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<tr><td colspan="2">City of WHITEWATER</td><td colspan="4">Policy 501.04.02
Capital Improvements Program</td></tr>
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PURPOSE

The purpose of the Capital Improvement Plan (CIP) Policy is to establish a clear, consistent framework for planning, prioritizing, financing, and managing the City's capital assets in a manner that supports long-term service delivery, financial sustainability, and responsible stewardship of public resources. This policy ensures that capital investment decisions are aligned with the City's strategic goals, informed by reliable data, and developed through a transparent and collaborative process. The CIP Policy provides guidance for evaluating capital needs, determining funding strategies, and maintaining the City's infrastructure in accordance with Government Finance Officers Association (GFOA) best practices.

A capital project is a major, non-recurring investment in a physical asset that supports the delivery of public services and has a useful life of ***at least five years***. Capital projects typically involve the acquisition, construction, expansion, renovation, or major repair of City infrastructure, buildings, equipment, technology systems, or other long-term assets.

To qualify as a capital project under this policy, an expenditure should generally:

- Exceed the City's established capital cost threshold (commonly $5,000–$25,000 depending on local policy)
- Create a new asset, extend the useful life of an existing asset, or significantly enhance its capacity or functionality
- Require planning, design, or engineering, or involve multiple phases or funding years
- Be included in the City's multi-year Capital Improvement Plan (CIP)

Examples include street reconstruction, facility construction or renovation, major park improvements, fleet replacement cycles, utility system upgrades, and large-scale technology replacements.

Funding Philosophy

The City will use a balanced and strategic approach to financing capital projects that supports long-term financial sustainability, maintains stable tax and utility rates, and aligns with Government

Finance Officers Association (GFOA) best practices. Funding decisions will consider project type, useful life, cost, urgency, and the City's overall financial capacity.

Use of Sinking Funds (Pay-As-You-Go Financing)

Sinking funds will be used to finance capital projects that are lower in cost, recurring in nature, or have a shorter useful life. Pay-as-you-go funding reduces reliance on debt, minimizes interest costs, and promotes long-term financial discipline. Projects are generally appropriate for sinking fund financing when they meet one or more of the following criteria:

- The project has a useful life of less than the term of typical debt (generally under 10 years).
- The project is recurring or ongoing, such as equipment replacement cycles, technology upgrades, or routine infrastructure maintenance.
- The project cost is modest and can be reasonably absorbed within annual budget capacity or planned reserve contributions.
- The City seeks to avoid interest costs or maintain flexibility in future debt capacity.
- The project can be anticipated and saved for in advance through annual sinking fund contributions.

This approach aligns with GFOA's recommendation to use pay-as-you-go financing for shorter-lived assets and to maintain reserves for predictable capital needs.

Use of Bonding (Debt Financing)

Bonding will be used for major capital projects that provide long-term community benefit and have a useful life that extends well beyond the term of the debt. Debt financing spreads the cost of large investments over the generations of taxpayers who will benefit from the asset. Projects are generally appropriate for bonding when they meet one or more of the following criteria:

- The project has a long useful life (typically 10–30 years).
- The project represents a significant, non-recurring investment, such as new facilities, major infrastructure reconstruction, or system expansions.
- The project cost exceeds the City's ability to fund through annual revenues or reserves without causing rate or tax instability.
- The project is urgent or time-sensitive, and delaying it to accumulate sinking funds would increase costs or create service risks.
- The project supports intergenerational equity, ensuring that future users share in the cost of long-term assets.

This approach aligns with GFOA's guidance to match the financing term to the asset's useful life and to use debt strategically for large, long-lived capital investments.

Balancing Pay-As-You-Go and Debt Financing

The City will maintain a balanced capital financing strategy that:

- Preserves debt capacity for major infrastructure needs

- Uses sinking funds to reduce long-term borrowing costs
- Avoids deferring maintenance that leads to higher future expenses
- Promotes predictable and stable tax and utility rates
- Ensures that capital planning supports long-term financial sustainability

The City will regularly evaluate its mix of pay-as-you-go and debt financing as part of the annual CIP and budget process, consistent with GFOA best practices.

