

Capital Improvement Planning

From Concept to Execution

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CIP Fundamentals + Framework



Financing Capital Projects



Execution + Monitoring



Case Studies



Key Takeaways



Q&A + Additional Resources

A close-up photograph of a construction worker's torso and arm. The worker is wearing a dark blue long-sleeved shirt and a high-visibility safety vest with yellow and red reflective stripes. They are holding a black hard hat in their right hand. The background is a dark, textured surface.

CIP Fundamentals + Framework

Key CIP Components: Multi-Year & Sustainable

GFOA recommends that CIPs be comprehensive, multi-year, and fiscally sustainable, covering at least 3-5 years.



Project List

Creates a multi-year list of projects and descriptions – e.g. roads, facilities, utility to be built or upgraded



Cost Estimates

Provides cost estimates and anticipated funding sources for each project



Budget Impact

Estimates the budgetary impact of future staffing or maintenance needs of new assets



Prioritization

Memorializes a priority ranking of projects reflecting the urgency, impact, and mandates



Timeline

Establishes a timeline or phasing of projects over the CIP horizon (e.g. 5+ years)

CIP Creation Process



Identify & Scope Projects

Gather project ideas from departments, community input, and strategic plans

Develop initial project scope and preliminary cost estimates



Evaluate & Prioritize

Apply objective criteria (urgency, ROI, strategic alignment, mandates, etc.)

Use CIP Committee or ranking tools for transparent prioritization



Develop Multi-Year CIP

Create a balanced multi-year schedule (typically 5+ years)

Match projects strategically with available funding sources



Approve + Fund

Secure formal approval from management and elected officials

Align funding mechanisms (budget, bonds, reserves, etc.)



Implement + Monitor

Execute year-one projects with assigned managers, timelines, and budgets

Regularly track project progress and financial compliance



Annual Updates + Adjustments

Review CIP annually; remove completed projects and add new priorities

Adjust the plan to respond to changing conditions and community needs



Project Prioritization Criteria

1

Legal mandates or safety

Projects required by law or addressing urgent public safety issues take precedence (E.g. a project to replace a failing bridge or meet new regulatory standards would score high).

2

Asset preservation + service impact

Projects that maintain critical services or extend asset life (like replacing a leaking roof on a public building) often rank highly. Likewise, projects that expand capacity where demand exceeds supply (e.g. a new fire station in a growing area) get priority for service impact.

3

Strategic alignment

Alignment with adopted plans or community goals.

4

Community Benefit + Equity

How much a project benefits the public (number of residents affected, quality of life improvements, addressing underserved areas).

5

Economic + Fiscal Impact

Does the project spur economic growth or save money in the long run (e.g. energy efficiency projects that reduce operating costs)?

6

Feasibility + Readiness

Consider project readiness (is planning/permitting done?) and the capacity to carry it out. Unrealistic projects or those lacking a viable implementation path may be deferred.

Cross-Department Collaboration



All departments – from Public Works and Parks to IT and Utilities – should be engaged early to provide input on needs and timing. The finance officer should actively facilitate this collaboration.



According to GFOA, the finance officer and planning staff should work closely so that master plans and financial realities align from the start – this prevents situations where planners envision a project the city can't afford.

Stakeholder Engagement



Many governments incorporate public input into their CIP process – whether through community meetings, surveys, or public hearings.



Solicit input on community priorities (e.g. residents might voice support for park improvements or safer streets in certain neighborhoods). However, manage expectations by educating stakeholders on budget limits and trade-offs.



Public engagement can occur at different stages: some cities invite citizen suggestions before drafting the CIP, while others present a draft CIP for public hearing and feedback before adoption



GFOA Best Practices for Capital Planning



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.



A clear definition of what constitutes a capital improvement project.



Establishment of a capital improvement program review committee and identification of members (for example, the finance officer or budget officer, representatives from planning, engineering, and project management, and, as deemed appropriate, operations departments most affected by capital plans, along with a description of the responsibilities of the committee and its members.



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.)



Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources



A requirement that the planning process includes an assessment of the government 'fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.



A procedure for accumulating necessary capital reserves for both new and replacement purchases.



A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt.



A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies.



A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.



A requirement that the plan include significant capital maintenance projects.



Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.



