

***CITY OF BEAVER DAM  
CAPITAL IMPROVEMENTS PROGRAM  
PLAN DOCUMENT***

**Adopted By Common Council May 19, 1997  
Resolution 90-97**

## **INTRODUCTION**

One of the City government's primary responsibilities is effective allocation and wise use of financial resources. The Capital Improvement Program is a tool to assist in that process. Capital expenditures should be planned carefully and assessed for their impact on fiscal resources. Many units of government and most sizeable businesses use Capital Improvement Programs because of their demonstrated effectiveness.

A Capital Improvement Program is a plan or schedule for major capital expenditures anticipated to be undertaken by the City each year over a period of five years. The program describes each project, the estimated amount of the contemplated expenditures, any outside funding that might apply, and the timing of each project. The Capital Improvement Program is concerned with the selection and prioritization of capital projects, the timing of expenditures, and projecting the impacts these expenditures will have on the regular City budget and tax levy.

A Capital Improvement Program (CIP) sets a realistic schedule of capital improvements that can be implemented within the limits of financial resources. The first year of the CIP is called the capital budget. This capital budget links the longer term CIP with the annual budget and appropriation process.

## **OBJECTIVES OF THE PROGRAM**

1. Effective allocation of limited financial resources by assembling requests to permit evaluation of their relative priority.
2. Continuity in financial decisions by linking the planning, programming and budgeting of major projects.
3. Increased coordination between department and committee decision makers.
4. Improved public awareness of future needs.
5. Stabilization of tax rates by more effectively relating expenditures to financial capacity within a time frame.
6. Potential for improved bond ratings by providing evidence of effective management and long term fiscal solvency.

## **DEVELOPING THE CAPITAL IMPROVEMENT PROGRAM**

Once the decision has been made to prepare a Capital Improvement Program, the first step is to assign responsibility for its coordination, preparation, and presentation. In this case responsibility is assigned to the Capital Improvements Plan Committee with the Finance Director serving as Chairman of the Committee. The CIP Committee reports to the Finance Committee which acts as the oversight and review committee.

Most of the support data for the CIP has to be provided by the departments requesting projects. At a minimum, each project request must include a description, justification and cost estimate. Likewise, budget and finance data needs to be developed by the Finance Department and then supplied to the CIP Committee Members.

Each department head is asked to compile an inventory of their future capital needs and submit it for inclusion in the CIP. Such information is submitted on forms provided for that purpose. Each department head is responsible for having their governing committee review and approve their requests prior to submitting them.

Determining the City's financing potential is coordinated by the City's Finance Director, Financial Advisor and the Finance Committee. A sound analysis of fiscal status is necessary to determine the ability of the City to pay for capital improvements, and to establish fiscal policies.

After all of the CIP projects have been evaluated, the CIP Committee, with the assistance of City staff, prepares the Capital Improvement Program draft for submittal to the Finance Committee. The proposed program is then reviewed by the Finance Committee and forwarded to the City Council for consideration of adoption.

The CIP is developed prior to the annual operating budget. After the CIP is adopted, the first year of the program is combined with smaller capital requests (see "DEFINING CAPITAL PROJECTS" below) and becomes the approaching year's capital budget which is combined and adopted with the operating budget.

The Finance Committee monitors progress in implementing the Capital Budget. Additional information or needs may emerge that were not considered in the initial CIP. Hopefully, projects will not emerge suddenly but will come to light in later years of the CIP as it is evaluated annually. This will provide additional time to plan, evaluate and assimilate these projects and avoid "crisis" decision making.

In summary, the CIP Committee is given clear authority and responsibility for the process.

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The CIP Committee is also responsible for the overall evaluation of the project requests and the recommendations, to the Finance Committee and Common Council.

### **DEFINING CAPITAL EXPENDITURES**

The Capital Improvements Committee defines a capital project for purposes of this CIP program as a major, non-recurring, long term project; such as, new buildings, new streets, major street repairs or reconstructions, other major infrastructure improvements and in some cases major equipment purchases.

The committee will use several main criteria to determine whether a project qualifies as a Capital Improvement Project.

