

THE CAPITAL IMPROVEMENT PROGRAM CITY OF SZCZECIN CASE STUDY

Developed in collaboration with the
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and the Center for Urban Development Studies,
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1. Introduction

Each year local governments devote a large portion of the budget to capital projects to maintain and expand public facilities and infrastructure. Ongoing delivery of services can be assured only if adequate consideration is given to capital needs. If local governments fail to maintain their capital stock, facilities and infrastructure will deteriorate to the point where costly maintenance is required, services are threatened, and community growth stagnates or even declines. Whether the community is growing, stable, or losing population, local governments need to plan and budget for capital assets to maintain existing infrastructure and to meet future demand. A Capital Investment Program (CIP) is a tool that can help governments ensure that decisions on capital projects and funding are made wisely.

Szczecin is a city of 420,000 people in the northwest corner of Poland. It was one of the very first Polish cities to implement a Capital Improvement Plan in the mid 1990s. A long-term (four years) investment plan and a long-term financial forecast enabled the City to improve its city management and incorporate more strategic approaches. Prior to the CIP Szczecin only implemented an annual budget and one-year improvement plans. As a result, the links between strategy and operational activities were very weak.

2. Case Study: Szczecin: Background Information

Szczecin's history stretches back nearly one thousand years to an era when the City was one of the most powerful ports and trade centers on the Baltic. As the strategically positioned capital of the Western Pomerania Region, Szczecin suffered numerous armed interventions from adjoining nations--Denmark, Sweden, Brandenburg and Germany. At the end of the 19th century, the City experienced a period of particularly dynamic economic development, attracting capital investment from all over Europe. As a result, the seaport maritime economy and cargo transport developed extremely rapidly.

After the end of the Second World War, settlers from all over Poland migrated to Szczecin in search of better living conditions and helped to reconstruct the City after the destruction it experienced during the war. The City's current potential for development results from a variety of economic, social and political factors including:

- Szczecin's strategic location and function as a major international transport junction and port;
- The well-defined and regulated legal status of most communal property and the availability of land and real estate at attractive prices.
- A well-qualified, highly educated workforce with significant academic and research potential.
- Increased investment by Polish and foreign capital attracted by the growth in cross-border trading, convenient transport connections and continued development of the City's infrastructure.
- Szczecin functions as the headquarters of the administrative and municipal authorities of the Province of Western Pomerania.

The City actively participates in cross-border affiliations and is also involved in a wide range of international cooperation agreements among other European cities and with other Polish

municipalities as part of unions, associations and foundations resulting from the convention signed on September 3rd 1998.¹

Szczecin has been designated as the international headquarters of the NATO corps consisting of military units from Poland, Germany and Denmark will soon be located in the City.

2.1 Local Government The City Council is a legislative and controlling body in the City of Szczecin. It is composed of 60 Councilors elected every four years.

The City Board is the chief executive body of the municipality, which executes resolutions taken by the Council as well as other tasks regulated by laws. The City Executive Board executes its tasks through the city administration divided into departments and organizational units.

The City's departments function as semi-autonomous entities with their own revenue sources.

2.2 Transport Szczecin's strategic location has made it a major international transport junction. The City's port, which is connected by a waterway to the Bay of Pomerania, allows the passage of ships with a draught of up to nine meters. The port complex of Szczecin-•winouj•cie is the largest such structure on the Baltic Sea and has a cargo handling capacity of 20 million tons a year. Several inland connections, via the river Oder enhance transportation into the south of the country and the river ports of Western Europe.

Szczecin is the most western conurbation in Poland. It is located at a strategic point close to the land and sea borders of the European Union - seven kilometers from the border crossing with Germany in Lubieszyn, 12 kilometers from the border crossing with Germany in Rosówek and Kolbaskowo, almost 65 kilometers from the Baltic Sea, and 130 kilometers from the capital of Germany, Berlin.

Because of the border crossings with Germany (the A6 motorway), Szczecin maintains convenient road connections with the motorway system of Western Europe. The national roads (nos. 3 and 10) spread through the rest of the country and link to southern and eastern Europe. In 1997 nearly 51 million people crossed the border into Szczecin. This was 61% more than the year before and totaled almost 14 million cars (59% more from the past year).

Szczecin also has a large rail junction directly connected to the port. This allows transport of freight and passengers via trunk rail lines directly connecting the City with most of the large centers of Poland and with Berlin, Prague, St. Petersburg and Budapest.