City of Rapid City Capital Improvement Plan Policy

Purpose

The purpose of the Capital Improvement Plan is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase long term costs. As such, the city will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the multi-year capital plan and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets. ***All routine, non-major maintenance and repair shall be funded through operating budgets and not through the Capital Improvement Plan.***

The city's objective is to incorporate "Pay-As-You-Go" funding (using available cash resources) in the annual Capital Improvement Program. This will supplement funding from other sources such as STP (Surface Transportation Program) funds and grants.

Definition

Capital improvements consist of capital acquisitions with a life expectancy greater than one year including, but not limited to, land, buildings and infrastructure improvements. Capital improvements shall be in compliance with the following to be considered for funding:

- Land – greater than or equal to \$50,000 on an individual lot/parcel basis
- Buildings – greater than or equal to \$50,000 on an individual basis
- Infrastructure Improvements – greater than or equal to \$50,000 on an individual basis
- Machinery and Equipment, including software – greater than or equal to \$250,000 on an individual basis

Process

In March of each year, all departments/divisions requesting Capital Improvements Account funding shall submit a 5-year plan for proposed capital improvement projects. For needs requested in the next budgeting cycle, the Capital Improvements Committee requests that the following information be provided: project type and description; estimated costs, to include design, land or right-of-way acquisition, appraisals, construction, construction management, furnishings; funding sources; estimated annual O&M costs; and estimated **timetable for completion**.

The City Finance Officer will annually submit a financially balanced, five-year Capital Improvement Plan for review by the CIP Committee. The Capital Improvement Program will

incorporate a methodology to determine a general sense of project priority according to community needs. For Public Works Infrastructure projects, the primary focus will be based on rehabilitation, joint projects with utilities and in-fill development. For all other projects, the primary focus will be based on public health and safety, maintenance and rehabilitation.

The Capital Improvements Committee shall consider all requests for capital improvements, develop recommendations for the annual capital budget and the 5-year capital improvement plan and present this to the Mayor for inclusion in the budget. The first year of the adopted capital plan will be the capital budget for that fiscal year.

The final capital improvements plan, as recommended by the Capital Improvements Committee shall be forwarded to the City Council for final approval. No project may be undertaken until such time as the Common Council has approved the capital improvements plan or an amendment to the plan addressing that project. The Common Council shall approve the request to advertise for bids and the bids shall be awarded by the Common Council in accordance with all appropriate bid procedures.

Staff will monitor projects in progress to ensure their timely completion or the adjustment of the Capital Improvement Program as approved by Council if a project is delayed or deferred. Status reports will be presented to CIP Committee and forwarded to the City Council to share project progress and identify significant issues associated with a project, if any. The Capital Improvement Committee has the authority to reprioritize projects within a budgeted line item.

The Capital Improvement Program will be updated annually as a multi-departmental effort.

Funding Allocations

Beginning with calendar year 2022, the funding allocation for capital improvement projects shall be as follows:

- Public Works Infrastructure – 66% of projected sales tax revenue
- Parks & Recreation – 6% of projected sales tax revenue
- Government Facilities – 6% of projected sales tax revenue
- Information Technology – 1% of projected sales tax revenue
- Fire Vehicles – 3% of projected sales tax revenue
- Interdepartmental Charges – 9% of projected sales tax revenues
- Debt Service – approximately 10% of projected sales tax revenues (based on actual)

Subsequent to 2022, the funding allocation for capital improvement projects shall be as established with the exception of Public Works Infrastructure, which shall be increased as the debt service has been satisfied. In addition, at the completion of each calendar year, any undesignated funds in excess of the \$1,000,000 reserve noted below, will be allocated to Public Works Infrastructure in the following year.

The Capital Improvements Account will maintain a \$1,000,000 cash reserve as part of each 5-year plan.

Clearly Define Capital Projects

- Establish a clear dollar threshold to define a capital project.
- Ensure consistent understanding across all departments (prevents departmental bias or confusion).

