

**TOWN OF EAST HAMPTON
EAST HAMPTON CT 06424
BOARD OF FINANCE**

**SPECIAL MEETING
CAPITAL IMPROVEMENT POLICY WORKSHOP**

Saturday, October 12, 2013
9:00 AM

Town Hall Meeting Room

AGENDA

1. Call to Order
2. Public Comment
3. Discuss and deliberate on the draft Capital Improvement Policy
4. Adjournment.

Purpose

In recognition that buildings, infrastructure, ~~technology~~ and major equipment are the physical foundation for providing services to the residents of the Town of EAST HAMPTON, a multi-year Capital Improvement Program (CIP) is prepared and reviewed annually. The purpose of the CIP is to budget for the acquisition, replacement or renovation of major capital/fixed assets. These items are generally not of a recurring nature and not included in the regular operating budget process. Careful planning during this process is critical to the procurement, construction, and maintenance of capital assets to meet the needs and activities of the Town.

A comprehensive capital plan will help ensure the future financial health of the Town and the continued delivery of public services to citizens and businesses.

Capital/Fixed Assets are categorized as follows:

- Land
- Land Improvements
- Buildings and Improvements
- Machinery and Equipment
- Infrastructure

The following Capital/Fixed Asset items are to be included in the Town's annual operating budget:

- Fixed assets that cost less than \$10,000
- Fixed assets that are of a recurring nature and acquired each year

DefinitionsCriteria

Capital Equipment is defined as any item that has an expected life of five (5) years or more and a purchase price in excess of \$1,000. Items costing less than \$1,000 and lasting less than five (5) years are to be purchased from material and supply accounts. The purchase price includes any costs of acquisition or transportation of the item or other costs associated with the installation or placing it into service. The expected life for a piece of equipment is that period of time for which it will be useful in carrying out operations without major repair to its physical condition. Generally, capital equipment includes, but is not limited to, furniture and fixtures, machinery and motor vehicles. ~~Capital equipment excludes commodities that are converted in the process of construction, or that are used to form a minor part of equipment or fixed property. In addition, repairs will normally not be capitalized regardless of the cost of repair or the extent of repair relative to the cost of a new item.~~

The **Capital improvement program** is defined as a plan for capital expenditures over a multi-year period to meet identified improvements in the infrastructure.

The **Capital Budget** is the first year of a five year plan for capital expenditures to be incurred over a given fiscal year from funds appropriated by the Town Council through the annual budget process for projects scheduled in the same year. **Capital Projects** are the improvements that make up the capital budget. Each project has a specific purpose, justification and cost. Projects propose physical improvements in different elements of the Town's infrastructure. Improvements include but are not limited to: construction, reconstruction, rehabilitation, modification, renovation, expansion, replacement, extension of streets, bridges, buildings, sidewalks, playgrounds, lights and acquisition of land, buildings with associated relocation, demolition and improvements such as landscaping, fencing and paving.

Criteria

The following Capital/Fixed Asset items are to be included in the Town's Capital Improvement Program (CIP):

- The acquisition of and improvements to assets that cost \$10,000 or more and,
- The Capital/Fixed Assets, or improvements, that have an anticipated life expectancy of five years or more. Most non-recurring major expenditures are the result of the Town's acquisition of capital items that form the physical foundation for municipal services such as land, buildings, infrastructure improvements, machinery and equipment. However, there can be major expenditures for non-capital items that can be anticipated on a recurring and periodic basis and require significant funding. In addition to the above items, the following proposed expenditures may be considered in the CIP, although they may not constitute capital/fixed assets with useful lives of five years or more.
- Property revaluation required by the Connecticut General Statutes
- Technology programs and systems
- Sinking fund contributions for debt
- Sinking fund contributions for repairs to major fixed assets

These items and other similar items that may require significant funding of \$10,000 or more, and are not anticipated to be acquired each year, may be appropriate to be included in the CIP process.

The annual road paving program can be anticipated on a recurring basis; however, it requires funding of significantly more than \$10,000 and should be included in the CIP process.

