



CAPITAL IMPROVEMENT POLICY

I. INTRODUCTION:

The purpose of this Capital improvement Policy (“Policy”) is to provide guidelines for the development of short, intermediate, and long-term capital expenditures and improvement budgets and plans. The Policy is intended to establish processes, approaches, and methods to address maintenance and replacement of capital assets and equipment. The Policy is intended to assist governance, management, staff, customers, and investors understand the roles, responsibilities, and expectations for capital expenditure and improvement budgets and plans. Adherence to capital improvement policy signals to rating agencies and the capital markets that a government is well managed and prepared to meet its obligations in a timely manner.

The City recognizes the development and revision of this Policy, along with capital expenditure and improvement budgets, are essential to lowering costs for the tax and rate payers. It is the intent of the City that operational, financial, and credit initiatives and policies represent to the taxpayers, rate-payers, credit rating agencies, and capital markets that the City is well managed and structured to meet financial and economic challenges and opportunities which arise in the due course of business.

II. SCOPE, INTENT, AND ADMINISTRATION OF CAPITAL IMPROVEMENT POLICY:

The scope of this Policy shall apply to all major capital expenditures and improvements of the City and associated enterprise entities and systems (the “City”). It is the goal of the City to maintain a comprehensive ten year capital improvement plan (“CIP”). The City’s capital improvement policies shall consider organizational characteristics, services provided, and environmental factors. Capital planning should provide at a minimum the following items:

- A. A clear definition of what constitutes a capital improvement project.
- B. A process for determination of funding structure, terms, and timing to ensure project financing and rate setting measures are instituted in accordance with applicable provisions of the law.

III. CAPITALIZATION THRESHOLDS FOR CAPITAL ASSETS:

The term capital asset describes assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g. easements, water rights, etc.) or tangible (e.g. land, buildings, infrastructure, etc.).

It is a primary responsibility of public entity governance officials to establish a policy to be implemented by management and staff, maintain adequate control over all government resources, minimize rates of taxation, enterprise entities and systems operations, risk of loss, misuse and promote public safety.

Practical application of the materiality principle denotes that not all tangible capital-type assets with useful lives extending beyond a reporting period are required to be reported in a government statement of position. Items with extremely short useful lives (e.g. less than 2 years) or of small monetary value are properly reported as an "expenses" or "expenditures" in the period in which they are acquired.

When outlays for capital-type items are reported on the statement of position, they are said to be capitalized. The monetary measure used to determine whether a given capital asset should be reported on the balance sheet is known as the "capitalization threshold". A government may establish a single capitalization threshold for all capital assets, or different capitalization thresholds for different classes of assets. The Mayor and Council of the City directs the following guidelines in establishing capitalization thresholds:

- A. Items may be capitalized if they have an estimated useful life of at least two years following the date of acquisition.
- B. The capitalization threshold shall be set at \$40,000. Exceptions to the threshold shall be approved by the City Manager and the Finance Director.
- C. In establishing capitalization thresholds, recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts for purposes of federal reimbursement.
- D. Proper due diligence and consideration of debt and net position policies should be used in the decision-making processes in determining the method of payment for the acquisition, development, maintenance, and repair of capital assets.

IV. CAPITAL ASSET ASSESSMENT, MAINTENANCE, AND REPLACEMENT POLICY:

Capital assets include government facilities, infrastructure, equipment and networks that enable the delivery of public sector services. The performance and continued use of these capital assets is essential to the health, safety, economic development and quality of life of those receiving services. Budget concerns can impede capital program expenditures or investments for maintenance and replacement and increase difficulty to sustain the assets in conditions to provide optimal service levels. The City establishes capital planning, budgeting and reporting practices to encourage appropriate capital spending levels. It is the policy of the City to implement processes for assessing the condition of assets and budget for capital

maintenance and replacement to maintain efficient and legally compliant City and operations and efficient service levels.

V. LONG-TERM MULTI-YEAR CAPITAL IMPROVEMENT POLICY:

The City recognizes buildings, infrastructure, technology, and equipment are the physical foundation for providing customer services. The procurement, construction, maintenance, and development of capital assets are vital to the current and future success of the City defined as the ability to provide the highest levels of service at the lowest possible costs. Capital planning policy should consist of the following:

- A. Identification of Need: The first step in the capital expenditures and improvement planning process for the City is to recognize, identify and prioritize projects. It is the policy of the City to identify present and future needs that require capital infrastructure or equipment improvements, additions, or purchases with attention directed to the following:
 1. Capital assets that require repair, maintenance, or replacement where inaction will result in higher costs in future years;
 2. Infrastructure improvements to support new development or redevelopment.
 3. Projects with the potential to increase the revenue generation capability.
 4. Improvements which support economic development within the City and service area.
 5. Improvements to meet dynamic community needs.

