



CAPITAL IMPROVEMENT PLAN (CIP) POLICY

Why a Capital Improvement Plan Policy Is Important

Capital Infrastructure is vital for our community to thrive. This policy supports our infrastructure by:

- Protecting and improving the historical investments City of Durango has made in its infrastructure.
- Promoting wise investment in new infrastructure

Capital Improvement Plan (CIP)

Each year, City of Durango staff will create a long-range capital improvement plan (CIP). The CIP included for budget consideration will define and prioritize the capital projects that City of Durango plans to take on in the next five years. Project appropriation will be for the current budget year (1 year), and the 5 year CIP will demonstrate the current priorities and intentions for the 5 year period. Years 2-5 are for illustrative/planning purposes. It is understood that circumstances and priorities may change.

- **Definition of a capital project. *Capital Improvement Project*** - *A permanent addition to the city's assets of major importance and cost.* As defined by the City of Durango, a capital improvement project is an investment of public/and or private funds totaling \$50,000 or more for a project with a three or more year useful life. Examples of capital projects include the construction of a new structure, the reconstruction of an existing structure, or the renovation of a structure that extends its useful life. The costs of planning, design and engineering, land acquisition, construction, renovation, demolition, equipment and studies are all considered when calculating capital expenditures. Additionally, ongoing operating and maintenance costs will be considered during project evaluation and prioritization, and included in annual capital improvements program. [This will demonstrate TOTAL project cost].
- **Link to needs assessments.** All projects in the CIP, with minor and few exceptions, should be based on needs assessments performed by City Staff to determine the benefit of the asset compared to its cost. See Needs Assessment Attachment A.

Small CIP Projects

Construction projects, equipment purchases, and certain studies that cost between \$5,000-\$50,000 will be included within the operating budget. In cases where there may be operating and maintenance projects, and equipment purchases that exceed the \$50,000 threshold but will not qualify as CIP projects based on the useful life or other criteria, these too will be included in the operating budget.

CIP Project Identification

Each year during the annual budget cycle, after Council Priorities are established, City of Durango staff with recommendations from Boards and Commissions and public input will recommend projects for the CIP. At a minimum, identified projects include the following information:

- **A summary of the project scope**
- **Long-term operating and maintenance costs.** A plan will identify the cost to operate and maintain the asset over its life cycle.
- **Funding source.** Project proposals will describe where the funding is expected to come from to acquire, operate, and maintain the asset.
- **Project timing.** Project proposals will identify the proposed schedule for planning, bidding, construction, and other milestones in acquiring the asset.



- **How the CIP Projects supports City Council goals and objectives and Strategic Plan**

CIP Project Evaluation Criteria

Project evaluation and selection process should consider:

- **Long-term forecasts-** should be prepared to make clear the resources for capital spending and to assess the impacts of operations, replacement costs and maintenance.
- **Project impact.** A project should not be considered on its own. The impact a project has on other projects should be recognized and costs shared between them where appropriate.
- **Funding of preliminary activities.** For some projects, it may be wise to fund only preliminary engineering/planning before promising to fund the whole project. These expenses can be large, so they should be assessed and prioritized.
- **Operating and maintenance costs.** Aside from the one time capital requirements to construct a CIP, ongoing resources should be identified to operate and maintain an asset before assigning resources to build or acquire it.
- **Life cycle costing.** The cost study of a proposed project should include the life of the asset—from planning and acquisition to disposal.
- **Project timing and scope.** Schedule and scope estimates should be achievable within the requested financial and human resources.
- **City and Departmental Priorities.** When departments propose multiple CIP projects in any budget cycle an evaluation of the priority of each of the projects among the others should be evaluated.
- **Project Standards.** Projects shall align with City standards as required by the Design Review Board and the Planning Commission. Applicable CIP projects will go to the Design Review Board and the Planning Commission to ensure compliance with design and LUDC standards.

CIP Review

During the annual budget cycle, the City Manager, Managing Directors, Finance Department staff, Department Directors, Interdepartmental Review Team and applicable department personnel will review project proposals, determine project phasing, and review and evaluate the CIP section for the proposed budget.

A quarterly CIP report will be provided to City Council for monitoring purposes.

CIP Interdepartmental Project Evaluation

City of Durango will use an interdepartmental team to review identified projects. The team made up of representatives from various departments provides a citywide perspective on proposed projects. The group individually and as a team review each proposed project in context of City goals, identified needs, interdepartmental synergies, costs, and identified outcomes. Review by the team results in better planned, more thorough projects that are consistent with all citywide priorities.

CIP Budget Appropriations

The City's annual CIP appropriation is based on the projects designated by City Council through adoption of the annual budget. If new projects are identified or additional resources are necessary throughout the fiscal year they will be brought to Council for review and approval in accordance with Colorado State Budget law. If, after adopting the budget and making appropriations, City Council deems it necessary, it may transfer appropriated moneys between funds or between spending agencies within a fund, as determined by the original appropriation level.



CIP Carryforward Projects

There are cases where a CIP project is a multi-year effort and other projects that are not completed or have no progress. A summary of such projects will be submitted as part of the annual budget process for review and approval. Upon project completion/closeout funds unspent project funds will be returned to the appropriate funding source.

Balanced CIP

The CIP is a balanced, long-term plan and serves as a companion plan to the operating budget and fund balance policies for the City. For the entire period of the CIP, revenues will be equal to the projected costs. It is possible that the plan will have more costs than revenues in any single year of the plan with the exception of the first year. The 5 year plan is intended to become an appropriation plan for the City of Durango. As part of balancing, staff may record projects that are deemed important but cannot fit into a balanced CIP. During the budget process the City Council may choose to look at unfunded projects and defund an existing project in favor of another.

