Capital Improvement Program

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## Contents

A. Purpose, Legal Basis, and Applicability ................................................................. 3  
B. Definitions ........................................................................................................... 4  
C. Infrastructure Maintenance GASB 34 – Modified Approach .................................. 5  
D. Capital Improvement Plan Process and Calendar .................................................. 5  
E. Capital Improvement Plan Worksheet ..................................................................... 6  
F. Sources of Revenue for Capital Improvements .................................................... 6  
G. Tracking of Funds Appropriated for Capital Improvement Projects ..................... 9
A. Purpose, Legal Basis, and Applicability

1. THE PURPOSE OF THE CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) provides a basis for prioritizing and implementing the short and long term plans for city acquisitions and projects. The CIP is intended to be a planning document for the departments and coordination and scheduling document for the entire city organization. It assists in coordinating the schedule of large expenditures over a period of years for better fund management and cash management purposes. The CIP helps to reconcile the timing of projects with the availability of financial, manpower and equipment resources. The CIP also serves to enhance the city's credit ratings and helps reduce fluctuation in the tax rate and debt service requirement.

The CIP outlines a series of standards and guidelines for infrastructure investments, assesses current conditions and needs, and establishes priorities for the City to fiscally meet infrastructure demands. Areas covered by the CIP include: right of way infrastructure, utilities, grounds (including parks, trails, and recreation), buildings, and vehicles.

The City should maintain an up-to-date, five-year CIP. A five-year CIP is a needed planning tool to provide guidance and some predictability for future years’ budgeting. The CIP prioritizes each of the capital improvement projects based on the findings and recommendations of the Capital Planning Committee and should be updated annually to reflect completed projects and emerging needs.

2. LEGAL BASIS

The Charter for the City of Saco, Article VI. Financial Procedures Section 6.05 Capital Program requires the City Administrator to prepare and submit to the City Council a five-year Capital Improvement Program in March of each year. The Charter further provides that the Council will, after hearing, adopt a capital program on or before the first regular meeting in June. This policy further these charter requirements.

Additionally, the City has elected to adopt the modified approach under GASB 34 for reporting City infrastructure, which avoids the need to report costly depreciation on the financial statements. This policy provides the system under which necessary minimum assessment levels are preserved.

3. APPLICABILITY: What is a Capital Improvement Project?

As used in the Capital Improvement Program, a capital improvement project or capital expenditure is a major, nonrecurring expenditure that has a useful life of 5 years or more and costs in excess of $10,000. The following is a comprehensive list:

- Acquisition of land for a public purpose;
- Construction of a new facility or an addition to, or extension of, such a facility;
- Purchase of major equipment or vehicles or groups of major equipment;
- Any planning, feasibility, engineering, or design study related to an individual capital improvement project or to a program that is implemented through individual capital improvements;
- Prior year carryovers or designations of fund balance for prior year projects, which for one reason or another were not completed prior to the end of the fiscal year;

Water Resources and Recovery capital projects are managed separately by the Water Resources and Recovery Department (WRRD), with funding sourced from user fees, impact fees, and revenue bonds. The procedures described in this document do not apply to WRRD capital
improvements. However, WRRD is expected to manage a capital planning process substantially along the same lines as what is presented herein.

