due from others), payroll, mandated report filing, and other transactions. However, the Controller must ensure that capital payments are made appropriately and are tracked to follow the resulting asset's value.

The audit

The Controller usually oversees any financial or performance audit assigned to an organization. For a state agency, an elected State Auditor, a federal governing body that provides funding, or an independent third-party auditor (such as a public accounting firm) may perform the audit. Likewise, the State or Federal agency that provides funding may audit a local agency.

Understanding requirements

Monetary requirements are often two-fold. First, you have the funding source requirements (where the money is coming from), and second, the conditions around how the money can be spent.

Understanding these requirements can be a very nuanced process and often requires knowledge on a state and local level. A hierarchy of requirements begins at the top by understanding the rules and regulations of spending. The requirements a controller must know intimately fall into three main areas: federal, state, and local.

Federal requirements

Many agencies, even those that are state or local, receive some portion of funding from the Federal Government. With that funding comes many requirements around the eligibility and timing of expenditures, progress reporting, environmental and other clearances, and more.

Examples of governing agencies that provide funding include the United States Department of Transportation (USDOT) and the United States Department of Housing and Urban Development (HUD).

Each agency that provides funding may have different requirements. Additionally, there are Internal Revenue Service (IRS) requirements related to funding, such as municipal bonds and capitalization of assets. Your Controller should understand the nuances of each organization's needs.

State requirements

State requirements can be derived from your state's constitution or statutes. They may change with the passing of legislation or public votes. Some states, for example, have constitutional requirements concerning a balanced budget mandating that expenditures never exceed revenues, or they might require tax increases and bonding measures to go before public votes. A controller will be familiar with these requirements and stay updated on any changes.

Local requirements

City Councils are often the municipality's legislative body and have the authority to pass ordinances and adopt budgets. Whether it is for a city, a school district, an airport, a transit agency, or something else, most local jurisdictions establish fiscal requirements through their governing board that the Controller must adhere to.

Furthermore, the Government Account Standards Board (GASB), an independent, private sector organization based in Norwalk, Connecticut, establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

Budget Director

Understanding funding sources and uses

While your Controller will understand the nuanced business of requirements, your budget director will know the depths of the actual funding sources and their uses. With funding, revenues (sources) and expenditures (uses) will form the capital stack of a capital program or project.

Once your finance team understands the requirements, you can then understand the flow of funding and what you can and can't control.

The budget director will keep track of the operating dollars versus the capital spending. The sources must be tracked at the program and project levels, and some revenue sources can only be spent on specific uses. For example, when funds from the federal Infrastructure Investment & Jobs Act (IIJA) are granted to an agency, the funding must be spent on the project, as described in the grant application.

