

Capital Improvement Program

Definition of a Capital Project

1. Cost should be \$100,000 or more for the life of the project
2. Most will take more than a single year to complete
3. Project revenues and expenditures should be clearly identified and balanced (e.g., revenue should equal project expenditures)
4. Projects should have an identifiable schedule that includes a beginning, intervening milestones, and an end
5. Maintenance costs to increase the life of the City's infrastructure, replacement costs for infrastructure and reserves for future projects are not defined as a CIP, but are included in the CIP budget document. Examples of these include:
 - Pavement maintenance
 - Water Downstream Improvements
 - Fleet Maintenance Facility

Primary-Secondary Projects – defined below and approved Oct. 12, 2004

The CIP frequently contains several projects that are similar in nature. For example, Public Works often proposes projects to replace or upgrade traffic signals at several different intersections throughout the City. Each intersection is formally a separate project, and funding may not be moved from one traffic signal project to another traffic signal project without Council action.

On October 12, 2004, the City Council approved grouping similar projects together in a "primary-secondary" relationship. Following the traffic signal example, "Traffic Signals" is the "primary" project, with individual "secondary" projects dedicated to each specific intersection where a project will be performed. The primary project description includes a description of each of the secondary projects related to it.

The primary project serves as the budgetary control device within the CIP. As approved, the City Manager has the authority to move CIP funding from one secondary project to another secondary project, as long as the overall primary project budget does not change. This approach allows for greater flexibility and efficiency when programming multiple CIPs of the same type.

Process

Existing projects are reviewed annually. This review compares user status and financial information to identify project progress and completion. This will be integrated into the budget proforma review process.

The Finance Department will work with the CIP project managers to develop CIP revenue forecasts for the budget year. This analysis will be compiled and distributed by the Finance Department to the appropriate project managers.

Projects to be closed will be identified by the project managers and submitted by the appropriate Department Director to the City Manager for closure. The City Manager has the final authority to close the projects. (CIP Closure Form).

Capital Improvement Program

The City Manager and Deputy City Manager and Department Heads review and prioritize all existing CIP's to assure consistency with the City's General Plan and the City's vision statement.

Section 65401 of the Government Code and Section 10-1.102 of the Modesto Municipal Code, requires the Planning Commission review all capital improvement projects to determine if they conform with the City's adopted *Modesto Urban Area General Plan*.

The City Council will review new projects and approve re-appropriation of funds for existing projects as part of the annual budget cycle.

Capital Improvement Program – Policies

CIP Projects. Large construction projects, equipment purchases, infrastructure maintenance, replacement costs and future reserves will be included in the Capital Improvement Program.

CIP Purpose. The purpose of the CIP is to systematically plan, schedule, manage, monitor and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a ten-year plan organized into the same functional groupings used for the operating programs. The CIP reflects a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

Project Manager. Every CIP project will have a project manager who will prepare the project proposal, ensure that required phases are completed on schedule, authorize all project expenditures, ensure that all regulations and laws are observed, and periodically report project status. The project manager ensures that projects comply with Community Facility District (CFD) and Capital Facility Fees (CFF) regulations.

Projects may be appropriated for anticipated revenues but cannot be spent until revenues documents have been received. Each proposed CIP project will include the approximate location, size, completion date (est.) and estimate of costs and source of funding such as General Fund, Capital Facility Fees, Federal or State Grant, etc.

CIP Appropriation. The City's annual CIP appropriation for study, design, acquisition and/or construction is based on the projects designated by the Council through adoption of the Budget. **Adoption of the CIP appropriation does not automatically authorize funding for a specific project phase.** Project engineering and preliminary engineering will be appropriated at the time of Council action.

Capital Improvement Program

Authorization for construction generally occurs only after:

- The costs for the phases have been fully developed
- A grant is awarded and a copy of award is received in Finance
- A contract is granted after a competitive bid process
- A request for proposal (RFP) is approved by Council.

Actions involving any Federal or State funded CIP are restrained by the conditions of the grant.

Accordingly, if contract costs at the time of bid award are less than the budgeted amount, the unobligated balance will either be re-appropriated to project contingency or returned to fund balance. This action should be clearly explained in the fiscal impact section of a Council document and include any estimate for City engineering costs and required contingency to complete the project.

If project costs at the time of bid award are greater than budget amounts, four options are typically available:

1. Eliminate the project.
2. Defer the project for consideration to the next Budget cycle.
3. Re-scope or change the phasing of the project to meet the existing budget.
4. Appropriate additional resources as necessary from fund balance or other revenue sources.

For new CIP projects outside of the adoption process, resources need to be identified:

- Is there sufficient fund balance or monitored cash flow?
- Has an invoicing procedure been established?
- If sufficient funds are not available then lower priority projects may need to be eliminated and the budget for that project returned to fund balance and then re-appropriated to the higher priority project.

Project Status. Project milestones will be listed as objectives in the program narratives to facilitate project tracking

CIP Project Reporting and Update Process

- Cost Estimates/Actuals by Phase
- Schedule (Time Line)
- Accounting Procedures/Revenue Tracking/Grant Invoicing /Project Closeout Procedures
- Timely Status Update Reporting (Note: Cost overruns and funding needs to be determined early. Updated costs and postponed timelines flag potential funding issues.)

Capital Improvement Program

CIP Authority - Council

1. City Council has authority to create new capital improvement projects.
2. City Council has authority to increase the budget of capital improvement projects.

CIP Authority – City Manager

1. City Manager has authority to close any CIP and to return project funds to the fund balance.
2. City Manager has authority to appropriate project contingency funds to individual budget lines.
3. The City Manager has authority to move funds between secondary projects of a primary CIP. The primary CIP budget will not change.
4. The City Manager has authority to approve funding source changes within a projects

Example: Project starts with full funding from CFF. After adoption, Public Works applies for CMAQ funds and list eligible projects. If a CFF project is eligible, the City Manager can substitute one revenue source for another.