

Capital Improvement Plan Policy

Purpose

In recognition that buildings, infrastructure, 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. The General Fund, through the annual operating budget, is the primary funding source for the CIP and therefore plays an integral role in the development of the program. Proper planning and funding will mitigate budget fluctuations year over year.

A comprehensive capital plan will help ensure the future financial discipline and funding stability of the Town and systematically provide efficient 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 \$7,500 and are of a recurring nature and acquired each year.

General Fund capital purchases between \$5,000 and \$7,500 shall be budgeted for and separately presented in the Town's annual operating budget. A separate ORG code (i.e. department) will be established to track the expenditures. Example: 01890110 (Town Manager) 01890211 (Police Department). Within each department there will be an object code to identify the type of purchase (i.e. 5741 – Machinery & Equipment).

Definitions

1. The **Capital improvement program** is defined as a plan for capital expenditures over a multi-year period to meet identified improvements in capital assets.
2. 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 through the annual budget process for projects scheduled in the same year.
3. **Capital Equipment** is defined as any item that has an expected life of 3 (or more) years or more and a purchase price in excess of \$5,000. Items costing less than \$5,000 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.
4. **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.
5. **Sinking Fund** is defined as an account composed of the accumulation of sums of money set aside periodically to provide a definite amount for a specific purpose at a certain future date. Annual calculations are equal and are calculated by dividing the total amount required by the number of years during which the figure must accumulate.

Criteria

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

- The acquisition of and improvements to assets that cost \$7,500 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
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These items and other similar items that may require significant funding of \$7,500 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 \$7,500 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 capital budget and includes a planning, budgetary and financing process.

Assets in excess of \$7,500 not precluded from acquisition in the general fund or other special revenue fund.

CAPITAL IMPROVEMENT COMMITTEE

MEMBERSHIP

The Capital Improvement Committee shall be composed of two (2) members of the Town Council, two (2) members of the Board of Finance and one (1) member of the Board of Education with minority representation. Committee assignments shall be determined by the board chair. The Town Finance Director, Town Manager and Superintendent of Schools shall be ex-officio Committee staff members without the right to vote.

ROLES & RESPONSIBILITIES

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 \$7,500. All town departments, boards and committees, including the Board of Education, shall, by September 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.

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 recommendation. The Board of Finance shall submit its recommended Capital Budget to the Town Council for approval (see Exhibit A).

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.

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

As part of the annual budget process, the CIP will be prepared, presented and acted upon in accordance with the following schedule:

No later than September 1	Department, board or agency shall submit a proposed five year CIP to the Town Manager
No later than October 1	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 November 1	The Capital Improvement Committee shall receive, review and recommend the 5 year CIP. The plan will then be forwarded to the Board of Finance
On or about December 1	Board of Finance shall recommend CIP to Town Council
No later than January 1	Town Council adopts the CIP for the following fiscal year
Quarterly CIP meetings	The Capital Improvement Planning Committee shall meet at least quarterly to review and discuss current and proposed capital projects.

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

Capital Improvement items are considered on the basis of need and value to the community. Annually, each department, board or agency shall submit a proposed five year 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 Committee, Board of Education, 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 \$7,500 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 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 costs are estimated to exceed \$250,000 see “Estimated Costs” on page 5. 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. Photos and other documentation should also be submitted if they provide relevant information. 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 below:
 - Does the project meet established standards, codes or mandates?
 - Does the project address a Town Council policy initiative or Board of Education goal?
 - Does it address a health, fire, safety or security concern?
 - 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 (e.g. grant writer)?
 - Does the project create any revenue?
 - Do grant funds or other opportunities exist to offset costs?
 - What will happen if the Town does not undertake this project?

Use the above and 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 projects in the CIP, those estimated to exceed \$250,000, may be required 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 equipment and capital projects included in the CIP as recommended by the Board of Finance. 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. In no event shall the annual general fund contribution exceed 2 mills.

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. Capital Initiatives Fund** – This fund is primarily used to account for the construction and acquisition of major capital assets. Bond proceeds are the major funding source for projects accounted for in the fund.

- C. 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.
- D. 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

Revisions to Approved CIP Projects:

Periodically there will be changes made to the approved CIP Projects that will require extra funding. This could arise from unanticipated inflation, change from the original project description or bids that may push up the original cost estimate. These additional funding requests will be handled as follows:

- 1- The Department or authorized entity responsible for the Project makes an initial determination that additional funds are required for a specific purpose.
- 2- The Department Head submits a written request for additional funding to the Town Manager. This request will include the original Finance Department CIP request form and will include detailed cost differences in the original Project and the revised Project.
- 3- This additional funding can be approved by the Town Manager providing the additional costs do not exceed the greater of \$7,500 or 10% of the original Project cost.
- 4- Should the Project Cost increase be more than \$7,500 or 10% of the original Project cost then the Project must go back to the CIP Committee for their review and approval.

Funding New and Emergency CIP Projects:

Periodically there will be projects that arise suddenly or on an emergency basis. These projects may be recommended by employees, citizens, and members of boards or commissions.

- 1- The Department responsible for the project makes an initial determination that funds are required for a specific purpose.
- 2- The Department Head submits a written request for funds to the Town Manager. This written request is completed on the Finance Department's CIP Fund request form.
- 3- The Town Manager will make a recommendation to the CIP Committee. The Capital Improvement Committee will then make a recommendation that is forwarded to the Board of Finance.
- 4- The Town Manager will prepare a report and resolution for approval from the Board of Finance, Town Council, and Board of Education if needed. This report will be placed on the agenda of the next regular scheduled meeting of the Board of Finance and Town Council, and Board of Education if needed. Emergency meetings will be scheduled if necessary.

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.

Approved by the Town Council: September 9, 2014