

4417 CAPITAL ASSET MANAGEMENT

INTRODUCTION

Capital assets have a major impact on the quality of the District's ability to educate students. The purpose of this policy is to provide guidelines to help the District make better capital asset investment and management decisions.

CAPITAL IMPROVEMENT PLAN (CIP) SCOPE

Annually District staff shall develop a long-range capital improvement plan that describes and prioritizes the major capital projects that the District intends to undertake in both the near and long term.

- A. Definition of a capital project.** For the purposes of the CIP the definition of a capital project is a project with a useful life of at least 3-5 years and a cost of at least \$5,000.
- B. Link to needs assessments.** Projects in the CIP, with minor and occasional exceptions, should be based on needs assessments conducted to determine the benefit of the asset relative to its potential cost.

ROLES IN THE CIP PROCESS

The Director of Buildings and Grounds, is responsible for coordinating the CIP process and compiling the CIP document. Other key roles include:

- A. Review of Capital Project Proposals.** The Chief Financial Officer will coordinate a capital project review process within the annual budget calendar.
- B. Capital Financing.** The Business Office will work with the Director of Buildings and Grounds to develop a capital financing strategy to support the CIP.
- C. Approval of the CIP.** The Board shall review and approve the final CIP annually.

CIP PROJECT IDENTIFICATION

Annually, District staff will propose projects for potential inclusion in the CIP, using a procedure developed by the Director of Buildings and grounds. At minimum, this procedure shall provide for the following:

- A. Long-term operating and maintenance costs.** A proposal will identify the cost to operate and maintain the asset over the lifecycle of the asset.
- B. Anticipated source of funding.** A proposal shall describe where the funding to acquire the asset and to operate and maintain the asset is expected to come from.
- C. Proposed timing of the project.** A proposal will identify the proposed schedule for planning, bidding, construction, and other relevant milestones in acquiring the asset.

CIP PROJECT SELECTION

The Director of Buildings and Grounds will develop a procedure to assess and evaluate project proposals. The principles and practices that should be reflected in the selection process include:

- A. Long-term forecasts.** Long-term forecasts should be prepared to better understand the resources available for capital spending and to assess operational impacts and eventual replacement costs.
- B. Impact on other projects.** Projects should not be considered in isolation. One project's impact on others should be recognized and costs shared between projects where appropriate.
- C. Allow for funding of preliminary activities.** A policy should recognize that, for some projects, it may be wise to fund only preliminary engineering/planning before committing to funding the whole project. However, even these expenditures can be considerable, so should be evaluated and prioritized appropriately.
- D. Full Consideration of Operating and Maintenance Costs.** Adequate resources should be identified to operate and maintain an asset before allocating resources to build the new asset.
- E. Full lifecycle costing.** Analysis of the cost of a proposed project should encompass the entire life of the asset, from planning and acquisition to disposal.

- F. Predictable project timing and scope.** Schedule and scope estimates should be practical and achievable within the requested financial and human resources.

BALANCED CIP

The CIP Plan is a balanced five-year plan. This means that for the entire five-year period, revenues will be equal to projected expenditures in the CIP. It is possible that the plan will have more expenditures than revenues in any single year of the Plan (with the exception of the first year of the plan which is intended to become an appropriation plan for the District). However, over the life of the five-year plan all expenditures will be provided for with identified revenues. Staff may record, on an appended document, projects that are deemed important but cannot fit into a balanced CIP. The Board may choose to examine the unfunded projects and defund an existing project in favor of another.

CIP FUNDING STRATEGY

The District may elect to use debt financing to acquire an asset, or pay-as-you-go (i.e., cash financing). Guidelines are provided below to guide the District in making the best choice between debt and pay-as-you-go financing.

- A.** Factors which favor pay-as-you-go financing include circumstances where:
 - 1.** The project can be adequately funded from available current revenues and fund balances (reserves);
 - 2.** The project can be completed in an acceptable timeframe given the available revenues;
 - 3.** Additional debt levels could adversely affect the District's credit rating or repayment sources; or,
 - 4.** Market conditions are unstable or suggest difficulties in marketing a debt.
- B.** Factors which favor long-term debt financing include circumstances where:
 - 1.** Revenues available for debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, which can be maintained;
 - 2.** Market conditions present favorable interest rates and demand for District debt financing;
 - 3.** A project is mandated by state or federal government and current revenues or fund balances are insufficient to pay project costs;
 - 4.** A project is immediately required to meet or relieve capacity needs and existing un-programmed cash reserves are insufficient to pay project costs; or,
 - 5.** The life of the project or asset financed is five years or longer.
 - 6.** The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project and based on the District's ability to pay debt service.

CAPITAL BUDGET

Each year the Director of Buildings and Grounds and the Chief Financial Officer will develop a capital budget which will be the spending plan for capital. The first year of the adopted capital improvement plan will be an important input into the capital budget for the fiscal year.

CAPITAL PROJECT MANAGEMENT

Good management of capital projects is essential to create the best value for taxpayers through capital spending. The following policies shall be observed in order to help ensure the best project management possible.

- A. Project manager.** Every CIP project will have a project manager who will prepare the project proposal, develop a project budget and cash flow forecast prior to project commencement, ensure that required phases are completed on schedule, authorize all project expenditures, monitor project cash flows, ensure that all regulations and laws are observed, and periodically report project status.
- B. Regular progress reviews.** Regular capital project and program reviews are to be

conducted to monitor existing project performance. Each project manager must actively manage each project and will provide regular reports on the physical and financial status of each project to the superintendent.

- C. **Limits on amendments.** For an appropriated capital project, the total cost of the project, including all change orders, shall not exceed the amount of appropriation. All amendments shall be reviewed and evaluated by the Facilities and Finance Committee. Each project manager must manage capital projects within certain time and cost constraints. If an amendment is necessary, proper documentation explaining why the amendment should be presented to the Facilities and Finance Committee and the Board of Education for final approval.

ESTABLISHMENT OF AN ASSET INVENTORY

District staff shall develop a comprehensive asset inventory that projects equipment replacement and maintenance needs for the next five years and will update this projection annually. The asset inventory will describe the current condition of the District's assets compared to an established standards for asset condition, account for the complete cost to maintain assets up to standard condition over their lifecycle, and account for risks associated with assets that are below condition standards. Departments shall have responsibility for inventorying and assessing the assets within their purview, and ensuring that it reconciles with Department of Finance's capital asset records.

PRIORITIZATION OF ASSET MAINTENANCE AND REPLACMEN

It is the policy of the District to maintain its assets at a level that protects capital investment and minimizes future maintenance and replacement costs. Based on an asset inventory, risk assessment staff shall develop and recommend to the Board a prioritized asset maintenance spending plan for each year.

FUNDING OF ASSET MAINTENANCE

It is the District's policy to ensure that adequate resources are allocated to preserve the District's existing assets to the best of its ability before targeting resources to build new facilities or acquire additional assets that also have operating and maintenance obligations. This policy addresses the need to protect the District's historical investment in capital assets. It helps the District to avoid embarking on an asset enhancement program, which when coupled with the existing asset requirements, the District cannot afford to adequately maintain.

MODIFICATION TO POLICY

This policy and its provisions will be reviewed annually by the Board of Education Facilities and Finance Committee. The Committee may approve minor changes of a housekeeping or corrective nature, or on advice of counsel, that conflict with federal or state laws or regulations. Significant policy changes will be presented to the Board for confirmation.

BOE Facilities and Finance Committee Review – Tuesday, November 3, 2020

Policy Adopted: 02.11.2021