Establishing and monitoring budgets

Annual or semi-annual budget

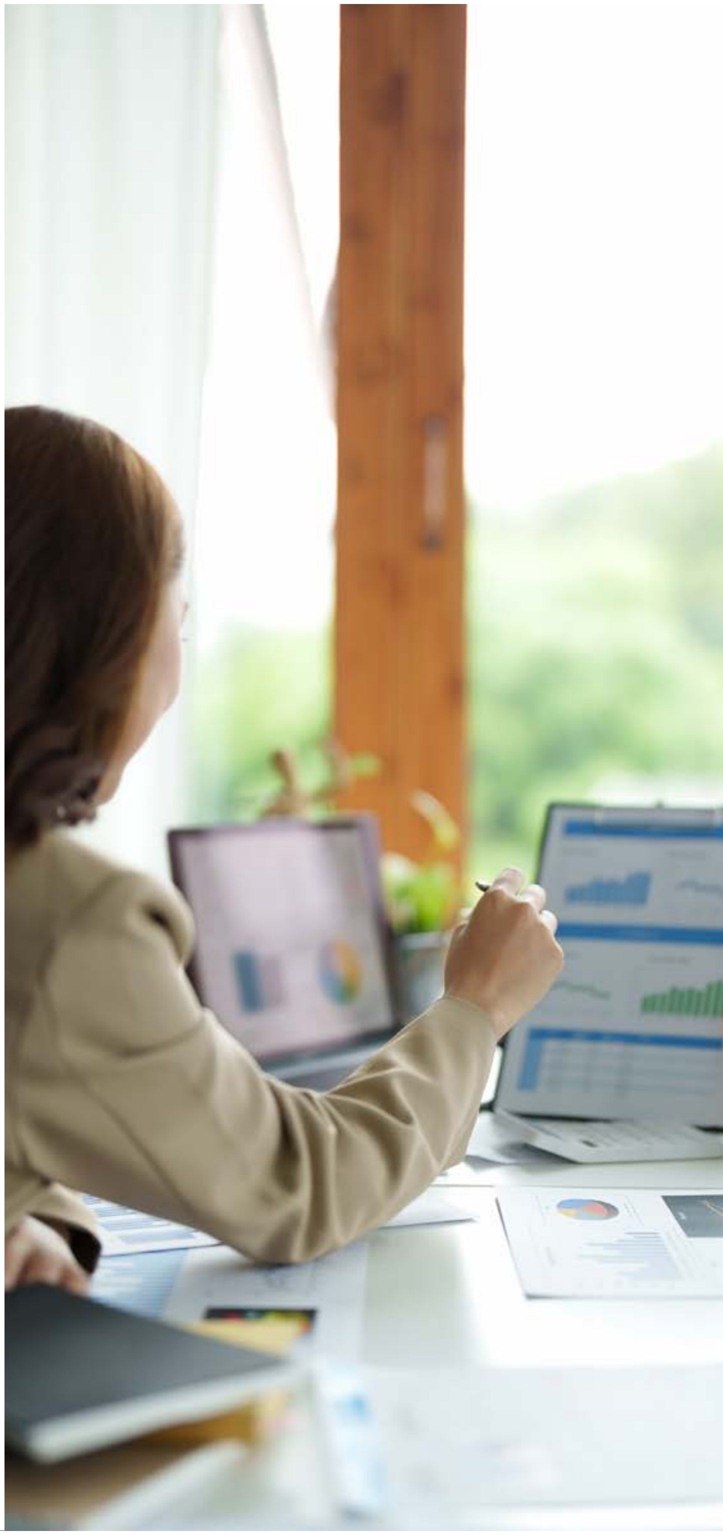
The Budget Director guides the budget-setting process for any given budget cycle, whether yearly or semi-annually. The process is usually collaborative with the directors that oversee their respective budgets and typically involves approval from a governing board. Budgets are seldom static. Your budget director will know if revenues exceed or fall short of expectations, which could require programmatic budgets to be increased or decreased.

Program budgets

A process often referred to as program distribution or resource allocation determines who gets what money. Specific funding sources may be cross-walked directly to a single program by the source's requirements. Others are discretionary and may be allocated to several programs. The Budget Director should take their responsibility of establishing a budget with the appropriate level of detail seriously. Too much detail can restrict the capital directors' ability to move funds and spend money on projects expeditiously. While too little detail risks a lack of accountability over capital reporting.

Project budgets

Some organizations entrust project budget responsibility solely to the project manager or the program director. Other organizations allow the Budget Director or the Capital Planning/Programming lead as a Controls agent, approving changes to scope, schedule, or budget as a formal process. Where this falls will depend on how your organization is built.



Business Office/Analyst

Controls

Large organizations may choose to dedicate a portion of the CFO's staff to a business office and assign responsibilities that may lie with Budget Directors in smaller organizations. This office, for example, often maintains responsibility for program and project controls. It may also take a role in aligning funds to expenditures, ensuring the most urgent funds are spent first.

Analytics

The Business Analyst will watch for trends (overspending, underspending, rising unit costs, sliding schedules, lagging groups within the agency, and others) and adherence to performance objectives. This office may be the agency's lead for performance reporting and dashboarding.

Digital tools

Agencies are increasingly enabling technology to make their jobs easier and work smarter. The business office is vital in leveraging an enterprise resource planning solution for the organization's benefit. It may also take the lead in implementing a capital planning solution. This group may assist the engineering organization with cost estimation and schedule management, as well as ensuring proper data integration between systems to avoid duplication or errors.

Capital planning and programming group

Program distribution and resource allocation

Like the business office, a Capital Planning and Programming group can lead specific accounting and budgeting responsibilities for a large organization. Assigning capital funds, whether once or over a year or a more extended period, is critical in a capital organization.

