

# CAPITAL IMPROVEMENT PLAN, BUDGET, AND FINANCIAL POLICY

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## 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 5 year period. Long-range capital planning is an important management tool, which strengthens the linkages between District needs and the financial capacity of the County.
- B. All proposals for capital investment shall go through the capital planning process.
- C. Definition of appropriate capital items for inclusion in the CIP:
  - 1. The 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 5 years.
  - 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 \$5,000.
- 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 under \$5,000 (such items should be outlined in the Supplies, or Purchased Services section of the operating budget request).
    - {b} all equipment/rolling stock/machinery below \$5,000.
- E. 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 for operating, maintenance, and personnel shall be included on all CIP requests.

## II. ORGANIZATIONAL ISSUES:

- A. Districts are responsible for identifying, documenting, and justifying CIP requests. Districts are also responsible for obtaining project cost, estimates, and identifying appropriate revenue sources for the CIP.
- B. The District Board, in conjunction with the District volunteer staff, shall be responsible for coordinating the CIP process.

## III. FUNDING SOURCES:

- A. The debt should be considered for capital projects under the following circumstances:
  - 1. The capital item is a long-living (useful life greater than (5) years) 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. 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 a revenue stream which is associated with the capital item (e.g. Airport, water, wastewater, and electric system capital items).

(d) Budgeted yearly for an amount of (4) years. A District may include in their CIP plans a budget line item to include for extended savings. This item may not occur for more than (4) years of the CIP plan provided to the Lincoln County Commission.

#### **IV. FUNDING SOURCES:**

- A. The debt should be considered for capital projects under the following circumstances:
- 1 The capital item is a long-living (useful life greater than one (5) years) asset.
  - 2 The asset has a useful life expectancy that equals or exceeds the length of the debt financing period.
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 the Districts 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 of 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 can be secured upon application of a governmental grants.
  - (f) *Gifts* - The capital item may be purchased or acquired with restricted or non-restricted donations by citizens or corporate donations.

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

- A. Underestimated.
- 1 Review project scope and performance of contractor.
  - 2 Analyze need for more funding - i.e. cost overruns, unforeseen circumstances, new legal requirements.
  - 3 Execute budget transfers to obtain idle funds.
  - 4 Close out PO's to obtain additional funding from idle funds.
  - 5 Develop and present options with recommended action to the District Boards, and County Commission.
- Overestimated.
1. Savings are reprogrammed in the next CIP.
  2. Analyze reasons for overestimation.