

City of Rio Rancho Capital Improvement Policy

Purpose:

In order to promote consistency and continuity in decision making related to capital improvement planning and to set the general parameters within which capital spending decisions are made, the following policy is established for the City's Capital Improvement Program. As a matter of general policy, the goals of the City's Capital Improvement Program are:

1. Consistently make decisions related to capital improvement aligned with overall City goals and objectives regarding the physical and economic development of the community, asset management, and the provision of public services.
2. Promote financial stability and focus attention on the City's long term financial capacity to meet capital needs.
3. Effectively communicate the City's priorities and plans for undertaking capital projects to internal and external stakeholders.

The policy is designed to capture the following elements of the Capital Improvement Program:

1. Capital Improvement Plan Formulation
2. Capital Improvement Plan relationship to the Capital Budget
3. Project Financing
4. Post Project Evaluation

Capital Improvement Plan Formulation:

Capital Improvement Program

The Capital Improvement Program (CIP) consists of cross departmental activities designed to identify, plan, finance, and undertake acquisition of long lived capital assets necessary to meet service level goals and objectives. The Capital Improvement Program functions as:

1. A multi-year projection of the City's major capital needs.
2. A formal mechanism for decision making related to planning and budgeting for major capital acquisitions.
3. A link to the City's long range plans concerning the economic and physical development of the community, and the provision of public services.
4. A financial management tool identifying future financing requirements for major capital acquisitions over the planning period.
5. A communications device for reporting to internal and external stakeholders the City's capital priorities, and plans for implementing capital projects.

The major output of the program is the annually updated Infrastructure Capital Improvement Plan (ICIP). The ICIP plans for the allocation of existing and anticipated financial resources to replace, renew, expand, or acquire new capital stock, facilities, and infrastructure. The ICIP is a six (6) year plan identifying the priority, scheduling, and financing of major capital projects to be undertaken over the planning period. The ICIP represents a management and financial plan to guide capital financing and acquisition activities and is subject to annual review and modification by City staff, and approval by the Governing Body as part of the budget process.

Definition Statement of a Capital Project

Notwithstanding the definition of capital items and fixed assets established for capital budgeting and accounting, capital projects shall be defined for the purposes of the ICIP as follows:

A capital project is an outlay that results in or contributes to the acquisition of or addition to a capital asset with an anticipated cost equal to or exceeding ten thousand dollars (\$10,000) **and** with an anticipated useful life equal to or exceeding ten (10) years. This definition includes, but is not limited to, capital projects undertaken to:

1. Acquire new or expand existing physical facilities or infrastructure.
2. Acquire large scale renewal, improvement, or replacement of physical facilities or infrastructure that is not routine maintenance. Renewal and improvement expenditures are those that improve an asset's productivity, significantly extend its useful life, or change the character of the asset.
3. Acquire major pieces of equipment, vehicles, and other capital stock, including expenditures when aggregated or consolidated into a single project meet both criteria set forth above.
4. Procure engineering or architectural studies and services related to public improvements.
5. Acquire land or make improvements to land.

Projects meeting the above definition shall be eligible for consideration and inclusion in the annually updated ICIP. Any and all expenditures meeting the criteria for fixed assets as defined by the City's Fixed Asset Policy shall continue to be budgeted and accounted for as capital expenditures, however, will not be eligible for inclusion in the ICIP unless they meet the above definition of a capital project. Staff questions regarding the definition of a capital project should contact the Financial Services Department.

ICIP Development Responsibility

The Department of Financial Services shall have lead responsibility in coordinating the tasks and activities necessary to successfully administer the Capital Improvement Program, including but not limited to establishing policies, procedures, schedules and deadlines for ICIP formulation, defining roles and responsibilities of CIP participants, obtaining relevant and reliable documentation and information for capital projects,

establishing project evaluation criteria and rating systems, developing the ICIP document for Governing Body approval, and monitoring implementation of capital planning efforts.

Project Requests and Consideration

In order to evaluate the merits of capital project requests and to allow each project due process in evaluations, capital projects proposed during the annual ICIP process shall be accompanied, at a minimum, by the following information:

1. Project Title, Physical Description, and Definition of Scope
2. Demonstration/Justification of Need
3. Project Schedule
4. Capital Cost Estimate
5. Statement of Impact on the Operating Budget
6. Relationship to other Planned Projects
7. Project's Department Rank Priority
8. Recommended/Anticipated Funding Sources

The Department of Financial Services shall establish forms, instructions, deadlines, and procedures for project submittal and review.

Project Selection

To ensure capital programming and financial decisions are consistent with community goals, values, and needs, the City shall utilize, to the greatest extent possible and where appropriate, specific logical methods of decision making to:

1. Develop options for meeting capital needs and evaluating project alternatives.
2. Develop a Infrastructure Capital Improvement Plan (ICIP).

The Department of Financial Services shall develop and disseminate procedural guidelines for project evaluation and selection.

Infrastructure Capital Improvement Plan and the Capital Budget:

The ICIP represents the City's multi-year projection of capital needs and is a picture of future financing requirements, plans, and project scheduling. The ICIP does not impart spending authority for capital projects, but rather constitutes the primary basis upon which the annual capital budget is formulated. While the ICIP is a management plan, the capital budget is the current year spending authorization for capital expenditures, including capital projects identified in the ICIP.

The following policies apply to the relationship between the ICIP and the capital budget, and the formulation of the annual capital budget:

1. The City shall enact an annual capital budget based on capital project priorities and schedules as established in the multi-year ICIP.
2. The annual capital budget shall be developed and adopted concurrently with the annual operating budget. Operating impacts of capital expenditures shall be projected and included in operating budget forecasts.
3. Transition of a capital project from a planned expenditure in the ICIP to an appropriated one in the annual capital budget shall be achieved through the annual budget process by which staff submit capital outlay requests as part of their overall budget requests for the upcoming fiscal year.

Project Financing:

The City recognizes that an effective capital funding strategy requires consideration of a broad mix of funding mechanisms, including but not limited to pay as you go, grants, and debt. The City will maintain a balanced mix of financing sources without excessive reliance on any one source, and shall consider the following factor in evaluating the suitability of funding options for particular projects:

1. Legality
2. Equity
3. Effectiveness
4. Acceptability
5. Affordability
6. Ease of Administration
7. Efficiency

Pay-as-You-Go and Pay-as-You-Use Financing

Pay-as-you-go financing refers to the use of current financial resources to fund capital projects, including current revenues, fund balances, grants, and donations. Pay-as-you-use financing refers the issuance of various debt instruments to fund capital projects. In considering which funding method to utilize for particular projects, the City shall strive to match benefit streams to cost streams as closely as possible over the anticipated useful life of the project and across constituency groups to achieve intergenerational and intra-jurisdictional equity respectively in project financing arrangements.

Regarding intergovernmental grants and private donations, the City will seek to leverage such resources whenever available provide those capital projects identified are consistent with capital improvement plans and City priorities, and whose operating impact have been documented in operating budget forecasts.

Post Project Evaluation:

Capital Inventory

The City shall maintain its capital asset inventory at a level adequate to protect the City's capital investment, avoid disruption of service delivery, and to minimize future maintenance and replacement costs. To that end, the City shall conduct and prepare a capital assets inventory biannually to report on the age, condition, and replacement cost of major capital assets.

Project Progress Reporting

The Department of Finance shall establish procedural guidelines for project progress reporting as part of the annual capital budget and ICIP development processes.