

**Town of Scarborough**  
**Capital Planning Policy**  
[Adopted September 9, 2016]

The following policy is hereby enacted to establish the framework for overall capital planning, budgeting and management.

**INTRODUCTION**

The Town of Scarborough recognizes the importance of careful management and planning for the use of its physical assets. The benefit of a capital plan is to provide long term guidelines regarding the location, condition and replacement or improvement of public infrastructure. These guidelines ensure that the capital planning program identify the availability of resources necessary to meet Scarborough's capital needs when they occur. Additionally, this policy will help to ascertain spending priorities early to allow for more deliberate planning and funding. As implemented, this capital planning policy will provide the Town of Scarborough the opportunity to anticipate, not react to, trends and developments critical to the well-being of our citizens. By budgeting large or unique purchases in the capital improvement plan, the operating budget will not be susceptible to spikes within department's budgets.

Financing the capital plan can include leases, grants, appropriations, reserves and debt financing as defined in the *Debt Management and Fiscal Policy*. The useful life of the asset or project needs to equal or exceed the payout schedule of any debt the Town assumes for that project. This allows for a closer match between those who benefit from the asset and those that pay for it.

To enhance creditworthiness and prudent financial management, the Town is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the Town's Capital Improvement Plan (CIP) and the annual adoption of a multi-year Capital Improvement Budget.

**PURPOSE**

As a way of structuring the review and funding of capital improvement projects competing for economic resources, the Town of Scarborough looks at long-term capital planning and budgeting. This policy sets forth comprehensive guidelines for the determination and prioritization of capital asset purchases and improvements. It is the objective of this policy to:

- (1) Determine the physical assets to be renovated or replaced;
- (2) Document the decision-making process;
- (3) Demonstrate a commitment to long-term financial planning objectives;
- (4) Annually prioritize those physical assets to be included in the Capital Improvement Plan;
- (5) Utilize debt financing only when desirable;
- (6) Identify capital planning objectives for staff to implement;
- (7) Understand how the operating budget will be impacted by the completion of the capital project;
- (8) Ensure that the useful life of the asset or project equals or exceeds the payout schedule of any debt the Town assumes for the project. This allows for a closer match between those who benefit from the asset and those who pay for it.

Capital projects may involve the following:

- Purchasing Land
- Constructing new public facilities
- Improving infrastructure (i.e., refurbishing a bridge, resurfacing a street)
- Purchasing major equipment

## **DEFINITIONS**

*Public Infrastructure.* Infrastructure of the Town of Scarborough to include, land, buildings, parks, streets, bridges, vehicles and equipment, etc.

*Capital Budget.* The first year of the capital improvement program with a detailed source of financing for each of the capital projects specified for implementation during the upcoming year with a listing and description of the following four (4) years.

*Capital Improvement Program.* A listing of the planned capital improvement projects (coupled with expected costs and financing plans of each) for the upcoming five (5) year period, and scheduled according to priorities and timing. The CIP should be organized between capital projects and capital equipment. In addition to estimated costs, a narrative description of each capital item should be provided.

*Capital Improvement Project.* A major, nonrecurring expenditure used to expand or improve a government's physical asset, including facilities and infrastructure, that are not consumed within a year but rather have a multi-year life.

*Capital Equipment.* A major expenditure used to expand or improve a government's equipment, including vehicles, technology, building equipment.

*Multi-Year Capital Budget.* A process designed to ensure that the longer range consequences of capital budget decisions are identified and reflected in the budget totals and updated annually.

*Equipment Replacement Schedule.* A detailed systematic schedule of anticipated replacement of all vehicles and major equipment that is customized to each department and is based on industry standards of predicted life expectancy. The replacement schedule is based on the premise that vehicles and equipment should be replaced before major maintenance expenses are incurred and while residual (trade-in) value can be maximized. These schedules shall serve as the basis for the capital equipment portion of the CIP.

## **IMPLEMENTATION/POLICY MANAGEMENT**

The Town's Capital Planning Policy shall be implemented by the Town Manager/Finance Director when developing comprehensive capital planning management guidelines that provides for the following:

- Departments Administrators to review their physical assets annually;
- Capital improvements should be developed, approved and financed in accordance with the Town Charter and Purchasing Policy and the capital improvement budgeting process;
- Determine which projects need voter authorization;
- Assess financing alternatives for funding capital improvement prior to issuing debt (bonds);
- Determine the funding source for the project being improved (appropriation, bonds, property taxes, grants, etc.).