Centralize CIP Management

- Reinforce that there's one unified CIP – no multiple departmental capital budgets.
- Avoid “double dipping”: Capital expenditures are solely funded via CIP, not individual department budgets



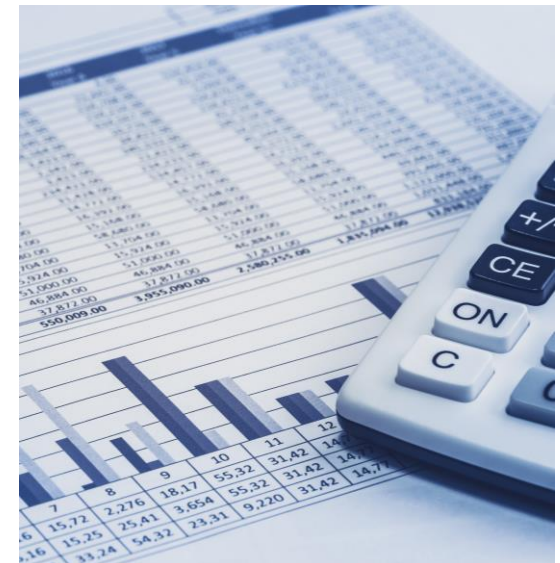
Cross-Departmental Involvement

- Involve representatives from all relevant departments in the CIP committee.
- Promote shared responsibility and collective decision-making.



Leverage Policies to Minimize Politicization

- Establish transparent policies that outline decision-making processes and accountability.
- Protect against politically-driven “pet projects” by using objective criteria.
- Align resource allocation clearly with community goals, enhancing overall transparency.



INSIGHT

Use scenario analysis.

- Identify potential funding shortfalls.
- Maintain a capital reserve for unplanned needs.

GFOA also suggests accumulating reserves for capital replacement.

INSIGHT

Leverage policy documents.

- Align the CIP with your Long-Term Financial Plan and Comprehensive Plan .

GFOA explicitly recommends using Master Plans as a framework for CIP.

Financing Capital Projects

Mix of Funding Sources

PAY-AS-YOU-GO (CASH)



Uses existing revenues, reserves, or annual budget appropriations.

Ideal for smaller, short-term projects without incurring debt.

GENERAL OBLIGATION BONDS



Voter-approved, backed by full taxing authority.

Lowest interest rates, suitable for broad community-benefit projects.

REVENUE BONDS



Repaid from dedicated revenue streams (e.g. utility fees, sales taxes, airport revenues, etc.).

If an enterprise, typically does not require voter approval; used when stable revenue streams exist.

CERTIFICATES OF PARTICIPATION

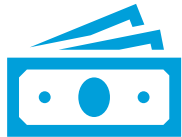


Lease-based financing without voter approval.

Flexible but slightly higher interest cost due to annual appropriation risk.

Mix of Funding Sources (Cont'd)

GRANTS (FEDERAL, STATE, & LOCAL)



Valuable for infrastructure, transportation, and environmental projects.

Often requires matching funds and strict compliance conditions.

DEDICATED TAXES OR FEES



Sales taxes, impact fees, or special utility charges earmarked specifically for capital projects.

Provides steady revenue; often requires voter-approval or dedicated outreach.

PUBLIC-PRIVATE PARTNERSHIPS (P3s)



Collaboration with private sector entities for capital projects (e.g. parking garages, utilities, etc.).

Can distribute risk and accelerate project timelines; requires careful structuring.

OTHER INNOVATIVE APPROACHES



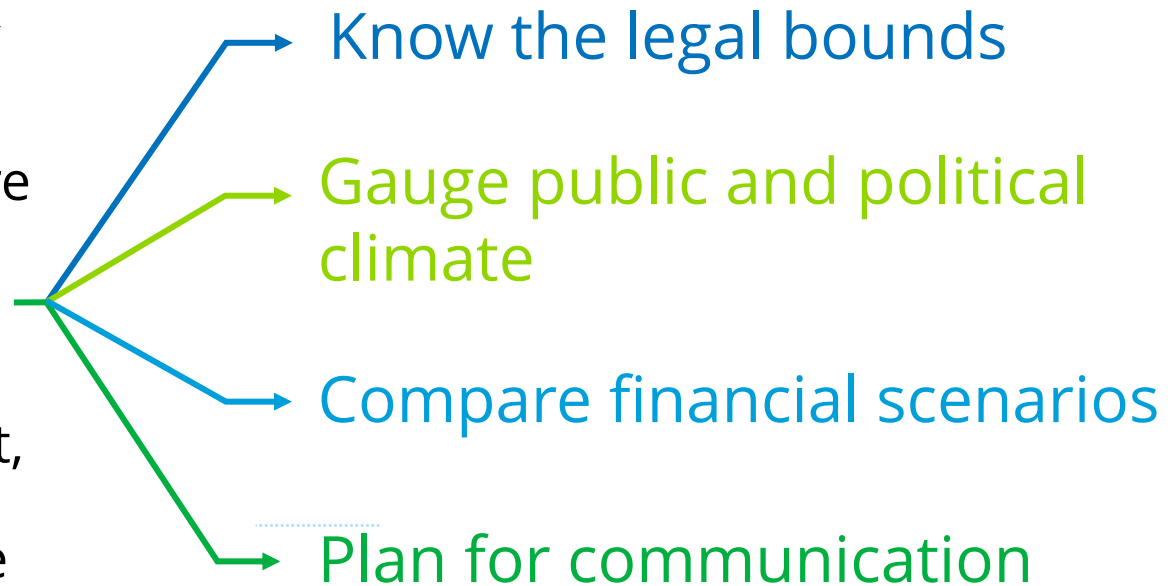
Intergovernmental partnerships, joint ventures, state loans, or lease financing.