The regional airport in Goleniów, located 45 kilometers from the City, provides regular connections with national airports, and also has international airport status.

2.3 Communications Five regional radio stations operate in the City: Polskie Radio Szczecin SA, Radio Plus, Radio ABC, Radio Plama, and Radio PSR. Additionally the City is

¹ In Poland, local governments have the right to participate in and cooperate with international associations of local and regional communities. Szczecin is a member of the following associations: Union of Maritime Towns and Municipalities, Union of Polish Cities, Union of Baltic Cities, Foundation "Pomeranian Archive of AK" (Polish underground army), Union of Polish Western Municipalities, Union of Polish Metropolis, Association of Healthy Polish Cities, Association of European Border Regions (AEBR), Euro region Pomerania, Baltic Tourism Commission (BTC) and the Hanseatic League.

covered with the range of national stations of: Radio ZET, Radio RMF FM, Radio Wa-Wa, Polskie Radio I, II, III, BIS and Radio PLUS. The City operates one television station: Telewizja Polska SA Branch in Szczecin. Radio and television programmes are transmitted all over the City by cable television networks providing the opportunity to watch programmes in several languages.

There are three regional daily newspapers in Szczecin: Kurier Szczeciński, Głos Szczeciński and Gazeta na Pomorzu (the regional supplement to the national daily Gazeta Wyborcza).

2.4 Economy The sea provides much of Szczecin's economic activity. The fully equipped maritime port serves ship owners from all over the world. It is also the homeport for two large shipping companies, Polish Steamship Company SA and Euroafrica, and hosts many companies associated with the port. The most important of these are the shipyards, especially Stocznia Szczecińska SA, one of the largest manufacturers of modern sea-going vessels in the world. Also well known and renowned throughout the world are the Szczecin repair shipyards, Gryfia and Parnica. Several non-transport companies serve both the shipyards and the port.

The most dynamic economic sectors in Szczecin are involved either in the production of food, chemicals, paper and clothing, or they provide electrical engineering, transport, construction and communications. Szczecin's industry represents three percent of Poland's national production sales. In recent years the commercial sector has grown in importance and is playing a significant role in the creation of new jobs that bring revenue to both the owners and the City.

Small shops and wholesale facilities dominate commercial operations. However, longstanding retail chains in prime locations are still operating. In recent years they have been joined by the Danish chain Netto and the Polish chain Takpol and Berti. Szczecin opened two hypermarkets, which ushered the City into the modern commercial age. These were followed by six other large wholesale chains, which cater to both Polish and German consumers. Well-known transnational fast food chains such as McDonald's, KFC, Pizza Hut and Burger King, and modern petrol stations constructed by Polish and foreign oil concerns - CPN, Shell, Aral, BP, and Statoil – also launched operations.

2.5 International City Credit Rating by Standard & Poor's and Fitch IBCA Standard and Poor's and Fitch IBCA regularly establish municipality credit ratings by providing a complete financial analysis in comparison with other cities. Both rating agencies, acting independently, announced their credit worthiness ratings for the City of Szczecin. As a testament to its attractive financial position, Szczecin is the fourth Polish city, behind Kraków, Łódź and Wrocław, to be rated by Standard & Poor's Agency and it was the first Polish city rated by Fitch IBCA.

With regard to debt in foreign currency, the City's rating is limited by the national rating of the Republic of Poland (BBB/positive A-3 according to Standard & Poor's). Szczecin earned a "stable" rating by Standard and Poor's (BBB positive.)

3. The Legal Framework

The legal framework for the City's statutory activities in budgeting and capital improvements is the Szczecin City Council Resolution on the social and economic program of the City, which includes indicators and guidelines for the City's budget. This document sets forth the main goals of the local government activities, which include:

- To strengthen the local government;
- To Improve municipal assets management and municipal organization units' operation;
- To support the citizens' business activities;
- To better provide for the citizens' needs;
- To increase Szczecin's regional and trans-border influence.

Progress in any of the above areas will depend on the appropriate approach to investments. It will also be necessary to improve the condition of technical and social infrastructure and to encourage new investments that will facilitate the City's desired development goals.

The strongest emphasis has been placed on capital investments that structure and support the local economy and enhance local development including: road construction and maintenance, water supply and sewage systems, revitalization of existing and construction of new housing developments, and improving the technical conditions of education and healthcare buildings.