B. Definitions

- **Bond** - A written promise to repay debt on a specific date in the future, along with payment of a specified amount of interest at predetermined intervals while the debt is outstanding.
- **Capital Improvement Program (CIP)** - A multiyear forecast of major capital building, infrastructure, and equipment needs. A CIP identifies not only future capital needs but also the capital appropriations or estimated spending required to address those needs, sources of capital financing, and their impact on future operating budgets.
- **Capital Leases** - According to the Governmental Accounting Standards Board (GASB), a lease that meets at least one of the following:
  - It transfers ownership of the leased property to the lessee
  - Contains a bargain or nominal purchase option
  - Its term equals 75% or more of the estimated economic life of the leased property
  - The present values of the lease payment equals or exceeds 90% of the fair value of the property at the inception of the lease
- **Capital Projects Funds** - Funds used to account for grants and other transfers in for special projects and track capital funding for those projects over time. See **Governmental Funds**
- **Dedicated Funding** - Funds allocated for specific programs or projects which are dedicated at their source rather than through an allocation of funds from the general fund.
- **Designated Fund Balance** - The portion of the fund balance which represents the intended uses of the fund balance. See **Fund Balance**
- **Exactions** - Contributions of money or other property by a developer that a local government uses to provide infrastructure, amenities, or services to a development being built by the developer.
- **Excise Tax** - An annual tax that must be paid prior to vehicle registration which his levied for the privilege of operating a motor vehicle or camper trailer on the public ways. The amount taxed is based off the age of the vehicle and the manufactured suggested retail price (MSRP)
- **Fund** - An accounting entity, which consists of cash or other assets, related liabilities, revenue, expenditures or expenses, and residual equities or fund balances.
- **Fund Balance** - The difference between a municipality's assets (what is has) and a municipality's liabilities (what is owed).
- **Governmental Accounting Standards Board (GASB)** - The board that sets accounting and financial reporting standards for state and local governments.
- **General Fund** - The general operating fund of the city. It accounts for all of the city's financial resources except those accounted for in another fund. See **Governmental Funds**
- **General Obligation Bonds** - Also known as Full-Faith-and-Credit bonds are bonds backed by the credit and taxing power of a municipality. See **Bond**
- **Grants** - A gift of money from one government or entity to another.
- **Governmental Funds** - Used to account for most governmental functions, and consist of the General Fund, Special Revenue Funds, and Capital Projects Funds. See **Fund**
- **Impact Fees** - Charges to new developments by the city based on the need to either expand or construct local infrastructure or capital facilities either on or off-site to serve the new development. Impact fees paid by a new development do not necessarily have to be used to finance the specific infrastructure and facilities which would serve the new development.
- **Inter-fund Borrowing** - The movement of revenue from one fund into another
- **Inter-governmental Revenues** - Funds received from the federal or state government as well as other local municipalities.
- **Revenue Bonds** - A bond secured by and repaid from specific and limited revenues. The pledged revenues are most often net revenue earnings from a self-supporting utility or enterprise. Other revenue bonds secured by and repaid from revenues are derived from special or limited taxes. See **Bond**
• **Special Assessment Fees** - Charges that are assessed on properties within a special benefit district formed to fund the construction of improvements that benefit the property in that district.

• **Special Revenue Funds** - Funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. See Governmental Funds

• **Tax Incremental Financing District (TIF)** - Special districts which are established to pay-off a bond or credit enhancement agreement for a particular improvement project, or to fund related development projects as approved by the State.

• **Undesignated Fund Balance Surplus** - The portion of the fund balance which is available for appropriation.

• **User Fees** - Direct charges to people using public services.

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**C. Infrastructure Maintenance GASB 34 – Modified Approach**

The Capital Improvement Program is vital in maintaining standards for the City of Saco on its infrastructure such that it can participate in the modified approach to infrastructure reporting and avoid costly depreciation on these assets. A brief description of the modified approach is presented below. Although sewer infrastructure is maintained at a minimum standard to avoid costly depreciation, those capital projects are maintained through WRRD and are not under the authority of this policy.

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as:

- Street system including pavement, sidewalks, street lighting, traffic signals and curbing;
- Storm water and sanitary collection system;
- Water Resource Recovery facility;
- Park and recreation lands; and
- Building site amenities such as parking and landscaped areas.

The City has elected to use the “Modified Approach” as defined by GASB Statement No. 34 for infrastructure reporting for its infrastructure assets. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of
  1. An up-to-date inventory;
  2. Perform condition assessments and summarize the results using a measurement scale; and
  3. Estimate annual amount to maintain and preserve at the established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed assessment level.

The City’s Policy is to work towards keeping road conditions at or above a minimum of 56 (or equitable rating of fair) for all roads and parking lots. Sewer pipe has been assessed similar to roads. Other infrastructure assets including catch basins and manholes, storm drainage, sidewalks, traffic lights and signage, have been combined with the streets on the City’s Asset Management System (AMP).

**D. Capital Improvement Plan Process and Calendar**

The first step in the city review process calls for the department heads or the first line supervisors to review their plans for capital purchases and to prepare estimates for the cost involved. The review shall
include consideration of capital improvement needs expressed by the public and/or municipal officials. The estimates that are submitted to the Capital Planning Committee shall include:

1. A clear general summary of contents;
2. A list of all capital improvements which are proposed to be undertaken during the five fiscal years next ensuing, with appropriate supporting information as to the need for such improvements;
3. Cost estimates, method of financing and recommended time schedules for each improvement; and
4. The plan shall describe if and to what extent each capital improvement will impact the City’s current and future operating budget. The focus is on reasonably quantifiable additional costs and savings (direct or indirect) or other service impacts that result from capital spending. If there are none or if they are nominal impacts, this needs to be stated in the plan.

The next step involves a review by the Capital Planning Committee of all department requests to assess the projects or proposed capital expenditure items both technically and financially. The requests are prioritized based on perceived need, budget availability, and related planning documents. Capital Planning Committee develops a recommended five-year CIP, which includes revenues and projected appropriations for review by the City Administrator. The City Administrator then reviews the recommendation of the Capital Planning Committee in the context of other budget priorities to prepare a recommended Capital Improvement Plan for presentation to the City Councilors. The Administrator may want to recommend financing options at this time also.