Useful tools to complement traditional funding methods.

Recommendations

- Consider GO/sales tax bonds when voter support is achievable and/or cost-savings are significant.
- Consider COPs strategically for urgent, essential, or politically difficult projects, while ensuring transparent communication with residents.

How to Make the Right Choice



1. Project Size:

Use pay-go (cash) for smaller, routine capital expenses that can be covered with current funds. Use debt financing for large-scale projects that would otherwise exhaust available cash or exceed annual budget capacity . (e.g., fund vehicle replacements with cash; issue debt for a new facility or major infrastructure upgrade.).

2. Asset Life:

Short-lived assets or maintenance projects are best funded with cash (avoid borrowing for assets that will need replacement soon). Reserve debt financing for long-lived infrastructure – ensure the debt term does not exceed the asset's useful life so costs are spread to future beneficiaries . This aligns debt repayment with the asset's service life (future users help pay).

3. Urgency:

If a project can be deferred or phased in over time, pay-go allows you to save up funds and avoid interest costs. If a project is urgent or time-sensitive, debt lets you build now and deliver benefits sooner – borrowing accelerates construction, whereas pay-go delays project delivery (immediate or rapid construction is limited under pay-go).

4. Budget Impact:

Pay-go requires using cash on hand – no future interest or debt payments – but can cause large one-time outlays that strain the budget or draw down reserves. By contrast, issuing debt spreads costs over multiple years, smoothing out expenditures and preserving fund balance for other needs . Keep in mind that new debt adds a fixed debt service obligation, which limits future budget flexibility as a portion of revenues must go to repayment.

5. Financial Policy Goals:

Follow your municipality's financial policies and targets. Use cash funding if it keeps reserves at or above policy minimums and avoids unnecessary debt (helping maintain low debt ratios and saving interest costs). Utilize debt financing in line with adopted debt policies – for example, only for capital projects (never for operating costs), with debt within legal limits and manageable debt-service levels . Consider policy objectives like intergenerational equity: long-term debt can ensure that future taxpayers who benefit from a project share in paying for it , while excessive debt could violate policy thresholds or credit rating goals.

How CIP Impacts Credit Ratings



RATING AGENCIES VALUE A STRONG CIP

- Seen as the hallmark of strong management and forward-looking governance.
- Lack of a robust CIP can negatively affect credit ratings.



S&P EMPHASIZES CIP IMPORTANCE

- Requires a realistic, annually updated multi-year CIP for high credit ratings.
- Demonstrates proactive management of infrastructure and fiscal responsibility.



SHOWCASE CIP DURING RATING REVIEWS

- Highlight your rigorous capital planning, alignment with strategic priorities, and prudent financial policies.
- Demonstrate transparency, responsiveness, and fiscal sustainability.

*"Highly rated credits will have a long-term capital improvement plan that comprehensively assess the infrastructure requirements of the government and a plan to fund these requirements over a five-year (or longer) timeframe. **Having a realistic plan that is comprehensively developed and updated annually is a requirement of all highly rated local governments.**" – Standard & Poor's "Top 10 Ways to Improve or Maintain a Municipal Credit Rating" (2002)*