- For long-term borrowing, the equipment or project is an item that is purchased and/or constructed infrequently, has an expected useful life of at least five (5) years, and costs in excess of \$100,000; and
- For short-term borrowing or lease/purchases, the equipment is an item that is purchased infrequently, has an expected useful life of at least five (5) years, and costs less than \$100,000.
- Funding by Appropriation: Any capital item can be funded by appropriation, regardless of value.

This policy will be enforced by the Town Manager/Finance Director. This Capital Planning Debt Management Policy shall be reviewed by the Finance Director/Town Manager and the Finance Committee at least annually.

### **CAPITAL IMPROVEMENT BUDGET**

A capital budget forces a systematic identification and prioritization of capital projects. This helps to avoid unexpected budget fluctuations and surprises in the operating budget. The goal is to anticipate and plan for most projects involving public facility improvements and major equipment purchases. Thus, a capital budget is the implementation vehicle for adopting a capital improvement project that is part of a long-range capital improvement program.

A multi-year capital improvement budget shall be prepared and submitted to the Finance Committee, separate from the operating budget, annually. The capital budget shall provide a list of projects and the means of financing and cover a five year period of time. The projects included in the capital budget should be part of the Town's capital improvement program. To be considered for bonding, projects must be included in the Capital Improvement Budget as part of the capital improvements or capital equipment. All projects which are required to go to voter referendum, shall also be included in the multi-year Capital Improvement Budget.

### **PRESERVATION OF EXISTING CAPITAL INFRASTRUCTURE**

It shall be the policy of the Town that adequate resources are allocated to preserve existing infrastructure before targeting resources to build new facilities that also have operating and maintenance obligations. Emphasis shall be given to protect historical investments in capital facilities and to avoid embarking on a facility enhancement program, which when couple with the existing facility requirements, the Town cannot afford to maintain.

### **LONG-RANGE FACILITY PLAN**

A long-range facilities plan should be prepared that considers the Town's future needs based on a 20-year outlook. This plan should consider estimated costs and list projects in order of priority. Before new facilities are considered, efforts should be exhausted to modify existing facilities to meet future needs as well exploration of "partnerships" to minimize capital investment required for construction as well as operations and maintenance.

### **LIFE-CYCLE EXPENSES**

New facilities should be of high quality, low maintenance and least cost. The CIP should emphasize and consider life-cycle costs as a consideration in prioritization. Priority should be given to new facilities

that have minimal ongoing maintenance costs as to limit the impact upon both the CIP and the operating budget.

## **FINANCING OPTIONS FOR CAPITAL BUDGETS**

Funding for capital items may come from a number of sources, including, but not limited to: long-term debt (general obligation bonds), leases, reserve funds, grants or direct appropriations.

### *Voter Approved Bonds*

Per section 907 of the Town Charter:

The Town Council shall submit orders or resolves authorizing the issuance of General Obligation securities of the Town, or the appropriation and expenditure of funds derived solely from municipal revenue sources, or a combination of both, in a principal amount greater than \$400,000 for a single capital improvement or item of capital equipment to voter referendum subject to the section 907.1.1 of the Charter as follows: The provisions of this section shall not be applicable to any order or resolve authorizing (i) the refunding of any securities or other obligation of the Town; (ii) the issuance of General Obligation securities, or other direct or indirect obligations, of the Town for streets, sidewalks, or storm or sanitary sewers or other public utilities; or (iii) any construction or financing of improvements or equipment needed as a result of fire, flood, disaster, or other declared emergency. For purposes of this section, the Town Council may by vote of five (5) of its members adopt emergency orders or resolves authorizing construction or financing of improvements or equipment needed as a result of fire, flood, disaster or other emergency and such orders or resolves shall contain a section in which the emergency is set forth and defined; provided, however, that the declaration of such emergency by the Town Council shall be conclusive. (Amended November 5, 2002; effective November 20, 2002).

### *Reserve Funds (From the Debt Management Policy)*

Adequate operating reserves are important to insure the functions of the Town especially during economic downturns. The Town desires to build a contingency reserve in the General Fund of no less than \$1,000,000. Over the next ten (10) years of the date of this policy adoption, the Town will initiate a Committed Fund Balance for working capital sufficient to finance 90 days of operations (3 months) but not to exceed 4 months of operations. These funds will help to pay for capital and operating costs during revenue-short months.

### *Equipment Reserve Fund (From the Debt Management Policy)*

An Equipment Reserve Fund to be set up to fund future capital equipment and will be financed sufficiently to ensure that adequate funds are available to purchase replacement equipment on a timely basis without debt financing. Determination of the amount needed to adequately fund this equipment reserve fund will be prepared by the Finance Director and the Town Manager and approved by the Finance Committee. Complete financing of the Capital Equipment Reserve Fund will be accomplished within six (6) years of the date of adoption of this policy.