1. The projects generally have a cost in excess of \$40,000 (\$100,000 for equipment).
2. The project should be non-recurring.
3. The project should have an expected useful life greater than ten years.

Projects that do not meet the above criteria will be handled as part of the regular budget process and will be submitted along with the departmental operating budget requests. When this listing of smaller capital projects is finalized it will be incorporated as part of the final CIP plan with a pay-as-you-go funding source.

### **DETERMINING TIME FRAMES**

The program period is the number of years for which projects and revenues are projected. Few program periods are less than three years and few go beyond seven years. The most common program period is five years. The upcoming or "action year," is usually included and should be consistent with the operational budget. The City has selected five years as the time frame for the Capital Improvement Program. An update is conducted annually to reflect changing needs and priorities, and to extend the program an additional year.

The annual programming cycle is also important. Sufficient time is needed for the CIP Committee to prepare the CIP recommendations. This includes time for departments to prepare their requests, an evaluation period, and time for production. Completing the process 30 to 60 days prior to annual budget hearings allows requesting departments to adjust their budget requests based on the City Council's actions on the CIP. The following calendar is used for the CIP Process:

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1. CIP forms are distributed to departments. (After January 1)
2. CIP Forms are prepared by departments and submitted to the committee of jurisdiction for approval and recommendation to the CIP Committee. (May - Mid June)
3. Completed CIP Forms are returned to the Finance Department for inclusion in preliminary Project List. (Mid June)
4. CIP Committee meetings to evaluate preliminary project listing and propose final 5 year project list. (July)
5. Final project listing submitted to Finance Committee for recommendation to the Common Council. (August 1)
6. Common Council approval of final 5 year CIP Plan. (By the end of August)

### PROJECTING REVENUE

A capital improvement program should be based on known and predictable revenues, but new sources of revenue might be considered along with methods of cutting project costs. Possible revenue sources include: property or sales tax increases; user fees; special assessments; federal and state grants; tax increment financing; special districts; metered usage charge; annual service fee; plant investment fee; transfer fee; development impact fees and fees in lieu of dedication or development. This is a partial list and each, or none, of these sources may be acceptable.

Some possible methods of cutting costs include dedications of land and rights-of-way by developers and new technology involving alternative materials or techniques. Do not include any new revenue source or cost savings in your revenue projections unless it is certain that they will be implemented.

The revenue analysis provides the basis for the Finance Plan. It is important that the revenue sources and the allocation are derived from a historical perspective and that the forecasts are conservative. Capital improvement programs are self-balancing and, therefore, increases or decreases in revenue result in a corresponding increase or decrease in completed projects.

### FINANCING

The City will use long - term financing and pay as you go funding to finance capital improvements. These funding sources can be defined as follows:

1. Long Term Debt - Money is borrowed to finance projects immediately and then repaid from future revenues (i.e. general obligation debt, utility revenue bonds).
2. Pay-as-you-go - Financing from funds on hand (usually Sewer and Water Utility) or funds within the budget year they are received.

The City will utilize pay as you go funding for non - CIP capital projects as described earlier or for large utility projects when feasible. Long-term debt will be issued when pay-as-you-go financing is not practical; when other funding sources are not available; and when the benefits of the project accrue to future as well as to current residents. Long-term financing will spread the costs over a period of years helping the City to avoid large year to year fluctuations in the property tax levy.

When issuing long-term debt the committee will use the following guidelines:

1. The CIP Committee should propose a capital improvement plan where the level of debt to be incurred will not cause the City to drop below an "A" rating from Moodys' Investors service.
2. The City should make every effort to limit the term of financing to a period not longer than the useful life of the project.
3. The projects benefit to the Community should justify the additional costs of long-term borrowing.
4. The CIP Committee should work with the City's Financial Advisor to coordinate any proposed borrowing with the City's other outstanding debt.

The CIP Committee in conjunction with the City's financial advisor will recommend the proper combination of pay-as-you-go and long-term financing that will provide the most economic solution for the City.

