
 GARLAND Directive Title: CAPITAL IMPROVEMENT PROGRAM	Subject CAPITAL IMPROVEMENT PROGRAM		Number 4
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DIRECTIVE

This Directive establishes financial guidelines for administration of the City of Garland's Capital Improvement Program (CIP).

APPLICABILITY

The Directive applies to all City departments with capital expenditures that are funded as part of the Capital Improvement Program (CIP) and to those departments responsible for oversight of the CIP. The CIP is recommended by the City Manager and approved annually by the City Council. Projects are added or deleted each year and estimated project costs are updated and priorities changed based on current needs and funding abilities. For this reason and others, the CIP is in a constant state of reappraisal and revision. Adjustments must not only be made annually, but active administration and flexibility throughout the year is required to address the challenges and uncertainties inherent in construction activities.

1. DESCRIPTIONS AND DEFINITIONS

- (a) Capital Improvement Program – A listing of planned capital projects for the upcoming five year period, together with the expected costs and the anticipated method of financing.
- (b) Capital Budget – The first year component of the Capital Improvement Program that includes a listing of projects to be undertaken in that fiscal year, the anticipated cash outlays for the same time period, and that identifies the specific sources of financing that will be used to fund each project. The Capital Budget also identifies the total amount of debt, by types, required to fund the first year's expenditures, together with the estimated tax rate and utility rate impact of the additional debt issuance.
- (c) Program/Project – Programs within the CIP are broad categories describing the nature of projects to be completed such as Streets, Public Safety, Library, Water, Wastewater, Electric, and others. The ordinance passed by the City Council adopting the annual Capital Budget establishes appropriations by Program Areas. Within each Program area are individual work projects.

- (d) Signature Approval- The requirements established in this Directive regarding signature approval may be met by sending an email to the Budget and Research Department that contains the required information. If the email is received from the individual with appropriate approval authority, it will be considered as properly authorized.

2. RESPONSIBILITIES

- (a) The City Manager is responsible for submitting a proposed CIP to the City Council for its deliberation, modification and final approval. The City Manager is also ultimately responsible for the proper administration of the program.
- (b) Budget and Research is responsible for developing a process for the submittal, review and approval of capital projects, the development of estimates and projections regarding the impact of the CIP on the Debt Service tax rate and department operating budgets, establishing individual project budgets in the financial system, and the administration of the program throughout the year.
- (c) Financial Services is responsible for the sale and administration of all City debt issuances, including ensuring that the City is in compliance with bond covenants and other legal and regulatory requirements, for the maintenance of accounting records related to capital projects including the establishment of job cost accounts and the capitalization of assets, and for projecting the CIP's impact on Water and Wastewater rates.
- (d) Departments Heads having projects for consideration in the CIP are responsible for preparing a Capital Project request for each project. The request should include a project description, estimated cost and cash outlays for each year, funding sources, identifiable operating costs, and a time schedule for beginning and completing the project. Directors are responsible for communicating to Budget and Research, at the earliest possible date, any factors that may materially impact project timetables or that will result in the need for additional funding.
- (e) Managing Directors are responsible for the review of all projects requested by their departments prior to submission to Budget and Research and, if approved, they are responsible for actively monitoring project progress and costs.

3. CRITERIA FOR INCLUSION IN CIP AND ELIGIBILITY FOR DEBT-FUNDING

- (a) General Criteria for All Projects- To be included in the CJP and be eligible for debt-funding, expenditures must meet all of the following general criteria:

- (1) Qualify as Capital under the City's current Capitalization Policy.
- (2) Have a useful life of not less than five years.
- (3) Exceed \$25,000.

Expenditures for attorney fees, title work, surveys, appraisals, professional services, and permitting which are directly related to the project qualify as eligible expenditures. Additional criteria related to specific categories of assets are enumerated below.

- (b) Land – All expenditures for the acquisition of land for long-term use by the City should be included in the CJP and qualify for debt-funding. All costs related to acquisition qualify for inclusion.

- (c) Land for Economic Development Purposes – All expenditures for the acquisition of land for economic development purposes should be included in the CJP. All costs related to acquisition qualify for inclusion.

