



Town of Falmouth, Maine

Capital Improvement Planning Policy

Policy Statement

The Town invests in its Capital Improvement Program, other capital assets and economic development activities. The capital improvement plan not only addresses the maintenance and replacement of existing assets, it also looks ahead for future needs, projects and mandates. The final product is used to prepare the annual budget. Before and after each annual budget is adopted, the plan is revised for use in the next annual budget preparation.

This policy will assure both taxpayers and bond rating agencies that the investment in assets, are actively and satisfactorily managed.

Purpose

A capital improvement plan is a valuable and critical planning tool that is used to manage the continuing need to replace or add equipment, buildings, land and other capital assets. It is also a record of what assets are owned or under some form of control by the Town. The purpose of this plan is to provide a method of planning that combines the needs of all departments and units of our local government.

A. Description of the Capital Improvements Program (CIP)

Capital improvements programming involves the planning of long-term capital expenditures by the Town. Capital expenditures include funds for buildings, lands, major equipment, and other commodities that are of significant value and have a useful life of many years. In the Town of Falmouth, a capital improvement is a capital expenditure that is more than \$5,000 and has a useful life of more than one year.

The CIP provides a framework for the following administrative functions:

1. Estimating capital requirements.
2. Scheduling projects over fixed periods with appropriate planning and implementation.
3. Prioritization of capital improvements.
4. Developing a financing plan for proposed projects.
5. Coordination of activities between departments to meet project schedules.
6. Monitoring and evaluating the progress of capital improvements.
7. Informing the public of projected capital improvements.

B. Benefits of the Capital Improvements Program

The CIP, like the land use development ordinances, provides a means of implementing the objectives and policies of the Comprehensive Plan. [The School Department has been asked to either submit an existing policy, create a new policy or consider adopting this policy. An update on their progress is expected by July 15] Considerable benefits may be derived from a systematic approach to the programming of capital projects. These include:

1. Focusing attention on community goals, needs and capabilities.
2. Achieving optimum use of the taxpayer's dollar.
3. Guiding future growth and development.
4. Serving wider community interests over localized ones.
5. More efficient governmental administration.
6. Maintaining a sound and stable financial program.
7. Focusing attention on existing infrastructure conditions.
8. Enhancing opportunities for participation in federal and state funding programs.

C. Decision Factors

There are a variety of internal and external factors that may influence CIP decisions. These factors include:

1. Maintenance of Existing Facilities - Falmouth already has a considerable investment in its streets, wastewater system, town buildings, parks, etc. With limited financial resources to expand the existing capital stock, priority may be given to keep existing facilities in good working condition.
2. Availability of State and Federal Funding - The decreasing availability of revenues is cause for a concern that may require new priorities with CIP decisions.

3. State and Federal Mandates - State and federal mandates may require the renovation of existing facilities or the construction of new facilities.
4. Imponderables - Even the best planning cannot anticipate future unforeseen circumstances. These imponderables may have negative or positive consequences.

D. CIP Development and Adoption

The Town Manager, Finance Director, School Business Manager, and Department Supervisors update the CIP once every year. Once the plan is updated, it is presented to the Town Council for review and eventually incorporated into the proposed annual budget.

Integration with GASB 34

This capital improvement plan is based on the inventory of assets required by the Government Accounting Standards Board (GASB) 34. GASB 34 requires the town to have a detailed inventory of its entire infrastructure. Infrastructure, by way of example, includes roads, bridges, sidewalks, drains, and sewer lines.

Integration with GASB 54

This capital improvement plan is also based on the fund balance reporting and government fund type definitions required by GASB 54. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing government fund type definitions. These clarifying definitions include general fund, capital funds, and special revenue funds. The general fund is the operations fund, the capital fund is money set aside for the specific purchase of capital items, and a special revenue fund is an account that is required to have substantial restricted or committed revenue (this revenue does not include transfers or other financing sources). The government fund balance classifications include non-spendable, restricted, committed, assigned, and unassigned. Each fund is designated at least one of these types based on the relative strength of the constraints that control how specific amounts can be spent.

Financial Overview

A realistic CIP must be related to the Town's fiscal capacity. Consideration should be given to State-imposed debt limits (as well as other more prudent measures of debt capacity); financing options; various debt ratios; and the long-term impacts of the various capital improvements on both the capital and operating budgets of the community.

By understanding available financing options, and the dollar value of our capital needs, the Town can establish an overall fiscal policy that will help guide capital improvement decisions. Fiscal considerations include the following issues:

1. Effect on the property tax rate.
2. Limiting debt service levels.
3. Private and inter-governmental revenue options.
4. Use of service fees and user charges.

Asset Capitalization Policy

This policy is incorporated to establish procedures for keeping an inventory of fixed assets owned by the town.

A. Capital Assets.

Assets, which meet the following minimum standards, will be considered capital assets:

- Having a value of \$5,000 or more. This requirement can be an individual item in excess of \$5,000 or a “collection” such as a telephone system or computer network system.
- Having an estimated useful life of more than one year.
- Major asset categories are buildings and improvements; land and improvements; machinery and equipment; vehicles and infrastructure.

B. Capitalization Method.

All capital assets are recorded at historical cost as of the date acquired or constructed, except for infrastructure, which is discussed below. If historical cost information is not available, assets are recorded as estimated historical cost by calculating current replacement cost and by deflating the cost using the appropriate price-level index.

C. New Acquisitions.

The town capitalizes new assets that meet its Capitalization Policy as stated in Section A. Following the receipt of the item(s) that meet the criteria, the value is noted by the applicable Department Supervisor, Finance Director and Town Manager for inclusion in the asset base. Additions, improvements, repairs, or replacements to existing capital assets are not considered new acquisitions and are discussed below in Section D.

D. Extraordinary Repairs or Improvements.

The town capitalizes outlays that increase future benefits from an existing capital asset beyond its previously assessed value or condition if they meet the town's capitalization policy.

E. Collections.

The Town capitalizes the items listed below as collections:

- Computer system and associated devices.
- Personal protective equipment.
- Art and historical treasures (depending on individual value).
- Telephone systems.
- Any other assets bought in a bulk purchase that meets the Capitalization Policy.

F. Infrastructure.

The town reports its infrastructure assets at historical cost (if purchased or constructed) or estimated fair value (if donated). The town uses an estimated historical cost when the actual cost cannot be identified. Replacement costs for infrastructure assets are based on current year construction costs for similar assets or other information that approximates current replacement cost. The town reports newly acquired or constructed infrastructure assets in the period it acquires or constructs infrastructure assets. Also, the town uses any existing sources of information to provide support for the initial cost estimates for its infrastructure assets, such as bond documents, engineering documents, and capital budgets.