This CIP provides for a five-year plan of acquisition, renovation, replacement and construction of the items included in the CIP and includes a planning, budgetary and financing process.

CAPITAL IMPROVEMENT PLANNING COMMITTEE

Section 1. ~~The Town Council shall establish and appoint a committee to be known as the~~ The Capital Improvement Planning Committee ~~shall be~~, composed of one member of the Town Council, one member of the Board of Finance Committee, and one member of the Board of Education. ~~Committee assignments shall be determined by the individual boards.~~ The Town Finance Director, ~~and~~ Town Manager ~~and Superintendent of Schools~~ shall be ex-officio Committee staff members without the right to vote.

Section 2. The Committee shall study proposed capital projects and improvements involving major non-recurring tangible assets and projects which: 1) are purchased or undertaken at intervals of not less than five years; 2) have a useful life of at least five years; and 3) cost over \$10,000. All officers, boards and committees, including the Board of Education, shall, by December 1st of each year, give to the Town Manager who shall forward to the Committee information concerning all anticipated projects requiring action during the ensuing five years. The Committee shall consider the relative need, impact, timing and cost of these expenditures and the effect each will have on the financial position of the town. No appropriation shall be voted for a capital improvement requested by a department, board or commission unless the proposed capital improvement is considered by the Committee.

Section 3. The Committee shall prepare an annual report recommending a Capital Improvement Budget for the next fiscal year, and a Capital Improvement Program including recommended capital improvements for the following four fiscal years. The report shall be submitted to the Board of Finance for its consideration and approval. The Board of Finance shall submit its ~~approved~~ recommended Capital Budget to the Town Council for approval.

Section 4. Such Capital Improvement Program, after its adoption, shall permit the expenditure on projects included therein of sums from departmental budgets for surveys, architectural or engineering advice, options or appraisals; but no such expenditure shall be incurred on projects which have not been so approved by the town through the appropriation of funds in the current year or in prior years, or for preliminary planning for projects to be undertaken more than five years in the future.

Section 5. The Committee's report and the Town Council's recommended Capital Budget shall be published and made available in a manner consistent with the distribution of the annual Town budget report. The Committee shall deposit its original report with the Town Clerk.

CAPITAL IMPROVEMENT PROGRAM TIMING/SCHEDULE

Capital Improvement items are considered on the basis of need and value to the community. In general, the CIP will be prepared, presented and acted upon in accordance with the following schedule:

No later than January 29	Town Manager shall provide a five year planning document to the Capital Improvement Committee summarizing department proposals for capital improvements, a recommendation of items to be included in the CIP, project priorities for the following fiscal year and proposed method/sources of funding for all recommended projects.
On or about February 1	The Capital Committee shall recommend preliminary capital improvement priorities to the Board of Finance
On or about February 15	Board of Finance shall recommend CIP to Town Council
No later than March 27	Town Council adopts capital program for the following fiscal year
<u>Quarterly CIP meetings</u>	<u>The Capital Improvement Planning Committee shall meet at least quarterly to review and discuss current and proposed capital projects.</u>

The Town Manager will provide the Town Council periodic CIP status reports throughout the year and present detailed project status reports or design plans on an as needed basis in accordance with the applicable project schedule.

IDENTIFICATION OF NEEDS

Annually, each department, board or agency shall submit a proposed five year Capital Improvement Program (CIP) to the Town Manager in accordance with the CIP schedule. Requested items shall include acquisition of capital assets, new construction, major renovations and improvements to municipal facilities, purchase of machinery and equipment and other items that satisfy the CIP criteria. Capital improvement proposals received outside of the formal CIP process from departments, citizens, agencies or organizations shall be forwarded to the Town Manager for review and recommendation to the Capital Improvement Planning Committee, Board of Finance and Town Council as applicable.