CIP Time Horizon

The City will maintain a rolling multiyear Capital Improvement Plan covering a minimum of five years, consistent with GFOA best practices for long-range capital planning. The CIP will identify anticipated capital needs, planned project schedules, and projected funding sources over the planning horizon. While the first year of the CIP will represent the capital budget to be formally adopted by the Common Council, the remaining years will serve as a long-term planning tool and will be updated annually to reflect evolving priorities, financial capacity, and asset condition data.

The CIP time horizon will:

- Provide a forward-looking view of infrastructure needs to support long-term service delivery
- Allow for coordinated planning across departments and utilities
- Support forecasting of debt levels, sinking fund requirements, and operating impacts
- Ensure that major projects are evaluated in the context of the City's long-term financial sustainability

Departments will review and update their capital needs annually, and the Finance Director will coordinate the development of the full CIP for Council consideration.

Project Priority Criteria

To ensure that capital investments are aligned with community needs, financial capacity, and strategic goals, the City will evaluate and prioritize projects using a consistent set of criteria. Projects will be ranked based on their relative importance, urgency, and impact. Priority criteria include, but are not limited to:

1. Legal or Regulatory Mandates
Projects required to comply with federal, state, or local laws, court orders, safety regulations, or environmental standards.

2. Asset Preservation and Risk Mitigation
Projects that address failing infrastructure, safety hazards, or risks that could lead to service disruption, liability exposure, or higher future costs if deferred.

3. Alignment with Strategic and Comprehensive Plans
Projects that advance adopted City plans, including the Comprehensive Plan, utility master plans, transportation plans, and economic development strategies.

4. Service Level Improvement or Capacity Expansion
Projects that enhance service delivery, improve operational efficiency, or expand capacity to meet growing community needs.

5. Financial Impact and Cost-Effectiveness
Projects that reduce long-term operating costs, leverage grants or external funding, or demonstrate strong lifecycle value.

6. Community Benefit and Equity
Projects that improve quality of life, support underserved areas, or advance equitable access to City services and infrastructure.

7. Readiness and Feasibility
Projects that have completed necessary planning, design, permitting, or land acquisition and can be implemented within the CIP timeframe.

The City may use a scoring matrix or tiered ranking system to support transparent and consistent prioritization.

Priority		Purpose	
1	Mandated/Immediate	1	Safety & Compliance
2	Critical need/obligated within 12 months	2	Existing equipment/Facility is obsolete
3	Preventative need/Public benefit/1-2 years	3	Replace end of life equipment
4	Improvement benefit/Desired want/2-3 years	4	Creates efficiencies/Operational cost savings
5	Maintain/Public Want/ 3+ years	5	Improve policies/procedures
		6	Expanded service
		7	New program/service

Financial Guardrails

To maintain long-term financial stability and ensure responsible stewardship of public resources, the City will adhere to the following financial guardrails when developing and implementing the CIP:

1. Debt Capacity Limits
The City will monitor and manage its debt levels to remain within established policy limits(covered in the Debt Policy), including ratios related to debt service as a percentage of expenditures (current is 8.1%), statutory debt limits (State is 5% of equalized value, City policy is 3.5%), and credit rating agency benchmarks.

2. Pay-As-You-Go Funding Targets
The City will maintain adequate sinking funds and annual contributions to support recurring capital needs and reduce reliance on debt for short-lived assets.

3. Operating Budget Impact Analysis
All capital projects will include an assessment of future operating and maintenance costs. Projects will not be advanced unless the City can reasonably support the ongoing financial impact.

4. Lifecycle Cost Consideration
Project evaluation will incorporate total cost of ownership, including design, construction, operations, maintenance, and eventual replacement or decommissioning.

5. Use of One-Time Revenues
One-time revenues (e.g., fund balance, land sale proceeds, grants) will be used for one-time capital investments and not for ongoing operating costs.

6. Preservation of Reserves
The City will maintain adequate general fund (20%) and utility reserves to protect against economic volatility and unforeseen capital needs. CIP decisions will not compromise required reserve levels.(This is covered in separate policy)

7. Grant and External Funding Management
Projects relying on grants or external funding must have confirmed or reasonably expected funding commitments before inclusion in the adopted CIP. (Should discuss the process for items that may not receive the award in time for the adoption)

8. Avoidance of Deferred Maintenance
The City will prioritize maintenance and replacement of existing assets to avoid higher long-term costs and service degradation.