- B. Determination of Costs: It is the policy of the City to determine the extent of costs associated with short and long-term capital improvements and projects. Costs the City shall consider include the following:
 1. The scope and timing of planned CEB or CIP projects will be defined upon inclusion therein.
 2. The City shall identify and use the most appropriate approaches when estimating project costs and associated revenues and expenses.
 3. The City shall adjust cost projections from time to time to incorporate the effects of inflation and cost changes.
 4. The capital improvement plan shall provide cost estimates for all major project components required for implementation which will be delineated to include land acquisition needs, design, construction, funding, contingency, and post-construction costs and expenses.

- C. Prioritize Capital Improvement Projects: It is the policy of the City to conduct efficient operations to ensure provision of high levels of tax and rate payor service and the lowest possible point of cost. The City recognizes that prioritization of capital expenditures is of vital and necessary importance in the development of short, intermediate, and long-term capital expenditure and improvement plans.

The City directs further guidance with respect to prioritization of long-term capital projects as follows:

1. Stipulated, Court Ordered, and Regulatory: These are the projects that are undertaken to comply with court orders, stipulated agreements, regulatory issues, and the National Pollutant Discharge Elimination Permit (NPDES).
2. Health and Safety: These are projects that are required to eliminate or mitigate impact on public health or safety. These projects are also required to ensure that there is no failure to comply with the City's NPDES permit requirements.
3. Council and Board Policy and Commitment to Outside Agencies: These are projects that are undertaken to comply with a policy that the City Council or associated authority or agency Board may adopt because of its commitment to outside Agencies.
4. Potential Ability/Failure to Meet Permit Requirements: These are projects that are undertaken to construct or rehabilitate facilities or equipment that is in danger of failing, and that such failure may potentially endanger the City's ability to continue meeting permit requirements.
5. High Profile and Good Neighbor Policy: These are projects that are undertaken to remediate concerns expressed by residents of the City or associated enterprise systems service areas.
6. Good Engineering and High Return: This category includes projects that are needed for rehabilitation and upgrading of facilities and infrastructure required for the City and associated enterprise systems to fulfill its mission and function while meeting need to resolve operational issues and inefficiencies. This category also recognizes cost savings in operations through good City and related enterprise systems maintenance.
7. Good Engineering and Low Return: This category includes projects that are needed for rehabilitation and upgrading of facilities and infrastructure at lower priority but necessary to assist the City and System to fulfill its long-term mission.

VI. PUBLIC TRANSPARENCY:

It is the policy of the City to provide for transparency of action associated with City operations to tax payors, rate payors, customers, investors, and public trust. The City shall comply with any and all legal disclosure requirements of State and Federal Agencies. The City shall comply with all legal disclosure requirements associated with the debt or investments of the City. The City shall from time to time make voluntary disclosures of information deemed to be of public interest and importance that is not mandated by any covenant, State, or Federal Agency requirements.

VII. CONFLICTS OF INTEREST:

It is the policy of the City that firms seeking to conduct business shall not be permitted to engage in any activity where any actual or potential conflict of interest to those of the City may exist.

IX. FEDERAL AND STATE LAW COMPLIANCE PRACTICES:

The City shall fully comply with all local, state, and federal statutes and laws. The City undertakes internal due diligence practices designed to locate potentially problematic areas and provide corrective responses. The City shall continue to be proactive in its efforts to comply with the law and disclose to appropriate agencies instances where non-compliance shall exist. To the best of its knowledge the City is in full compliance with all local, state, and federal statutes and laws.

X. MARKET AND INVESTOR RELATIONS:

The Securities and Exchange Commission has issued guidance pertaining to the need for issuers of municipal securities to disclose financial statements and material events notices in accordance with the law. The City encourages the scrutiny of the market, credit rating agencies, and prioritizes the importance of good relations with the citizens and institutions that have invested in its debt obligations. The City understands those who are tax payors, rate payors, customers and investors have a vested interest in the operational, financial, and credit fundamentals of the organization and shall treat investors as stakeholders in the affairs of the City. The City shall continue to institute measures to foster good relations with market professionals and investors through commitment to the achievement of excellence in association with all parties of interest to its continued successful operations. The City shall strive to achieve the highest standards of professionalism in the timely reporting of information to comply with continuing disclosure agreements and material events notices and continue to assist market professionals and investors to obtain requested information.

XI. ANNUAL REVIEW OF CAPITAL IMPROVEMENT POLICY:

It is contemplated that the City may from time to time amend or modify this Policy to enhance the ability to achieve the objectives stated herein or incorporate new policies that fundamentally strengthen its underlying financial position and credit strength. The Policy should be reviewed annually, and any amendments or modifications will be incorporated upon completion of such review.

ADOPTED AND APPROVED, THIS _____TH DAY OF _____, 2024

Mayor

Council member

Council member

Council member

Council member

ATTEST:

City Clerk