Items that are to be included in the Capital Improvement Program include the following with an estimated cost of \$10,000 or more and have a useful life of not less than five years:

- Purchase of Land and Development Rights
- Construction of New Buildings
- Land and Building Improvements and Renovations
- Machinery and Equipment

- Infrastructure Improvements (streets, sewers, sidewalks, etc.)
- Vehicles and Construction equipment
- Feasibility Analysis/Design/Cost estimates and other professional services relative to anticipated major projects
- In addition to the above items, the CIP may include certain recurring expenditures/projects that due to their nature and anticipated cost are best appropriated through the CIP (e.g. revaluation or major software acquisition)

All Capital Projects under consideration must be submitted on forms provided by the Finance Department and include accompanied by a description including the following detail and descriptive information:

- 1) PROJECT TITLE: Enter the title best describing the project. Be concise, but as descriptive as possible.
- 2) SUBMITTED BY: Enter the Department, and division, if applicable.
- 3) CONTACT PERSON: Enter the name and telephone number of the person who can best answer detailed questions about this project.
- 4) PROJECT DESCRIPTION: Give a full, detailed description of the project. The description must contain enough information to allow for a detailed project cost estimate. If the project is construction of a building, specify the following: size; use; type of building; utility type; etc. If it is a street project, specify the following: length; width; whether it is new construction, reconstruction or resurfacing; whether it involves new signals, sewers, and/or sidewalks; etc. Any project with insufficient information to develop a cost estimate will not be considered.
- 5) PROJECT JUSTIFICATION: Support the need for this project. Some of the questions you might want to consider follow below:

- Does the project meet established standards and/or codes?
- Does it eliminate a health, fire or safety hazard?
- Does it serve a segment of the community not currently served?
- Does it foster private investment? How much?
- Does it create jobs? How many? What type?
- Does it support economic development (i.e. tourism)?
- Does the project require additional staffing or operational increases?
- Does the project create any revenue?
- What will happen if the Town does not undertake this project?
- Use the above and the Capital Allocation Checklist as a guide in submitting justifications.

6) PROJECT LOCATION AND SERVICE AREA: Give a brief description of the community impact the project will have as well as the area it will serve.

7) SIGNATURE: The Department Director must sign the bottom of the form and date it. The signature indicates that the director approves of the submission of the project and agrees with the information provided.

Estimated Costs

Costs shall be estimated for all items requested as part of the five-year Capital Improvement Program. Costs for items requested in years two through five shall anticipate an escalation rate to be determined by the Town Manager and Finance Director at the beginning of the CIP process.

The steps for major capital construction projects in the CIP, those estimated to exceed \$250,000, shall be recommended by the Town Manager and will generally include the following:

- A. Evaluation/feasibility phase, as necessary
- B. Preliminary design and cost estimating phase
- C. Final Design and construction

Subject to the specifics of the project, funding for steps A and B may be combined in the initial request. Cost

estimates should include preliminary design fees, final design fees, architectural fees, construction management fees, construction costs, acquisition costs, contingency, escalation, legal and financing fees, including short term interest, and any other costs applicable to the project. The scope and estimated costs of in kind services shall be identified and presented along with the initial cost estimates for the project.

Funding

The Town Council, as part of the annual operating and capital budget process, will review the capital projects recommended by the Board of Finance~~Town Manager~~. The Town Manager and Finance Director will develop a recommended financing plan, with options, based on total project costs, cash flow, projected method(s) of financing the projects, Capital Reserve fund projections, mill rate and debt service impact on future operating budgets. The Town Council shall review these projections when developing project priorities and the recommended capital program for the following year. The goal is to effectively balance the total of the annual Capital Reserve Transfer and Debt Service requirements to minimize fluctuations in the mill rate in accordance with established guidelines set forth in this document.

An annual financing plan for the multi-year capital improvement plan is critical to the CIP process. Factors to be considered shall include:

- Anticipated revenue and expenditure trends and the relationship to multi-year financial plans
- Cash flow projections of the amount and timing of the capital improvement projects
- Compliance with all established financial policies
- Legal constraints imposed by Town charter or State statute
- Evaluation of various funding alternatives
- Reliability and stability of identified funding sources
- Evaluation of the affordability of the financing strategy, including debt ratios, future budgets and mill rate.