3.1 Enabling Local Legislation--City Council Resolutions

No L/709/94 City of Szczecin Council Resolution on the Local Urban Plan of, 16 May, 1994. This Council Resolution presents the conditions for the balanced growth of the City and defines the formal and legal elements of urban planning regulations. The most important of these is a specification of infrastructure investments, i.e. 16 key undertakings related to technical infrastructure and public transport. Some of these are about to be completed while others are still pending and have been included in the four-year investment plans. Most of these tasks were completed after the year 2000. Subsequent City Council Resolutions on guidelines to the preparation of the annual city budget specify the financial implications of investment costs, in view of long-term physical and financial effects of the planned projects.

No XLIV/558/98 City of Szczecin Council Resolution on four-year Investment Plans of 30 March, 1998. This document sets forth the principles of four-year investment plans approval and implementation. It determines the procedure for developing, approving and implementing a capital investment plan. This document also specifies the criteria for determining the suitability of proposed projects. These comprise a set of investment and modernization tasks as well as larger investment purchases programmed a time frame which over time frame which represents the basis for projecting investment expenditures.

No XXII/267/96 City of Szczecin Council Resolution on the organisation, implementation and co-financing of local social initiatives of 22 April 1996 (with further amendment). This document makes it possible for the City to implement projects initiated by the citizens, who declare to co-finance and complete such investments. These may be related to practically each and every aspect of the City's function. The applications submitted so far refer to land development for housing facilities construction or in built-up areas, investments in education, public transport, physical culture and sports, tourism and recreation, etc.

No XXI/268/96 City of Szczecin Council Resolution on the principles of planning, financing, and implementation of technical infrastructure for building allotments in the Municipality of Szczecin of 22 April, 1996. This document is a supplement to the Resolution described under point 5 above. In principle, by fulfilling the provisions of this Resolution, the City performs its tasks under the Local Government Act. This stipulates that infrastructure investments need not be financed exclusively from the City budget's own resources. Such an assumption offers a possibility for investment projects to be co-financed by natural and legal persons through a procedure similar to that applied to local social initiatives. The Resolution also creates conditions for other methods of investments co-financing to be involved, e.g. that in which the investor may cover the full investment costs to ensure smooth implementation of another of his proposed projects. These conditions also apply to large network facilities (e.g. sewage treatment plants, water treatment plants) or landfills and alike.

No 17\98 Resolution on the amendment of the Small Improvements Programs. Regulation and the acceptance of its uniform wording of 22 January 1998.

No 18\98 City Board Resolution on the approval of Our Home Program. Regulations of 22 January 1998.

By fulfilling the provisions of the above Resolutions, the City performs its statutory tasks and creates a more efficient framework for incorporating the request of citizens or other entities (investors and developers). The Council resolutions are also a very important method of encouraging mixed public and private projects. The Council resolutions establish criteria for joint funding both by the City and the applicant. Such policies have favorable effect on the City's development, encourage input from the community and facilitate resource leveraging. Further expansion of the range of tasks to be implemented under mixed public-private arrangements is an important investment policy of the City.

3.2 Supportive Policies and Strategies A series of strategy documents within key development sectors were produced and used as a guide for the development of the capital investment plan. These include:

- A renovation strategy for commercial and residential buildings in city center;
- A housing policy for the entire city;
- Master Plan for central heating;
- Master Plan for waste management;
- Master Plan for water supply and sewage management.

Other reports and studies pertaining to the Capital Investment Program (CIP) included transport studies for Szczecin and an analysis of the City's regional and macro-regional functions and responsibilities. The reports have generated a valuable database outlining the range of investment requirements in individual sectors.

These reports also formed the basis for a more extensive review of the *Conditions and Directions Of Urban Planning for The City of Szczecin* and a City Development Strategy.

These reports identified investment priorities that would promote balanced development for the City. The most important of them will be the specifications of investment projects graded according to their priority. Together, these Strategies and Master Plans provide analysis of effective sectoral management methods for the City.