Program and project prioritization

CFOs need to be resident experts in project prioritization. The planning group often spearheads the discussion on prioritizing available funding. Prioritization often happens between:

- Maintenance or capital
- Asset class 1 or asset class 2
- Safety or environmental
- Project 1 or project 2
- A fully scoped project or a budget-constrained, partially scoped project

Timing of funding

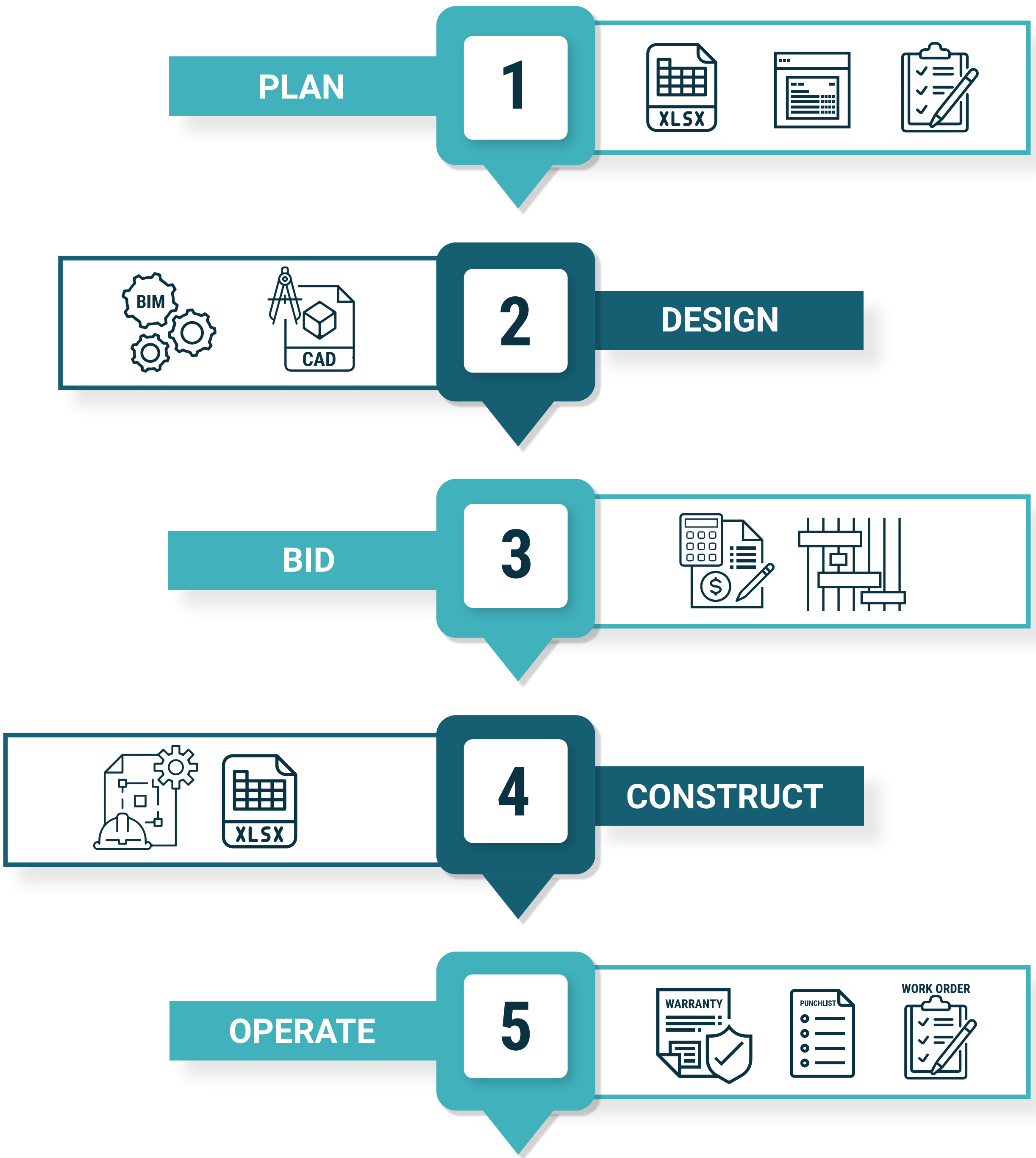
The capital planning and programming group will help ensure that funds arrive when needed to procure a project and do not sit needlessly idle for extended periods.

