

CAPITAL IMPROVEMENT PLAN, BUDGET, AND FINANCIAL POLICY

I. PREPARATION OF THE CAPITAL IMPROVEMENT PLAN (CIP):

- A. The purpose of the capital improvement plan (CIP) is to forecast and match projected revenues and major capital needs over a five (5)-year period. Long-range capital planning is an important management tool, which strengthens the linkages between community infrastructure needs and the financial capacity of the City.
- B. All proposals for capital investment shall go through the capital planning process.
- C. Definition of appropriate capital items for inclusion on the CIP:
 - 1. Definition of a CIP capital expenditure – Expenditure of major value that recurs irregularly, results in the acquisition of a fixed asset, and has a useful life greater than one (1) year.
 - 2. As a rule of thumb, items to be included in the CIP include those which:
 - (a) Involve the acquisition, renovation, and/or construction of a single fixed asset greater than \$100,000
 - (b) involve any land purchases not associated with or included in another CIP project
 - (c) involve capital road maintenance or construction greater than \$100,000 – excluding recurring or routine maintenance projects
- D. Difference between departmental capital outlay items (in operating budget) and capital project outlay items (in CIP):
 - 1. Departmental capital items shall not be submitted as part of the CIP. Departmental capital items include:
 - (a) equipment/tools, furniture, office equipment such as computers and fax machines, minor remodeling, or other construction projects below \$100,000 (such items should be outlined in the “Capital Outlay” section of the operating budget request).
 - (b) all vehicles/rolling stock/machinery below \$100,000
 - 2. However, any upcoming, or 1st year costs associated with a CIP request shall be entered in the department’s operating budget request in order to ensure that 1st year CIP costs are noted and included in the Manager’s Recommended Budget.
- E. Inclusion of expenditures for maintenance and/or staffing in the CIP:
 - 1. All operating, maintenance, and personnel budget expenditures associated with the purchase of a CIP item shall be included and noted in the annual operating budget. However, for reporting and future expenditure forecasting purposes, the estimated additional expenditures on operating, maintenance, and personnel shall be included on all CIP requests.

II. ORGANIZATIONAL ISSUES:

- A. Departments are responsible for identifying, documenting, and justifying CIP requests. Departments are also responsible for obtaining project cost estimates and identifying appropriate revenue sources for the project (the Finance Dept. shall assist in identifying costs and appropriate revenue sources).
- B. The City Manager, in conjunction with the Finance Director and Budget staff, shall be responsible for coordinating the CIP process and submission of the CIP to the Mayor and City Council.
- C. A capital project selection committee shall be used to evaluate and recommend a ranking of proposed projects to the City Manager. This committee shall be comprised of:

City Manager, Deputy City Manager, Director of Planning & Neighborhood Development, Finance Director, Budget & Performance Manager, Budget Analyst, and Director of Engineering.

D. Council review, recommendation, and adoption of CIP:

1. The City Manager's Recommended CIP shall be submitted to the Mayor and City Council for their review and recommendation during the beginning stages of the annual budget process. **NOTE:** Governing Body recommendation of the CIP does not authorize money for any of the projects in the plan, but the recommendation by the Governing Body shall provide the City Manager direction to proceed with formulating the annual CIP and inclusion of first year CIP items in the City Manager's Recommended City Budget.
2. A Capital Projects Ordinance will be adopted by City Council with the City's Operating Budget establishing necessary project fund structures for CIP expenditures at the beginning of the fiscal year.

III. EVALUATION OF PROJECT MERIT:

- A. Proposed CIP items will be evaluated and ranked according to merit.
- B. Projects should generally be foreseen ahead of the time (preferably 2+ years) of need to allow time for planning long-term financing strategies or financing methods.

IV. FUNDING SOURCES:

- A. Debt will be considered for capital projects under the following circumstances:
 1. The capital item is a long-living (useful life greater than one (1) year) asset.
 2. The asset has a useful life expectancy that equals or exceeds the length of the debt financing period.
- B. The following types or combination of financing may be considered under the following circumstances:
 1. *Debt methods:*
 - (a) *General Obligation Bonds (G.O. Bonds)* – The capital item is used for a public facility or equipment that is a public good and that has no revenue-producing capability (e.g. streets and municipal buildings or structures). Generally, G.O. Bonds are only used for major General Fund projects.
 - (b) *2/3 General Obligation Bonds* – Without voter approval, G.O. Bonds may be issued annually on 2/3 of net G.O. debt reduction (principal retirement) in the prior year.
 - (c) *Revenue Bonds* -- The capital item is used for a non-public good in which a revenue stream is associated with the capital item (e.g. airport, water, wastewater, and electric system capital items).
 - (d) *Special Obligation Bonds (S.O. Bonds)* – S.O. Bonds may be used for solid waste management projects which can include equipment or facilities for construction of incinerators, land for recycling facilities, drainage collection and treatment systems for landfills, land and liners for landfills, monitoring wells, recycling equipment and facilities, and volume reduction equipment; can also be used for water/sewer projects
 - (e) *Special Assessments* – The capital item benefits only immediately adjacent property. Adjacent property owners pay the special assessments after the improvement is completed and its cost is known. Therefore, special assessments are not a method of capital financing, but rather a method of eventually paying for the improvements for which they are levied. Other sources of funds are needed to finance the improvements for which the assessments are later levied.

- (f) *Property Secured Debt* – The capital item can be secured as collateral itself. Includes lease or installment purchase transactions and certificates of participation (COPS).
- 2. *Non-debt methods (Also referred to as Pay-as-you-go, or Pay-Go)*
 - (a) *Current revenues* – The capital item can be acquired through existing revenues.
 - (b) *Capital reserves* – The capital item can be funded from City Council designated taxes or revenue streams that are set aside in a separate fund.
 - (c) *Capital recovery, facility, or impact fees* – Capital items may be financed from charges to benefiting property owners for major infrastructure or facilities that benefit that property. Charges can be levied and collected before infrastructure is built.
 - (d) *Fund Balance* – The capital item can be funded with unassigned operating fund balances.
 - (e) *Grants* – Funding of the capital item was secured upon application of a governmental grant (examples might include CDBG or HOME grants, law enforcement grants, or EPA water quality grants.)
 - (f) *Gifts* – The capital item may be purchased or acquired with restricted or non-restricted donations by citizens or corporations.

C. *Debt Limits*

- 1. The City shall not exceed N.C.G.S. 159-55(c) limiting the amount of net bonded debt outstanding to 8% of appraised value of property subject to taxation, and
- 2. Annual G.O Bond debt service payments (principal and interest) shall not exceed 15% of the City's General Fund operating budget.

D. *Course of action in the event that the costs of a capital project are under or overestimated*

- 1. Underestimated –
 - (a) Review project scope and performance of contractor.
 - (b) Analyze need for more funding – i.e. cost overruns, unforeseen circumstances, new legal requirements.
 - (c) Execute budget transfers to obtain idle funds.
 - (d) Close out PO's to obtain additional funding from idle funds.
 - (e) Develop and present options with recommended action to the Governing Body.
- 2. Overestimated –
 - (a) Savings are reprogrammed in the next CIP.
 - (b) Analyze reasons for overestimation.