Next, the Council should hold a public hearing to obtain public input into their plan. Once the public input is obtained, the Council should review the document and either send it back for additional work by the Administrator and department heads or adopt it as presented. Once the Plan has been approved it will serve as a guide for future budgets.

E. Capital Improvement Plan Worksheet

In order to prioritize capital improvements, the city has established a capital improvements fixed asset worksheet with corresponding standards and guidelines for its completion. The standards and guidelines establish the policy for prioritizing capital improvement expenditures and outline a fiscally responsible plan for recovering the infrastructure costs associated with new development. They also establish priorities for using infrastructure capacity wisely and as an incentive for furthering community goals. These standards include a ranking of each project by purpose and priority according to:

Treatment Type:
- Update
- Rehabilitate
- Enhance/Growth
- New Asset

Priority:
- Critical - project cannot be reasonably postponed
- Important - project that should be carried out within a few years.
- Preventative - necessary to prevent future costs
- Future Value - project to support City growth

Vehicles
- Critical (Condition Score 0-39)
- Caution (Condition Score 40-79)
- Good (Condition Score 80-100)

F. Sources of Revenue for Capital Improvements

Specific revenue sources are described in the following sections:
1. PROPERTY & EXCISE TAX

Property Tax is levied upon the assessed value of real and personal property within the community.

Excise tax is another source of income for capital improvements. Excise tax is levied annually for the privilege of operating a motor vehicle or camper trailer on the public ways based on the age of the vehicle and the manufactured suggested retail price. Typically, this revenue is spent on local road maintenance, construction, and repair but it can also be used as revenue towards the annual city budget.

2. UNDESIGNATED FUND BALANCE SURPLUS

The City’s Undesignated Fund Balance (UDFB) are funds that are held in reserve to cover unexpected expenditure needs and emergencies, revenue shortfalls, and seasonal cash flow variations. The City Council has determined that the UDFB should be 8.33% to 10% of the following year's City general fund budget as adopted by the City Council. Any surplus in the UDFB above the 10% max is made available for Council appropriation. Replacement of aging capital equipment that carries unusually high costs and has a utility life of 10 years or more and specifically targeted infrastructure projects are qualified expenses that the undesignated fund balance surplus can be used to cover.

3. IMPACT FEES & EXACTIONS

Impact fees are charges to new developments by the city based on the need to either expand or construct local infrastructure or capital facilities either on or off-site to serve the new development. Impact fees paid by a new development do not necessarily have to be used to finance the specific infrastructure and facilities which would serve the new development. However, impact fees must be spent on the same types of infrastructure and facilities for which the new development was charged. As a result, impact fees may provide either a direct or indirect benefit to the development paying the fee and may be helpful in financing general community infrastructure and facilities such as: Arterial roads, water and sewer mains or treatment plants, parks, public safety centers, municipal centers, etc.

Exactions, not to be confused with impact fees, are charges to developers seeking to develop new properties or are planning on large improvements to existing properties. The zoning ordinance requires that developers pay for all or a portion of the costs required to provide the community with services. These improvements are often located off-site. Exactions may require that developers build the supporting infrastructure to local standards and then dedicate it to the municipality or if there is an existing infrastructure in place, the municipality may require that the developer buy in to the existing infrastructure. Exactions may also come in the form of a land donation for parks, greenways, or other public facilities. The City of Saco uses exactions in the creation of subdivisions to ensure that road infrastructure is built to city standards and then dedicated as a public way. This ensures that in the future the city will not be responsible for bringing a dilapidated road up to code. The City code allows the Planning Board to place exactions as part of site plan review and for subdivisions as well as allowing the City Council to place them as part of contract zoning.

4. SPECIAL ASSESSMENTS

Special Assessment fees are charges to properties which receive a direct benefit from a specific infrastructure project located on-site or nearby. Examples of improvements for which Special Assessment fees can be charged for street construction, sidewalks or curbs, roads, water collector lines and mains, sewer collector lines and mains, storm-water and erosion control facilities, beach replenishment, street lighting, community parks, and recreation facilities. Unlike Impact Fees, the
benefits to the property(s) are generally clear and the revenue generated from these fees are used to finance the project benefiting the property.

5. INTERGOVERNMENTAL REVENUES & GRANTS

Intergovernmental revenues are received from the federal and state government as well as from other local municipalities. The major categories include various federal and state grants, state municipal allocations for revenue sharing, and local road assistance. The city has been very successful in obtaining grants to help supplement the budget for needed capital improvements or planning efforts.

6. BOND FUNDING

The city has relied on bonds and other forms of borrowing to fund some of its infrastructure requirements. By borrowing, the city may spread the costs of an improvement over its useful life, which also ensures that those using the improvement share in its costs. The city may contract indebtedness by borrowing money or issuing the bonds of the municipality for any public purpose of the municipality, including but not limited to the following purposes: supplying water, gas, heating and cooling, and electricity; purchasing land; and purchasing, constructing, extending, and improving public streets, buildings, facilities, and equipment. Bonds require voter approval.