Risk management

The capital planning and programming group will minimize the risk of timing. This office should understand the inherent political, financial, and engineering risks associated with the underfunding or expeditious delivery of critical projects. Risk can be managed at the organization, program, or project level.

Understanding the lifecycle of a capital program

The capital planning and programming director or group will understand the details of the entire capital program lifecycle. The capital program lifecycle has many moving parts, from the planning phase to budgeting to controls. It will require the finance team to work in sync with the help of this group.



Administration and additional relationships

Relationship management

In smaller organizations, a CFO may play a significant role as a liaison to City Council, a state legislature, the Mayor, or Governor. The CFO may dedicate an entire office to government relations if such an office does not exist independently.

CFO and legal

A CFO must coordinate closely with the Chief Legal Office, whether an Attorney General or the organization's legal staff. CFOs may retain their attorneys, such as bond counsel, for bonding responsibilities.

CFO and engineers

A Chief Engineer is often accountable for the capital program in many large organizations. The CFO must work closely with this individual or group and may assign a Capital Planning and Programming Director or an Administration Team member to serve as a liaison.

Human Resources (HR)

Often, the HR operations role will fall under the CFO's umbrella. Some CFOs have more than one fiscal responsibility and can be charged with oversight of personnel, procurement and contracting, or other operational activities.

03

Technology to support the finance team

An unseen supporting team member can be enlisted to help a CFO and the finance team manage the entire capital planning process: technology. Moving an organization to a cloud-based capital planning solution will help speed up the program approval time, improve collaboration, and deliver outcomes effectively. With a single application to automate and manage your entire Capital Improvement Project (CIP) process from start to finish, your agency will save time, money, and stress while meeting strategic objectives more quickly.

Each part of the finance team will benefit from a centralized capital planning solution. The system will drive consistent processes throughout the capital planning team and carry them through the organization. These predefined processes can be configured for different project or department types and can consider variables, such as dollar amounts or specific people, for approvals.

Controller

Let your controller plan confidently, knowing that they are working with the latest data and a comprehensive view of strategic priorities, projects, and costs all in one place.

Budget Director

Put your budget to the best use over the years with a centralized planning process that considers strategic objectives, costs, risks, and impact analysis. Your Budget Director will quickly determine where the money comes from for each project with detailed funding sources, allocation, and tracking. The Budget Director can perform theoretical forecasting and run what-if analyses for different scenarios.

Business Office/Analyst

The business analysts will accurately ensure the agency doesn't run out of money using multiyear cash flow forecasting and contingency plans that take inflation and interest capitalization into account over the entire CIP.

Capital Planning/Program Director

Capital planning software will help the capital planning and program director de-risk capital projects in advance with contingency measures defined up front as part of each project or program. Additionally, using project scoring to determine rankings will help ease the project prioritization process. You will be able to predict fund spending throughout the project lifecycle with accurate forecasting in a capital planning software solution.

Administrative

Ease the administrative burden by centrally storing data in one location, eliminating paperwork, and tracking down information.

04 Final thoughts

Having the right capital planning team working in tandem with the CFO is critical to the success of your program. Whether responsible for compliance with laws, rules, and standards or providing accurate and objective information to stakeholders, ensuring your agency uses the most efficient state or local resources can make or break your capital program. In addition to the right team, the right tools and systems will further accelerate your team's capital planning success.

A capital planning system will help the team interpret, visualize, and easily share program data. Aurigo Masterworks' capital planning product brings together everything your team needs for capital planning success. From clear strategic priorities, projects, programs, forecasting, and what-if analyses to efficiently communicating and collaborating across all stakeholders, Masterworks will equip your capital planning team with the tools needed to ensure your projects are on time and within budget.

About Aurigo Software

Aurigo builds software that helps build the world. Aurigo is an AI-native company that helps capital owners connect planning, construction, and operations in a single environment, improving decision-making and execution. Trusted by over 300 organizations across infrastructure and facilities, Aurigo manages more than $450 billion in capital programs, with over 40,000 projects throughout North America. Aurigo is a privately held U.S. corporation headquartered in Austin, Texas, with global offices in Canada, South Africa, and India.

Learn more at www.aurigo.com

Schedule a demo

Schedule your demo today to learn how Aurigo Masterworks can help your organization streamline information, accurately track, forecast, and prioritize projects, and help you save time and money.

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