4. Szczecin Investment Program

While long-term investment planning was not obligatory under the applicable legal acts, Szczecin developed its own internal regulations to rationalize investment expenditures over an extended period of time. The need for planning by city officials is required by the longer-term timeframe of many investment projects and the need to incorporate the technical, social and financial implications investment projects. Additionally, it is necessary to factor in the time and costs involved in the pre-implementation tasks such as the regulation of land ownership and other legal matters, documentation, consulting services and expert's references, and administrative decisions. Very often these preparatory steps prove to be equally time-consuming and are of course critical to the implementation of any larger-scale capital investment project.

The four-year investment plan is one of the most important instruments of management; it allows city officials to define the City's development capacity and prepare development forecasts for local and foreign all investments.

The first four-year capital investment program was approved by the City Council in 1997 for the years 1997-2000. In March 1998, the City Council Resolution on the four-year investment plan updated the CIP planning process and detailed the principles of four-year plans, emphasized their continuity and established procedures and criteria for choosing projects. In Szczecin, the policies for investment planning are outlined below:

- Accurately determine the volume and classification of the existing needs;
- Specifically identify the physical aspect of proposed tasks;
- Precisely determine the costs of investment implementation;
- Adequately specify the criteria of the tasks, the suitability for the plans, and the relations to the investment priorities in the City;
- Determine the realistic financing capacity of the City's budget and the conditions of external investment financing.

4.1 The Capital Investment Planning Process The Szczecin Capital Improvement Program identifies each proposed capital project to be undertaken, the year in which it will be started or acquired, the amount expected to be expended on the project each year, and proposed method of financing. The Szczecin City Council approves the Szczecin Capital Improvement Program each year. The CIP document presents in a summary form:

- Capital expenditures by year desegregated by program or department;
- Funding sources and type of funds (i.e., general fund, enterprises).

Financial analyses and forecasts have become a required element of investment planning. These include detailed analyses of the City budget's income and expenditure and financial capacity forecasts for the next 10-year period. They not only reflect the expected running and investment expenditure volume in correlation with the future incomes, but also contain analyses of loans and credits drawn by the City to cover the shortage of resources necessary to finance the proposed investment projects.