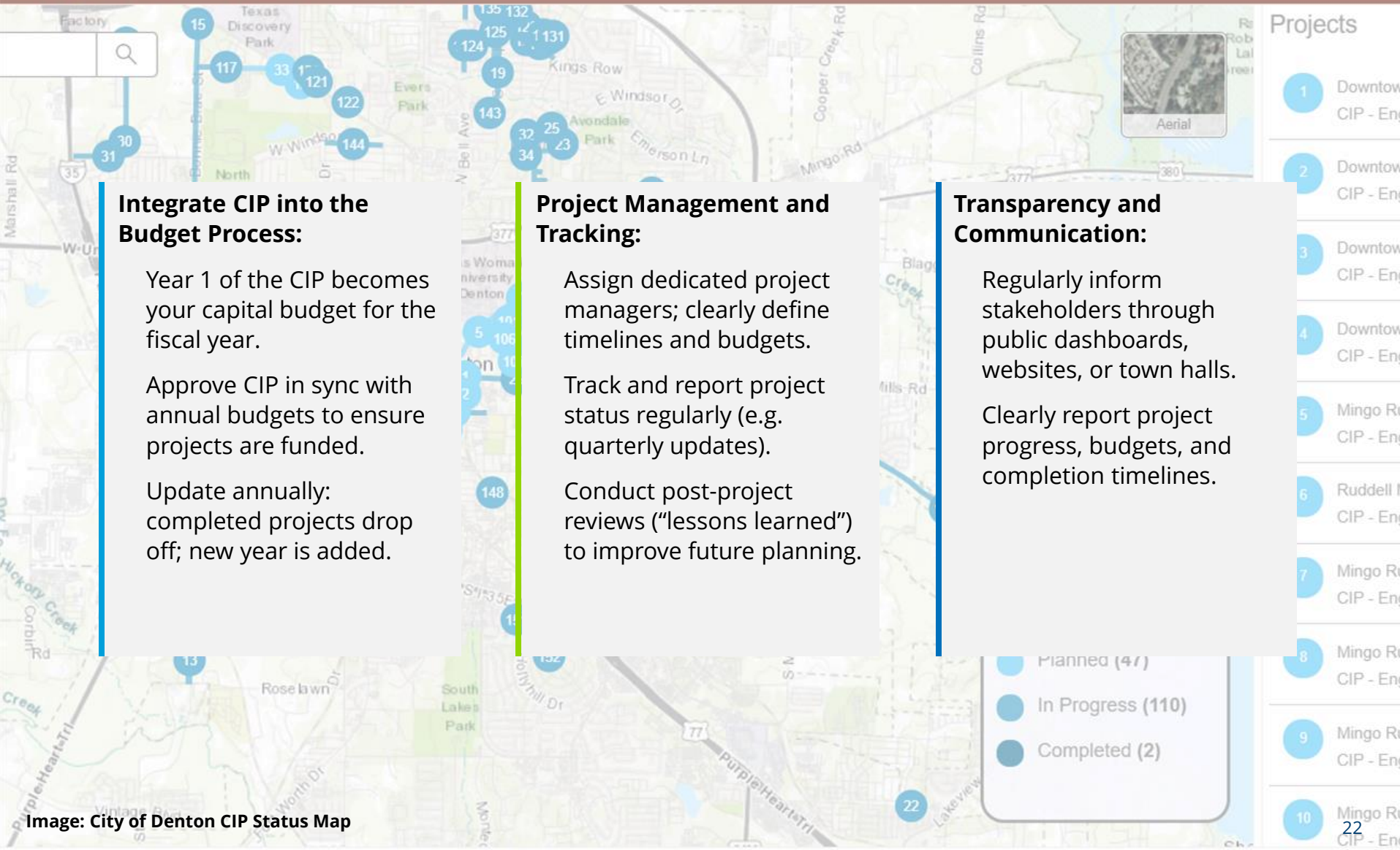
Bond Rating		Grade	Risk
Moody's	Standard & Poor's		
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default

Execution + Monitoring

Executing + Monitoring the CIP

Measures

Completed, current or planned to be constructed within the next year



Integrate CIP into the Budget Process:

Year 1 of the CIP becomes your capital budget for the fiscal year.

Approve CIP in sync with annual budgets to ensure projects are funded.

Update annually: completed projects drop off; new year is added.

Project Management and Tracking:

Assign dedicated project managers; clearly define timelines and budgets.

Track and report project status regularly (e.g. quarterly updates).

Conduct post-project reviews ("lessons learned") to improve future planning.

Transparency and Communication:

Regularly inform stakeholders through public dashboards, websites, or town halls.

Clearly report project progress, budgets, and completion timelines.

The Rules of the Road for Effective CIP Management

Leverage Tech & Tools

- Excel is useful for small-scale CIP tracking, but large-scale programs from dedicated CIP management software.
- Modern tools centralize data, facilitate collaboration, provide real-time tracking, and offer visualization to communicate clearly with stakeholders.