The Capital Improvement Program shall generally be funded as follows:

- A. Capital Reserve Fund** – The Town will use the Capital Reserve Fund as the primary funding source for capital projects to be funded on a pay as you go basis. The Capital Reserve Fund is primarily funded through an annual appropriation from the General Fund.

Based on factors referenced herein the Town Council shall consider as a general guideline a minimum annual appropriation and transfer to the Capital Reserve Fund in an amount equivalent to three percent (3%) of the current adopted operating budget rounded to the next highest \$5,000.

Annually the Board of Finance will review the General Fund unassigned fund balance, Capital Reserve unassigned fund balance and other funding requirements and may recommend a transfer of additional funds to the Capital Reserve Fund. The goal of the Town is to maintain an unassigned balance in the Capital Reserve Fund of an amount equivalent to \$1,000,000, except as needed to meet emergencies. The reserve policy will be reviewed annually and adjusted accordingly as part of the CIP process. Factors to be considered include evaluation of the projects in the multi- year plan, the method of financing and their effect on projected mill rates.

- B. Donations/Grants/Loans** – Anticipated contributions from various organizations or groups towards certain Capital Improvement projects, grants and loans will be used in financing the CIP to determine final estimated net cost to the Town.

- C. General Obligation Bonds** – Projects that are anticipated to have a significant expenditure of funds should be considered for referendum and funded through the issuance of general obligation bonds that shall be authorized and issued in accordance with Connecticut statutes and the Town of East Hampton Charter.

Projects funded through the issuance of debt must be approved by the Board of Finance, Town Council and Town Meeting. The Town Council may elect to have a project voted on at referendum in lieu of a Town Meeting.

AMENDING THE CAPITAL IMPROVEMENT PROGRAM

From time to time during the year changes must be made in the Capital Improvement Program (CIP). These changes are made through a CIP Amendment request. A CIP Amendment is required under the following conditions:

- Financing a project not previously considered. This may result from emergencies that may occur during the year, or a change as needed.
- Increasing the funded amount of an existing project. These may arise from unanticipated inflation, change in the original project description or bids which come in higher than the original cost estimate.

A CIP Amendment is processed as follows:

- 1) The department responsible for the project makes an initial determination that additional funds are required for a specific purpose.
- 2) A written request by the Department Head is submitted to the Town Manager. The request will include: A) Name of Project; B) Additional funds requested; C) Total current cost of the project; and D) Justification of request ;E) Total estimated budget.
- 3) For new projects the Town Manager makes a recommendation to the Capital Finance Committee which approves or disapproves the request. Amendments to currently approved projects can be approved by the Town Manager.

Projects not previously considered

- 4) If the request is approved, the Town Manager will prepare a report and resolution for approval from the Board of Finance and Town Council. The report will be placed on the earliest possible agenda of the Board of Finance and Town Council.
- 5) Upon approval of the Board of Finance and Town Council, a project will be established by the Finance department.
- 6) The Department proceeds with the project after steps 1-3 have been performed for existing projects and steps 1-5 for new projects. They will be notified by the Town Manager's Office.

ACCOUNTING PROCEDURES

After all of the projects have been approved by Town Council the Finance Department will begin the process of establishing accounts for the approved programs. All appropriations will be established based upon the approved project cost and prepared by using the line item criteria established by the cost estimate forms. In addition, the

Finance Department will be responsible for the following:

- 1) Maintaining grant agreements;
- 2) Maintaining audit records;
- 3) Receiving and recording revenues;
- 4) Distributing payments;
- 5) Reconciling the general ledger;
- 6) Reconciling bank statements and investments; and
- 7) Monitoring department performance.

The Department Director or Project Manager will be responsible for the following:

- 1) Creating monthly project status reports;
- 2) Creating and maintaining project timetables;
- 3) Explaining project changes and/or cost overruns;

- 4) Providing updates to the Town Council;
- 5) Presenting projects to committee and the Town Council;
- 6) Completing data detail for the Finance Department; and
- 7) Estimating costs and/or staffing requirements.

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Capital Improvement Program