4.2 CIP Implementation Process

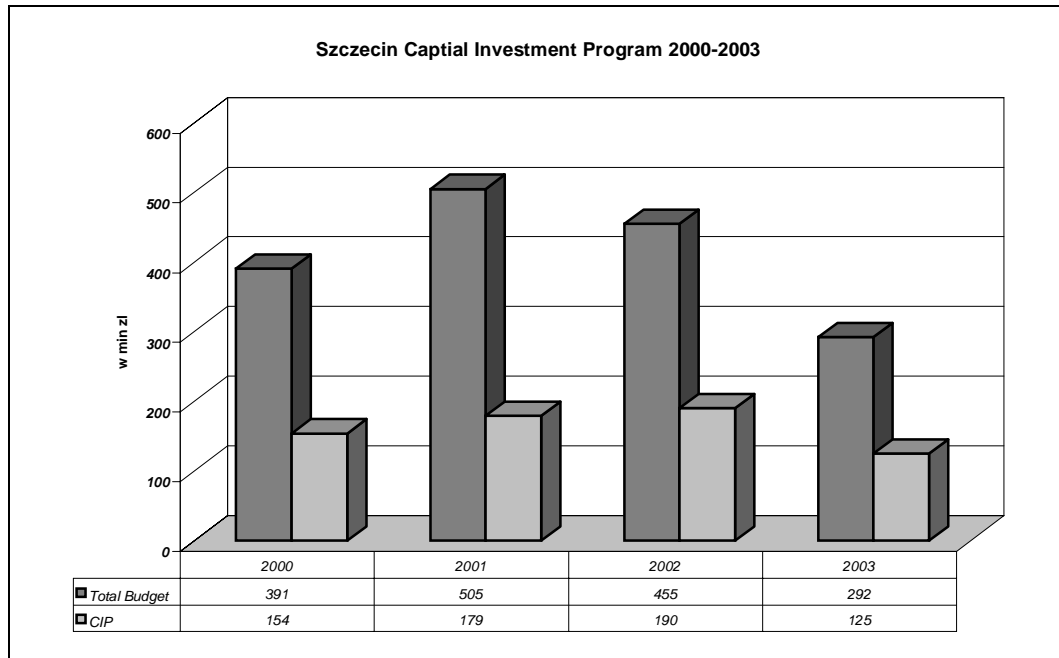
Establish an Administrative Structure

- A coordinating unit was appointed within the City Hall structure and one of the Deputy Mayors was appointed as coordinator
 - Capital and operating expenditures were separated
 - Prepared calendar of key events
 - Formulated procedures for public input
- 1) Policy Framework
 - Developed programmatic policies and financial policies
 - Established capital project evaluation criteria
 - 2) Preparation of Capital Needs Assessment
 - Prepared a capital inventory
 - Evaluated whether to repair or replace facilities
 - Identified future needs
 - 3) Selection of Projects for Capital Investment Program
 - Reviewed previously approved projects
 - Collected information for new projects
 - City Hall Departments completed and submitted project request forms
 - 4) Financial Capacity Analysis
 - Financial Department evaluated city financial condition, assessed future trends and evaluated funding options
 - 5) Evaluation of Program Capital Projects
 - CIP Committee reviewed projects and prioritizes capital projects
 - Selected projects, scheduled, and assigned a funding source
 - 6) Capital Program and Budget
 - Development Department prepared CIP document
 - After public hearings and discussion City Council approves
 - Revise CIP and send to legislative body to adoption
 - 7) Capital Budget Implementation and Monitoring
 - Project managers assigned
 - Project milestone and cost schedules refined
 - Progress reports submitted
 - City Hall departments review progress and take corrective actions

5. Investment Priorities

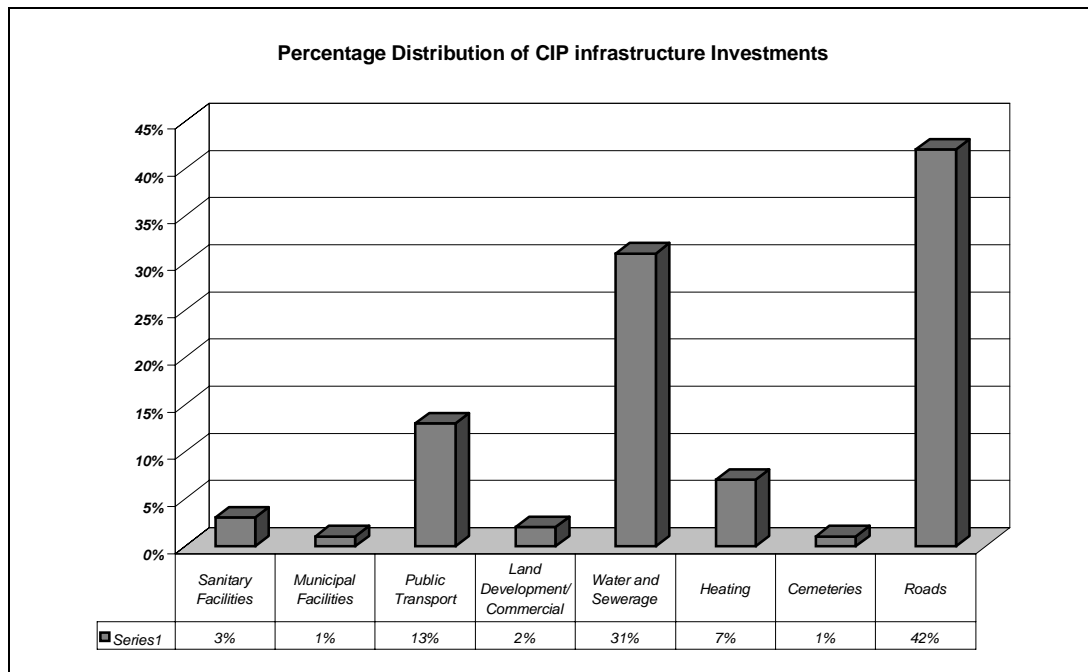
The City's investment priorities for the 2001-2003 investment plan were developed from previous City Council Resolutions. In the period covered by the four-year investment plans, the value of capital investments to be financed with the City's budgetary funds, including those of the municipal organization units, represents a significant percentage of the total city budgetary expenditure. In FY 2000, the CIP represented 39% of the municipal budget and will increase to 43% in 2003.

Table 1



Szczecin is notorious for its inconvenient traffic system; there are no circular roads and terrible congestion on the right bank, which is home to nearly 100,000 citizens. In its efforts to promote balanced city development, Szczecin must finance its largest ever infrastructure investment. Priority is being given to repairing the badly deteriorated outgoing domestic roads, residential roads and the city ring road, West Circular. These roads will take on strategic significance in the context of Poland's ambitions to join the European Union and NATO.