Keep CIP Dynamic

- Regularly update your CIP (at least annually) to reflect completed projected, changing priorities, and evolving fiscal conditions.
- Conduct annual reviews to ensure CIP relevant & responsiveness to community needs and funding realities.
- Maintain flexibility to accommodate mid-cycle amendments and new opportunities.

Align CIP with Strategic & Comprehensive Plans

- Verify during implementation that projects remain aligned with adopted strategic, comprehensive, or master plans.
- Conduct cross functional oversight (planning, finance, project teams) to prevent scope drift and ensure the CIP consistently advances broader goals.

Reporting + Oversight

- Provide regular CIP updates to elected officials and the public, clearly highlighting project progress, budget adherence, and key performance indicators.
- Ensure compliance with bond covenants and disclosure requirements for debt-funded projects, safeguarding credit and fiscal responsibility.

A black braided lanyard hangs vertically from the top left, with a silver key attached to it. The key is positioned to the left of the title text.

Case Studies



Key Drivers:

- **Premature Approvals:** Projects were added to CIP before fully scoped and accurately costed, leading to severe overruns and delays
- **Insufficient Vetting + Planning:** Lack of robust project gatekeeping allowed unrealistic budgets and incomplete funding plans.
- **Process Gaps:** Projects recommended with partial information or political pressure, ignoring technical feasibility.



Outcomes

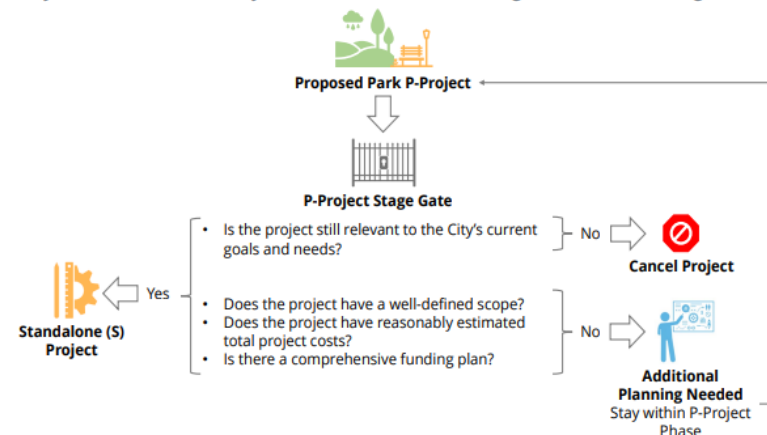
- *Severe cost overruns (avg. >3x initial estimates)*
- *Project delays of 4+ years on average*
- *Damaged public trust and reduced budget capacity for future projects*



Lessons Learned

- **Require thorough upfront project review ("stage gate") before CIP inclusion**
- **Mandate realistic cost estimates and well-defined scopes early**
- **Clearly communicate risks of premature project listing to leadership**

Exhibit 21: The P-Project Phase Could Help Ensure Project Proposals Have Fully Developed Scopes, Reasonably Accurate Estimated Project Costs, and Realistic Funding Plans Prior to Moving Forward



Source: OCA generated based on E&CP documentation and interviews with E&CP management.



Key Strengths:

- **Clear strategic Vision:** Aligns CIP with long-term community goals balanced with annual objectives
- **Disciplined Financial Policies:**
 - Targets 80% debt /20% cash funding mix
 - Adheres to conservative debt limits and maintains capital reserves
 - Uses real-time dashboards to monitor debt service and capital ratios
- **Rigorous Capital Planning:**
 - Maintains a rolling 7-year CIP, updated annually
- Reviews and adjusts cost estimates and project schedules regularly
- **Structured Review + Approval:**
 - Cross-Departmental CIP Advisory Committee reviews projects using formal scoring

- Requires approved master plans for project inclusion

Strong Community + Board Engagement

- Transparent public communication ensures broad support
- Board involvement from the outset, fostering political and community buy-in



Outcomes

- **Achieved AAA credit rating**
- **Stable tax rates, successful voter bond referendums**
- **Methodical, sustainable approach to infrastructure funding**

