



City of Gardiner, Maine

POLICY ON CAPITAL ASSETS & CAPITAL IMPROVEMENT PLAN (CIP)

Date of Original Approval: December 5, 2012

Effective Date: December 6, 2012

Date of Amendment(s): N/A

Level: **Divisional**
 Departmental
 City-Wide

Policy Statement

This policy establishes the minimum cost value (capitalization amount) that shall be used to determine the capital assets, including infrastructure, that are to be recorded and depreciated in the City's annual financial statements in order to comply with the requirements of the Governmental Accounting Standard Board (GASB). The policy also establishes a capital improvement plan (CIP), to include scoring criteria for ranking capital requests.

References

None.

Policy Description

Capital Asset Definitions and Thresholds

Capital assets will be defined as tangible and intangible assets that have initial useful lives that extend beyond three (3) years and meet the minimum thresholds listed below:

Land and improvements \$25,000

Includes the acquisition through purchase or long-term lease of undeveloped real estate. If an acquisition of land is associated with the acquisition of a building or infrastructure project, the project should be categorized in those respective categories.

Buildings and improvements \$10,000

Includes the replacement, renovation, addition to, construction, or acquisition through purchase or long-term lease of a building structure or major component thereof.

Machinery/equipment/vehicles \$10,000

Includes self-propelled equipment such as vehicles as well as immobile items such as message boards that are not fixed to a particular building.

Infrastructure \$25,000

Includes such things as water and sewer pipes, pumping stations, road work, sidewalks, traffic signals, drainage systems and others improvements of a lasting nature but not related to building structures.

Capitalization Method

All capital assets will be recorded at historical cost as of the date acquired or constructed. If historical cost information is not available, assets will be recorded at estimated historical cost by calculating current replacement cost and deflating the cost using the appropriate price-level index.

Infrastructure Assets

In accordance with GASB, the City will record, at a minimum, “major” infrastructure assets that were acquired, constructed or significantly reconstructed, or that received significant improvements after June 30, 1980. Other infrastructure assets may be capitalized as deemed appropriate.

Other Assets

Detailed records shall be maintained in conformance with Maine state law for all items below the capitalization thresholds that should be safeguarded from loss.

Depreciation and Useful Life

The Finance Director will assign an estimated useful life to all assets for the purposes of recording depreciation. Asset lives will be adjusted as necessary depending on the present condition and use of the asset and based on how long the asset is expected to meet current service demands. Adjustments should be properly documented. Depreciation will be recorded based on the straight line method using actual month convention and depreciated down to the assets salvage value.

Safeguarding and Controlling Capital Assets

All machinery and equipment, vehicles and furniture will be assigned an asset number and identified with a capital asset tag. As capital assets are purchased or disposed of, the Department Head in custody of that asset will be responsible for notifying the Finance Department to ensure proper recording.

Capital Improvement Plan (CIP)

A capital improvement plan (CIP) establishes the priorities and funding of capital infrastructure investments a community should make to ensure its continued economic viability and to protect public health and safety. A strong CIP is an important element in the City's overall economic development program. The CIP program establishes the priorities and funding to provide a safe and efficient roadway system, capital-intensive environmental infrastructure projects such as wastewater collection and treatment facilities, as well as public safety equipment through a planned and continuous investment program. A CIP also establishes a plan to purchase, construct, and maintain public land and buildings to serve our citizens.

Keeping all of the City’s capital assets in functional and working order requires regular reinvestment. Through the CIP, the City will determine the priorities for investment in long-term assets. The CIP will represent a balance between maintaining the City’s existing assets and investing in new assets to support the City’s growth, as well as ensuring that investments are made in accordance with the community’s priorities.

The CIP will specify and describe the City's capital project schedules and priorities for six years and will be updated annually and submitted to and adopted by City Council as part of the annual budget process.

Generally, capital improvement projects consist of purchasing, constructing or renovating structures, new or improved sidewalks and roads, purchase, improvement and development of land, and purchasing equipment or vehicles that have a minimum cost as outlined above.

The City of Gardiner utilizes a number of funding sources to fund major capital improvement projects. These sources include: borrowing (issuance of general obligation bonds/long-term debt), operating budget and/or surplus (capital expenditure), and grants or other federal/state aid. Some of the CIP projects are recommended for funding through annual operating funds. In these cases, the CIP and the operating budget are directly linked as CIP projects become authorized. Projects funded through debt also impact the operating budget through ongoing debt service expense. Some completed CIP projects will directly impact the operating budget in that they will require ongoing expenses for staff and other operating costs.

CIP Preparation

City department heads will submit capital projects for consideration in the CIP at the same time and in the same manner as they submit their annual operating budget request. Each capital project request must include a project description and the service need it addresses, a proposed timetable, proposed funding levels and sources, and estimated ongoing operating costs (if applicable).

Evaluation Guidelines

Each request will be reviewed and scored according to the following factors:

- A. Legal Obligation / Compliance with Adopted Plans and Studies
- B. Impact of Service to the Public
- C. Asset Maintenance Need
- D. Funding Source
- E. Fiscal Impact
- F. Prior Phases
- G. Department Priority

Criteria A – Legal Obligations and Compliance with Adopted Plans and Studies

Rationale: Projects that are under legal mandate, fulfill a policy of a Council adopted plan, or have completed a study related to the project will receive higher ratings than those projects that do not.