CIP Funding Strategy

The City of Durango works to leverage funding sources to the greatest extent possible. Sources include federal grants, state grants, local grants, dedicated sales tax revenues, general sales tax revenues, and other sources of revenues as they become available. Identified Capital Project funds are used to account for financial resources that are primarily used for the acquisition, improvements, or construction of major capital projects. The City also provides improvement and repair funding through debt issuance, cash funding from the General Fund, enterprise funds, and the following special revenue funds:

- 2005 ¼ cent Sales Tax Fund for Parks, Open Space and Trails
- 2015 ½ cent Sales Tax Fund for Parks, Trails, Recreation, and Multimodal
- 2019 ½ cent Sales Tax Fund for Streets

The City of Durango may elect to use debt or pay-as-you-go financing (i.e., cash financing) or a combination thereof to acquire or improve an asset. Below are guidelines to help City of Durango consider each method of financing.

Factors that favor pay-as-you-go financing include situations where:

- The project can be funded from current revenues and fund balances (reserves) as defined in the various Fund Balance Reserve Policies;
- The project can be finished within an acceptable time frame given the available revenues;
- Additional debt levels could have a harmful effect on City of Durango's credit rating or repayment sources; or
- Market conditions are unstable or suggest difficulties in marketing a debt.

Factors that favor long-term debt financing (requires voter approval) include situations where:

- Revenues that will be used to pay back debt are believed to be sufficient and reliable. This makes it more likely that long-term financing can be marketed with a suitable credit rating;
- Market conditions present favorable interest rates and demand for government debt financing;
- A project is immediately required to meet or relieve capacity needs and existing cash reserves are insufficient to pay project costs; or
- The useful life of the asset is five years or longer and is consistent with the length of financing.



Asset Inventory

The City of Durango will develop a full asset inventory that projects equipment replacement and maintenance needs for a multiyear period and will update this projection each year. The asset inventory will describe the current condition of City of Durango's assets. It will compare this condition to a standard for asset condition. It will account for the full cost to maintain assets up to standard condition over their life cycle and account for risks associated with assets that are below standard condition. Departments will inventory and assess the assets for which they are responsible and ensure that their records are consistent with the Financial Services Department capital asset records.

Funding of Asset Maintenance

It is City of Durango's policy to assign enough resources to preserve City of Durango's existing assets to the best of its ability before assigning resources to build or acquire new assets that also have operating and maintenance needs. This policy protects our historical investment in capital assets. It also helps us to prevent building or acquiring new assets that are cost prohibitive to maintain.

Definitions

1. "Appropriation" means the authorization by ordinance or resolution of a spending limit for expenditures and obligations for specific purposes.
2. "Contingency" for Capital Projects include an amount of funds added to the base budget to cover estimated uncertainty and risk exposures with Capital Projects. Contingency shall be a part in the bid packages.
3. "Budget" means the complete estimated financial plan of the local government.
4. "Budget year" means the ensuing fiscal year.
5. "Division" means the division of local government in the department of local affairs.
6. "Encumbrance" means a commitment related to unperformed contracts for goods or services.
7. "Expenditure" means any use of financial resources of the local government consistent with its basis of accounting for budget purposes for the provision or acquisition of goods and services for operations, debt service, capital outlay, transfers, or other financial uses.
8. "Fiscal year" means the period commencing January 1 and ending December 31
9. "Fund" means a fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities or balances, and changes therein are recorded and segregated to carry on specific activities or to attain certain objectives in accordance with special regulations, restrictions, or limitations.
10. "Fund balance" means the balance of total resources available for subsequent years' budgets consistent with the basis of accounting elected for budget purposes.
11. "Revenue" means all resources available to finance expenditures.



Attachment A

Needs Assessment Project Prioritization:

Financial Information Assessment

1. What is the total budget appropriation request for the current year (this should include any prior year funding that is needing to carry forward)
2. Does the project leverage any non-city funding?
 - a. How much funding is leveraged?
 - b. What is the source?
 - c. Is the leveraged funding committed?
3. How has ongoing operations and maintenance been evaluated?
 - a. What are the assumptions behind the ongoing operational costs included?
 - b. What are the project maintenance costs?
 - c. Will the project need to be replaced at the end of its useful life? How will it be paid for?

Project Timetable

What is the expected timetable for the project? This should include and identify timeframes for plan development, bidding, construction, and project closeout.

Goal Attainment

Please provide a narrative and reference specifically how the project contributes toward attainment of the Strategic Plan.

Prioritization

The following items should be answered by evaluating each scoring area on a five point scale with a rating of “1” for “No” or if the item is not applicable, to a rating of “5” for “Yes” unequivocally or that the project fully addresses that item directly.

1. Is the project legally required or in response to a legal mandate by Charter, State of Colorado or Federal Government?
2. Does the project help address health, life and safety concerns of the citizenry?
3. Is the project necessary to provide a minimum level of service to the community and address needs in under-served population?
4. Was there significant public engagement in the development of the project?
5. Does the Project fit within the Strategic Plan?
6. Does your Department have staff capacity to complete the project?
7. Does the project leverage non-City funding (1=0%; 5=50%+)?
8. Has the project been developed as part of a larger scale asset plan?
9. If this project moves forward, will it inhibit other priority projects from moving ahead?
10. Fulfill an unmet need?
11. Complete a vision?
12. What is the economic impact?
13. Are there more efficient, effective ways to achieve the goal?
14. Does this project have a long-term effect on reducing operating or maintenance costs?