### **PROJECT EVALUATION AND PRIORITIZATION**

A realistic capital program is more than a wish list. It must select those projects that are truly needed in the program period and determine their ranking against other projects. Determining the projects for funding in a Capital Improvement Program must be based upon local needs and desires. A general process consists of developing a uniform information base on each project; establishing project funding categories to determine priorities; and developing a method for project selection.

In order to begin the evaluation of projects, similar information on each requested project must be developed. The establishment of a uniform format for this information is the responsibility of the CIP Committee. Information to be provided by the requesting department or agency should include the following:

- 1) Project name, location and description.

- 2) Project estimated cost and source of funds.
- 3) Is project complete as identified, or do additional activities have to occur?
- 4) Priority assigned by applicant.
- 5) Will project have an impact on normal operating costs? If so, how much and when?
- 6) Will project address an existing deficiency or future need?
- 7) Will the project impact the public health or safety?
- 8) Can the project be phased over more than one year?
- 9) Identify and categorize the anticipated benefits of the project.

Once uniform information has been developed for all projects, the evaluation process can begin. Selection of the specific projects should be based on a prioritized review of the information submitted and the resources available. Establishing the specific selection criteria will be a local decision based upon local needs and desires. However, the important consideration, is the definition of those criteria. The following criteria will be used to evaluate CIP projects:

**Priority I: Imperative (MUST DO)** - Projects that cannot be reasonably postponed in order to avoid harmful or otherwise undesirable consequences.

- A. Corrects a condition dangerous to public health or safety;
- B. Satisfies a legal obligation (law, regulation, court order, contract);
- C. Alleviates an emergency service disruption or deficiency; or
- D. Prevents irreparable damage to a valuable public facility.

**Priority II: Essential (SHOULD DO)** - Projects that address clearly demonstrated needs or objectives.

- A. Rehabilitates or replaces an obsolete public facility or attachment thereto;
- B. Stimulates economic growth and private capital investment;
- C. Reduces future operating or maintenance costs; or
- D. Leverages available State and Federal funding.

**Priority III: Important (SHOULD DO)** - Projects that benefit the community but may be delayed without detrimental effects to basic services.

- A. Provides new or expanded level of service;
- B. Promotes intergovernmental cooperation;
- C. Reduces energy consumption; or
- D. Enhances cultural or natural resources.

## **DEFINITIONS**

The following terms define the capital improvement projects presented in the next section.

**Year:** The year the project is intended to be implemented, purchased, constructed, or initiated.

**Administrative Unit:** The department responding to the survey. Some City departments are not listed because they did not identify a project subject to the criteria.

**Project Description:** A brief summary of the project developed by project staff from more thorough descriptions provided by department heads.

**Project Cost:** Total project cost as estimated by administrative units.

**Outside Financial Assistance:** That portion of the total cost provided from sources outside the City, typically state or federal assistance. This does not include service charges, assessments, or indirect reimbursements.

**City Cost:** The funds estimated to be provided by the City outside the normal operating budget. No attempt is made to define how these funds should be provided; by tax levy or long term financing.

**Capital Improvement Planning Committee:** Group made up of all City Department Heads and the Mayor charged with the responsibility of preparing the Capital Improvements Plan Document.



**CITY OF BEAVER DAM  
CAPITAL IMPROVEMENTS PROGRAM  
PROJECT REQUEST FORM**

For CIP Committee use only  
CIP Committee Ranking \_\_\_\_\_

Department: \_\_\_\_\_

Date Submitted: \_\_\_\_\_

Prepared by: \_\_\_\_\_

Year of Funding: \_\_\_\_\_

Department Priority: \_\_\_\_\_

Project Title: \_\_\_\_\_

Project Description: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Project Need / Justification: (why is this project necessary)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Total Project Cost: (Show cost breakdown if necessary, i.e. engineering, land acquisition, construction)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Project Funding Sources:(list each proposed funding source and amount)

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Added Operating Costs: (will this project require added operating costs in future years i.e. personnel, utilities etc.)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

***A separate form must be filled out for each project submitted.  
Attach any backup detail that you feel is necessary for CIP Committee consideration.***