

City of Leavenworth, Kansas
Capital Improvement Planning and Equipment Replacement Policy
(CIP Policy)
Approved by City Commission
March 12, 2024

INTRODUCTION

Effective CIP policies are designed to ensure the City has processes in place to purchase, update, replace, and maintain the City's infrastructure, City owned buildings, other City owned property, including parks, and the necessary equipment for City operations.

CIP policies strengthen the borrowing position of the City by demonstrating sound fiscal management, establishing a framework in which to prioritize needs, assessing financing options, planning for possible debt issuances, and understanding the impact of capital asset purchases on operating budgets and reserves.

The CIP policy establishes a framework for developing a capital improvement and equipment replacement plan.

PURPOSE

The purpose of this policy is to establish a framework in which the City Commission, City Manager, Department Directors, and the Finance Department can develop a capital improvement and equipment replacement plan that identifies priorities, maximizes available resources, and manages debt levels.

SCOPE

This policy will address the following aspects of capital planning:

- A definition of what constitutes a capital improvement project.
- Roles and responsibilities of the stakeholders in the process.
- A process for establishing and accumulating capital reserves in accordance with the Reserve Policy.
- Identifying the capital improvement planning process.
- A plan that links funding strategies with useful life estimates.
- Identifying the method of establishing priorities.
- Provisions for determining when short-term or long-term debt will be issued.

POLICY STATEMENT

The City of Leavenworth, Kansas is committed to creating a sustainable capital improvement and equipment replacement plan that is consistent with best practices and is designed to meet the City's

acquisition, construction, maintenance, and replacement needs. The plan will include a method of determining priorities, aligning funding sources, guidelines for coordinating long-term projects, and a method of determining when short-term and long-term debt will be issued.

CAPITAL IMPROVEMENT DEFINITION

A capital improvement project is a project that constructs, improves, or maintains elements of the City's infrastructure or constructs, expands, renovates, or replaces a City facility. To be considered a capital improvement project, the project must enhance the use of the asset or extend its useful life and cost more than \$10,000.

The equipment replacement plan is for vehicles and equipment that meet the definition of a capital asset, are movable in nature, retain their original shape and appearance with use, are non-expendable, and are not permanently attached to a building. The equipment cost must be greater than \$5,000.

RESPONSIBILITIES

City Commission:

The City Commission is responsible for establishing annual goals and objectives for City staff, who will use those guidelines to determine capital needs. The Commission is then responsible for reviewing and approving the five-year capital asset and equipment replacement plan, as well as, approving the acquisition, remodeling, repair, maintenance, renovation, and construction of capital assets that cost in excess of \$50,000 in accordance with the City Purchasing Policy.

City Manager:

The City Manager is responsible for coordinating, planning, and submission of the five-year capital improvement and equipment replacement plan to the Commission for approval based on the goals and objectives established by the Commission. The City Manager is responsible for approving the acquisition, remodeling, repair, maintenance, renovation, and construction of capital assets that cost in excess of \$15,000 but less than \$50,000 in accordance with the City Purchasing Policy.

Department Directors:

The Department Directors are responsible for planning, prioritizing, and coordinating requests for the five-year capital improvement and equipment replacement plan that achieves the Commission established goals and objectives and cost in excess of \$7,500 but less than \$15,000 in accordance with the City Purchasing Policy.

Finance Director:

The Finance Director or designee is responsible for analyzing capital asset requests and aligning appropriate funding levels and sources. The Finance Director is responsible for:

- Ensuring the capital asset requests meet the definition of capital assets;

- Ensuring capital assets requests allow for the establishment and accumulation of capital reserves in accordance with the Commission approved Reserve Policy;
- Making funding recommendations;
- Including capital assets requests in the annual budget; and
- Creating the Capital Asset Plan Document and ensuring the Commission approved document is available on the City website.

CAPITAL RESERVES

The Commission approved Budgetary Reserve policy calls for a minimum of two months (16.67%) of expenditures as a reserve level and to budget 4% annually to increase reserves until the approved reserve level is reached. The capital improvement process will be conducted within the parameters of the City's Budgetary Reserve Policy.

CAPITAL IMPROVEMENT PLANNING PROCESS

The City budgets according to the Kansas Cash Basis Budget Laws (K.S.A. 10-1116), which do not require capital project funds to be budgeted. While capital project funds are not required to be budgeted, the City includes the capital project funds in its annual budget. As part of the annual budget process, a five-year capital project and equipment replacement plan is prepared and presented to the City Commission. The capital improvement process follows the process and calendar outlined in the City's Budget Policy.

FUNDING STRATEGIES

The key factors in developing a funding strategy are:

- Cost of the asset
- Expected useful life of the asset
- Availability of cash
- Impact on operating budget and reserves level if paying cash

Cost of Asset:

The City will not issue long-term debt for an asset with a cost less than \$500,000, unless it is determined necessary by the City Manager, Finance Director, and/or City Commission.

The City may enter into short-term funding (lease purchase agreements) for assets greater than \$300,000 if the asset has been determined to be a priority and paying cash for the asset:

- Places a strain on the operating budget,
- Reduces reserves below the reserve level established by the Commission approved reserve policy, or
- Eliminates the opportunity to complete other necessary projects.

Expected Useful Life:

The City will not issue debt with a longer term than the expected useful life of the asset being financed.

Lease/purchase agreements will not exceed five (5) years.

For most buildings, improvements, and infrastructure, if long-term debt is issued, it will not exceed ten (10) years. Special consideration will be given to projects that may require up to twenty (20) years of repayment; though the term of the debt for these projects will never exceed the useful life of the asset. Examples could include a wastewater treatment plant, industrial parks, a fire station, or other assets that cost in excess of \$5,000,000 and have a life expectancy greater than 20 years. In these instances, if a shorter repayment schedule would place a hardship on operating budgets, cause a significantly higher tax burden, or jeopardize reserves, a repayment term up to and including twenty (20) years will be considered.

Availability of Cash for Capital Improvements:

The City has two sources of sales tax revenues dedicated specifically for capital improvements and equipment and some capital grant funding, in addition to resources provided by enterprise fund operations. Most machinery and equipment, and some infrastructure repairs and replacements are paid from these sources.

ESTABLISHING PRIORITIES

The prioritization of capital asset acquisitions including infrastructure projects, building renovations and repairs, and equipment replacement will be determined by the answers to the following questions. Does the acquisition:

- Support the City's main functions?
- Support a Commission established goal or objective?
- Provide resources not available through another City department?
- Support improved efficiencies in work processes, reduce costs, improve effectiveness, or result in improved functionality?
- Demonstrate a return that is equal to or better than an alternative use of resources such as increased quality, speed, costs, flexibility, customer satisfaction, or enhanced employee safety?
- Of information technology incorporate the necessary security measures and include an appropriate amount of support in the annual operating budget?
- Reduce various elements of risk?
- Have benefits that outweigh the asset's total life-cycle costs, as determined by an analysis?