Table 2



Investments in environmental infrastructure, which includes liquid and solid waste management, and emissions reduction, will become increasingly important. Water supply and sewage collection constitute a significant item in the CIP. The City is only now recovering from a long period of neglect in this area. The plan calls for construction of water supply mains in the northern part of the City and sewage collectors, especially in the right-bank section, and it proposes one of the largest investments ever in Poland for the “Pomorzany” sewage treatment plant.

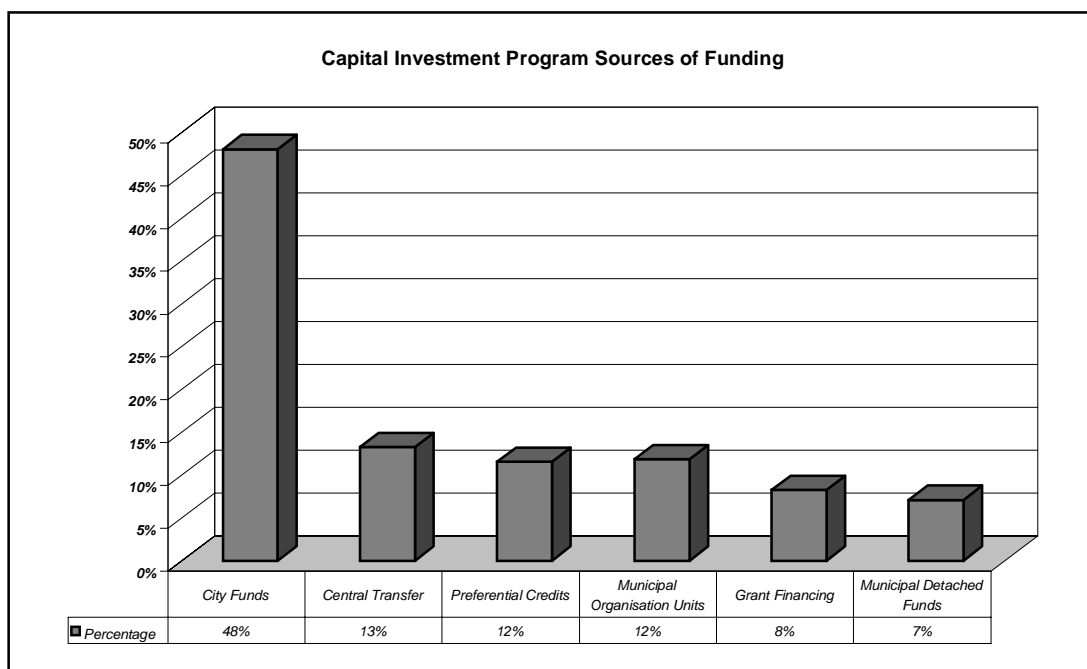
Another segment of strategic significance is housing. The largest investment volume in this area is planned for land development for housing construction in both green field development and infrastructure rehabilitation in existing, higher density residential zones.

Affordable housing built by the municipality and residential renovations in the central district are co-financed by the City with special-purpose grants by the central government. The municipality has two non-profit social housing agencies that build and manage affordable housing: the Szczecin Social Building Society and the “Prawobrzeże” Social Building Society. These companies build social housing and perform renovation work financed with preferential credits from the National Housing Fund. In comparison to other cities in Poland, Szczecin was very successful in obtaining these credits.

Single buildings repairs and modernization works are managed and financed exclusively with the funds of the Council Buildings and Premises Management Board’s independent budgetary units. These funds come from the rents and fees for housing and commercial rents.

5.1 Mobilizing and Leveraging Non-Municipal Resources The Capital Investment Program’s budget currently exceeds the city budget's capacity, creating the need to access outside funding in the form of credits, grants and private sector investments. It also requires leveraging locally based financial resources within Szczecin itself.

Table 3



The municipal budget's financial capacity is reflected in the City's credit rating; in fact, it determines whether the sources for money budgeted for the period of four years are likely to be covered with additional use of loans and credits. Otherwise, the drafted tasks plan will need to be revised.

Leveraging local resources has been an important policy that has allowed the City to raise funds for capital improvements. This includes the efforts of the City's semi-autonomous non-profit housing agencies to obtain central government housing credits and other programs such as the "Out Home" program and the Local Partnership program detailed below.