Exhibit 1 | Policy Dashboard from Wake County's Debt and Capital Financial Model

	POLICY GOAL	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Combined Fund Balance as % of Total Revenues	≥ 30%	30.5%	31.6%	32%	31.7%	30.7%
% Debt Paid off within 10 Years	≥ 70%	73%	72%	71%	70%	70%
Ratio of Debt/Cash used to Fund Capital	Strive for 80/20 (Debt/Cash)	80%	79%	78%	80%	79%
Total Debt as % of Assessed Valuation	≤ 2.5%	1.6%	1.5%	1.6%	1.6%	1.7%
Debt Service as % of Total Expenditures	Strive for ≤ 20%	20%	19%	20%	21%	21%
Variable Rate Debt as % of Total Debt	≤ 20%	10%	9%	5%	6%	6%

A photograph of a coffee shop counter. In the foreground, three brown paper coffee cups with black lids are sitting in a cardboard tray. The tray is placed on top of two stacked cardboard boxes. To the right of the cups is a large brown paper shopping bag with two handles. The background is slightly blurred, showing shelves with various items.

Key Takeaways



Start with Strategy & Data:

Align CIP projects directly with community goals and master plans.

Base decisions on accurate asset inventories, condition assessments, and realistic growth forecasts.



Institutionalize a Robust Process:

Adopt clear CIP policies and criteria-driven processes.

Engage cross-departmental teams early for comprehensive vetting and stakeholder buy-in.



Prioritize Ruthlessly:

Use clear, objective criteria (e.g. safety, regulatory mandates, ROI, etc.).

Resist politically-driven projects that aren't supported by data or planning documents.



Integrate Financial Realism:

Clearly identify funding sources for every project; confirm affordability and debt capacity.

Maintain prudent pay-go vs. debt ratios and adhere strictly to adopted financial policies.



Plan for Execution (and the Unexpected):

Implement rigorous project tracking and regular status reporting.

Build contingency plans and flexibility into your CIP to accommodate unforeseen changes.



Learn and Improve:

Perform "lessons learned" reviews after major projects to refine future CIP processes.

Keep the CIP dynamic and responsive – regularly update based on evolving community needs.

Capital improvement planning is a team sport - it thrives on collaboration between finance, operating departments, leadership, and the community.

Turning Vision into Reality: A well-crafted CIP translates strategic goals into tangible improvements (bridges, facilities, technology) that enhance citizens' quality of life.

Stewardship & Trust: Following best practices (sound policies, prudent funding, diligent execution) demonstrates fiscal stewardship, bolsters credit ratings, and builds public trust.

Leadership Role: As finance professionals, we helm this process – by providing insight, discipline and foresight, we help steer our communities toward a sustainable and vibrant future.

- **Strategic Investments** that advances long-term goals
- **Core Infrastructure** that provides essential safety and service needs
- **Community Enhancements** that improves quality of life



Q & A

The background of the slide features a complex network of interconnected nodes and lines, resembling a molecular structure or a data network. The nodes are represented by small, metallic-looking spheres, and the lines are thin, dark gray rods connecting them. The overall color scheme is a mix of blue and gray, with the network pattern appearing as a light gray overlay on a darker blue background.

Additional Resources

- Government Finance Officers Association (GFOA) Best Practices and Advisories on Capital Planning – *Multi-Year Capital Planning, Capital Planning Policies, The Role of Master Plans in CIP*, etc. [gfoa.org](https://www.gfoa.org)
- GFOA Government Finance Review articles on Capital Planning (e.g. *Financially Sustainable Capital Planning* [gfoa.org](https://www.gfoa.org)).
- **Colorado-specific:** Colorado GFOA materials on capital planning and use of Certificates of Participation [cgfoa.org](https://www.cgfoa.org)
- Credit Rating Agency Guidance: S&P’s “Top 10 Ways to Improve a Credit Rating” (see point on formalized CIP) [epa.gov](https://www.epa.gov); Fitch and Moody’s commentary on the importance of capital planning in financial management (often found in rating reports).
- Audit Reports: City of San Diego Performance Audit of CIP (June 2023) for pitfalls and recommendations [sandiego.gov](https://www.sandiego.gov).
- Industry Resources: “10 Ways to Strengthen Your CIP” – OpenGov (2024) [opengov.com](https://www.opengov.com)
- Colorado Department of Local Affairs (DOLA) – Capital Funding and Planning guidance for local governments.

The above references provide further reading on each subtopic discussed.

You are also encouraged to delve into GFOA’s best practice papers and leverage peer examples from other municipalities to continually refine CIP processes.

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