Considerations: Ratings for this criterion will consider these factors:

- A. Whether the City is under direct court order to complete this project.
- B. Whether the project is needed to meet requirements of federal or state legislation.
- C. Whether the project advances one or more policies of a Council adopted plan.
- D. Whether the project advances the recommendations of a completed study.

Rating Factors:

- 20 – City is currently under court order to take action.
- 16 – The project is necessary to meet current state or federal requirements.
- 12 – The project advances more than one policy of a Council adopted plan.
- 8 – The project advances one policy of a Council adopted plan.
- 4 – The project advances the recommendations of a completed study.
- 0 – There is no legal requirement, plan, or study guiding the completion of this project.

Criteria B – Impact of Service to the Public

Rationale: Higher priority will be given to projects that address life-safety and accreditation needs as well as improve the operations of a department or improve service delivery to a “high priority” public need service compared to projects that do not.

Considerations: Ratings for this criterion will consider these factors:

- A. Whether the project expands the scope of services provided by the City.
- B. Whether the project has an imminent impact on service, life-safety, or accreditation.
- C. Whether the project focuses on a service that is a “high priority” public need.

Rating Factors:

- 16 – The project addresses an *imminent* life-safety, accreditation, or critical service need.
- 12 – The project improves service delivery to a “high priority” public need.
- 8 – The project improves the operation of a department.
- 4 – The project maintains the current level of service.
- 0 – The project expands the scope of services provided by the City.

Criteria C – Asset Maintenance Needs

Rationale: Projects that are essential to protect investments, or repair assets that have ceased to function will receive higher ratings compared to those that do not.

Considerations: Ratings for this criterion will consider these factors:

- A. Whether the project will restore the functionality of an asset that is no longer functional.
- B. Whether the project is the most cost-effective method of maintaining an asset.
- C. If the asset is functional, the likelihood that the asset will cease to be functional in the next two years if the project is not funded.
- D. Whether a comprehensive maintenance/rehabilitation/replacement plan has been prepared and the project is scheduled under that plan.

Rating Factors:

- 16 – An asset is currently non-operational and the project will restore functionality in the most cost-effective manner possible.
- 12 – An asset is likely to cease to operate in the next two years if the project is not funded.
- 8 – The project is necessary for regular maintenance and replacement and a maintenance/rehabilitation/replacement plan has been prepared.
- 4 – The project is necessary for regular maintenance and replacement; however, a maintenance/rehabilitation/replacement plan has not been prepared.
- 0 – There is minimal risk of asset failure if the project is not funded.

Criteria D – Funding Source

Rationale: Projects that have a large proportion of external funding will receive higher ratings than those projects that do not.

Considerations: Ratings for this criterion will consider these factors:

- A. Whether the project is funded by an outside agency, grant funds, or matching funds.
- B. Whether external funding will be lost if the project is delayed.

Rating Factors:

- 10 – Project requires less than 30% City funding.
- 5 – Project requires less than 50% City funding.
- 0 – Project requires more than 50% City funding.

Criteria E – Budget Impact

Rationale: Projects that have a net decrease in operating costs will receive higher ratings than those projects that do not.

Considerations: Ratings for this criterion will consider these factors:

- A. Impact of the project on operating costs, personnel levels, fee revenue and tax revenue.

Rating Factors:

- 10 – Project results in a net decrease in operating costs.
- 5 – Project results in no change to operating costs.
- 0 – Project results in a net increase in operating costs.

Criteria F – Prior Phases

Rationale: Some projects need to be developed in phases due to their complexity, scheduling, or size. Priority will be given to continuation of viable projects funded in past years.

Considerations: Ratings for this criterion will consider these factors:

- A. Whether the project has received prior year funding.
- B. Whether the project requires additional funding to be operational.
- C. Whether the project is still viable according to the justification for the project.

Rating Factors:

- 8 – All but the final phase of the project has been funded and the project remains viable.
- 6 – Past phases of the project have been funded and the project remains viable.
- 4 – All phases of the project have been funded, but the project requires additional funding to be operational and the project remains viable.
- 2 – The first phase of the project has been funded and the project remains viable.
- 0 – No prior phases of the project have been funded or the project does not require phasing.

Criteria G – Departmental Priority

Rationale: Departments are requested to indicate which projects are most important to their mission.

Considerations: Ratings for this criterion will consider these factors:

- A. Department ranking of each individual project.
- B. The total number of project requests that are turned in by each Department.

Rating Factors:

- 8 – Top 20% of the highest departmentally ranked project requests.
- 6 – The next 20% of the highest departmentally ranked project requests.
- 4 – The next 20% of the highest departmentally ranked project requests.
- 2 – The next 20% of the highest departmentally ranked project requests.
- 0 – The last 20% of departmentally ranked project requests.

While all requests must be scored and ranked through the process outlined above, the City Manager shall retain discretion to recommend capital purchases regardless of relative score or ranking to other items.

In determining the City's financial strategy and fiscal capacity for capital investment, historical trends and forecasts will be examined.

CIP Presentation and Adoption

A City Manager's Recommended CIP will be presented to the City Council during the annual budget process. The CIP will be subject to public comment and discussion in the same manner as the operating budget and will be adopted as part of the annual budget process.