Program for Small Improvements and "Our Home" Program These programs were initiated to support the renovation strategy for the city center and mobilize individual tenants to carry out improvement initiatives. The programs provided the City financial assistance for the renovation of common building systems such as roofs, facades, chimneys, common areas and the upgrading of utilities in individual apartments. The program covered between 25% and 75% of the cost depending on type of improvement.

The Local Initiatives Program This cost-sharing program for physical improvements has been in operation since 1996. Cost sharing matches the non-municipal partners among different sectors and specific projects but is generally in the range of 35 % for city programs in public works, housing, culture, and social care. In 1998, for improvements of Plz 1.53 million the City spent .97 million and the City leveraged .56 million from its partners which included housing condominiums, street associations, educational groups and cultural associations. For health care and educational facilities, the City's partners invested considerably more, providing nearly 83% of the costs.

6. Summary

In Szczecin, the CIP has been able to jumpstart numerous projects by taking advantage of its excellent credit rating and strategic geographic position. It has also established the important functions listed below that will ensure the continued success of the City's planning efforts.

Formal Mechanism for Decision-Making A basic function of the CIP is to provide city officials and citizens with an orderly process for planning and budgeting for capital needs. Question on what to buy, build, or repair; where and when to buy or build; and how much to spend are all dealt with during the capital programming process. They must agree on the policies that will shape the program, estimate capital needs, prioritize those needs, identify and schedule funding sources, implement projects, and monitor project delivery. All of these activities are organized through the CIP process.

Link to Long-Range Plan The CIP serves as a link to the jurisdiction's planning process and should be developed in concert with the comprehensive Land Use plan, Strategic Plan, or other long-range plans. Preparation of the capital improvement program considers not only repair and replacement of existing infrastructure but also facilities that will be needed in the future. Changing population and employment patterns, socio-economic and demographic characteristic of community residents, and land use patterns bring about the need for new roads, water and sewer facilities, public buildings, or other capital assets.

Financial Management Tool An overriding consideration in developing the capital improvement plan is to prioritize current and future needs to fit within the anticipated level of

financial resources. Capital improvement programming considers not only what a community needs but, equally important, what the City can afford. With a thorough report on the jurisdiction's financial outlook, revenues and financing mechanism, that will be available for the capital program, projects can be prioritized to ensure that the most important needs and goals of community are met.

Reporting Document The CIP document provides a description of proposed projects that will be undertaken over the planning period. This document communicates the government's capital priorities and plans for implementing projects to citizens, business, and other interested parties. It also lists the expected source of funding for projects, including bond proceeds, installment purchase contracts or other debt, reserves, and grant funding.

6.1 Results of Capital Improvement Programming In Szczecin, the CIP improved intergovernmental cooperation and communication and enhanced coordination of capital improvements among departments and agencies both within and outside a governmental unit.

With its multiyear focus, the CIP avoided wasting resources and helped to incorporate citizen concerns, anticipated linkages with other projects or activities and highlighted cases of insufficient funding.

The CIP helped to ensure financial stability by anticipating the fiscal resources that were necessary to pay for capital projects. The capital financing sources listed in the CIP for years other than Year 1 (commonly called "out years") are not authorized until the annual budget for those years is legally adopted. The out years serve only as a guide for future planning and are subject to further review and modification in subsequent years.

The CIP helped to develop different kinds of public-private partnerships with citizens and business. The Neighborhood Partnership Program helped to program financial resources for new public infrastructure in neighborhoods.

The CIP focused attention on community goals, needs, and financial capability. Throughout the capital improvement programming process, decision-makers select projects that will be consistent with community goals and needs. As part of the process, policy makers, government officials, and citizens consider the current and future outlook for community development and the services needed by residents and businesses. This outlook serves as a basis for the capital program.

The CIP helped to build consensus for projects and improve community awareness. An important component of the capital improvement program process is the involvement of citizens in the selection and prioritization of projects.

The City of Szczecin developed financial and investment planning tools as a part of its creditworthiness enhancement program. Finally, Szczecin was rated by two international independent rating agencies: Standard & Poors and Fitch IBCA with the successful investment (BBB- and BBB+) rate.

After implementing its long-term investment and financial planning system, Szczecin is now recognized by banks and other institutions as one of the best-managed Polish cities. As a result of this, Polish and foreign banks are willing to extend credit at favorable rates.

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