The City most often makes use of General Obligation Bonds (GOB) when securing financing for capital improvement projects. General Obligation (GO) Bonds or Full-Faith-and-Credit bonds are secured by the City’s pledge to use legally available resources, including tax revenue, to repay bond holders. GO bonds typically have lower interest rates than other types of long-term debt and tend to cost less to issue than other types of bonds. All general obligation bonds must obtain voter approval.

Bond funds are stored in dedicated capital projects funds to ensure expenditures are tied to applicable projects.

7. CAPITAL LEASES

Capital Leases are used when municipalities wish to spread the cost of purchasing an asset out over its useful life. This provides some equity between full accrual and modified accrual accounting for assets and mitigates the cash flow implications of multiple costly purchases. However, a lease is only considered a Capital Lease if it meets one or more of the following:

- It transfers ownership of the leased property to the lessee
- Contains a bargain or nominal purchase option
- Its term equals 75% or more of the estimated economic life of the leased property
- The present values of the lease payment equals or exceeds 90% of the fair value of the property at the inception of the lease

Leases are subject to City Council approval. The city uses lease purchases as a means of acquiring needed equipment including road equipment and vehicles, as well as for fleet replacement.

8. TAX INCREMENT FINANCING DISTRICTS (TIF)

Tax Incremental Financing Districts are another method to fund capital improvement projects. In most cases, special districts are established to pay off a bond or credit enhancement agreement for a particular improvement project. The property taxes raised from within the designated district are not included with the general fund for budgetary purposes but are transferred into the separate TIF fund in order to provide funding for projects within the designated district.
TIF Funds are stored in special revenue funds to ensure expenditures are tied to applicable projects.

9. INTER-FUND BORROWING

Inter-fund Borrowing is the movement of revenue from one fund into another. This generally takes place when a fund is nearing a zero cash balance but still has expenses to pay. Revenue is borrowed from another fund to meet short-term cash flow needs.

The City has used Inter-fund Borrowing to finance the Community Center, the Spring Hill Industrial Park, the Mill Brook Industrial Park, and the Transportation Center. Interfund borrowing reduces the undesignated fund balance in the General Fund because cash must be held on hand in the General Fund to compensate for negative (undesignated) balances on other funds.

G. Tracking of Funds Appropriated for Capital Improvement Projects

According to Section 6.10 of the City Charter, appropriations for capital expenditure shall continue in force until the project has been either accomplished or abandoned. “Abandonment” is defined as three years passing without any disbursement or encumbrance from the appropriation. Therefore, an appropriate method for tracking funds appropriated for capital projects from year to year must be established.

The Capital Improvement Program is adopted per the City Charter on or before the first regular City Council meeting in June. In practice, the Capital Program is approved at the same time as the municipal budget at a special Council meeting in May. General Fund appropriations for the Capital Program are approved in the form of a series of transfer accounts at the same level of detail as the Capital Planning Committee may approve.

The General Fund appropriations approved by City Council are transferred upon the start of the fiscal year into a Capital Projects Fund, which contains individual project accounts at the same level of detail as the Capital Planning Committee may approve.

At the end of the fiscal year, the Finance Director and Public Works Director will review the remaining balances on all capital projects accounts. Remaining balances on completed projects will be transferred back to the General Fund. Remaining balances on each incomplete project will be rolled forward to the new fiscal year as new individual budget for that specific project. For example, a project that had an original appropriation of $100,000 with only $30,000 spent in the first fiscal year will have a budget of $70,000 for the following fiscal year. This ensures that the balances on unfinished projects remain tied to their original purpose.

Impact fees and exactions, except for those levied by the Water Resource and Recovery Division, are subject to a similar procedure. Each year, impact fees and exactions will be paid into individual project accounts in the Capital Projects funds. At the end of each fiscal year, the Finance Director and Public Works Director will review the remaining balances on all impact fee and exaction project accounts. Remaining balances on each account will roll forward to the new fiscal year as the new individual budget for that specific impact fee or exaction. For example, an impact fee account that collected $100,000 in fees and spent $30,000 will have a budget of $70,000 in the new fiscal year. This ensures that the balances on impact fee and exaction accounts remain tied to their original purpose.

Grant fund revenue is entered directly into the related project expense account to offset project expenses. Grant fund entries are tracked consistently to ensure they can be found for reporting at a later date.

Capital projects that have TIF revenue as a funding source will be expensed directly out of the special revenue fund that is tied to the TIF.
Capital projects that have bond revenue as a funding source will be expensed directly out of a capital projects fund created specifically for that bond.