Important restrictions on the use of debt for the purchase of land or other assets for economic development purposes are imposed by the State. In general, tax-exempt debt may not be issued when there is a direct benefit to a private party. As a result, debt issued for many economic development projects is taxable.

- (d) Facilities/Structures – All expenditures related to the acquisition or construction of City facilities or structures should be included in the CJP and qualify for debt-funding. Related costs include, but are not limited to, expenditures for architectural services, engineering, and needs assessments.

- (e) Facilities/Structures Renovations- Expenditures related to the renovation of City facilities and structures qualify for inclusion in the CIP and debt-funding if the expenditures are incurred for the following:

- (1) To make a newly acquired facility ready for occupancy.
- (2) A significant modification/renovation in a facility currently occupied by the City. The renovations should change the functional use or materially enhance the comfort level for its occupants.
- (3) Replacement of (or material repairs to) HVAC systems, roofs, or foundations that have a useful life of five or more years.

- (f) Fixtures and Furniture – Furnishings for a new facility or facility addition are eligible for inclusion in the CIP and debt-funding. Piecemeal replacements or additions to existing furnishings are generally not eligible. Fixture and furniture replacements may be eligible if done as part of an overall renovation project.
- (g) Computer Hardware – Personal computers and peripheral equipment, such as printers and scanners, should not be included in the CIP and are generally not eligible for debt-funding due to their limited useful life. Exceptions, however, may include the following:
 - (1) The initial purchase of computers and related equipment acquired in conjunction with furnishing and equipping a new facility.
 - (2) The initial purchase of computers and related equipment that is required for the primary purpose of implementing a new technology system that is expected to have a useful life of at least five years.
- (h) Computer Software- Software, whether developed by outside contractors or purchased, is eligible for inclusion in the CIP and debt-funding if it can be demonstrated that the useful life is at least five years. The maximum term on debt for software purchases is five years.
- (i) Other Technology Systems – Other technology systems and equipment are eligible for inclusion in the CIP and debt-funding if it can be demonstrated that the useful life is at least five years. In determining useful life, technological obsolescence should be considered.
- (j) Vehicles and Rolling Stock
 - (k) Passenger vehicles such as sedans, pickup trucks, vans, police cruisers, and motorcycles are not eligible for debt-financing and should not be submitted for inclusion in the CIP.
 - (l) Vehicles equipped to perform specialized functions such as fire trucks, ambulances, solid waste collection and utility trucks are eligible for inclusion in the CIP and debt-funding if the useful life of the vehicle is at least five years.
 - (m) Rolling stock and heavy equipment utilized in street construction, utility installation and repair, landfill operations, and other like functions are eligible for inclusion in the CIP and debt-funding if the useful life is at least five years.

- (k) Utility Projects – Projects related to the expansion or replacement of the City's electric, water, wastewater, stormwater, and drainage systems are eligible for inclusion in the CIP and for debt-funding. System components include, but are not limited to, equipment used to generate electricity, electric substations and distribution lines, water distribution lines, sanitary sewer and stormwater collection lines, mitigation processes, replacements, professional services or studies, land acquisition, wastewater processing equipment, and the construction of plant and drainage improvements.
- (l) Street Construction- Street construction is typically financed through the sale of voter-approved General Obligation (GO) Bonds and is included in the CIP. Street projects, other than those that are GO funded, are eligible for debt-funding if the project is constructing a new thoroughfare, widens or increases the pedestrian or vehicular capacity of an existing roadway, or involves underground work such as adding or replacing street drainage. Simply repairing or patching existing pavement does not qualify for debt-funding and should not be included in the CIP.
- (m) Library Books and Materials- The purchase of library books and materials may be included in the CIP and debt-financed if they are part of a library expansion, such as the opening of a new branch location. Library materials may also qualify for inclusion if they are purchased as part of an overall plan to materially increase the size or update the collection. Materials such as magazines and periodicals should not be included due to their short shelf life.

4. CAPITAL PROJECT FUNDING METHODS

Funding sources for CIP projects come from a variety of debt instruments and other sources. Below is a breakdown of these sources.

- (a) General Obligation Bonds (GOs)- Long-term debt instrument backed by the full faith and credit of the City and issued with the guarantee that the government will use its general taxing authority to service the debt when necessary. Garland citizens must vote to approve the authorization of GO Bonds. Their proceeds are restricted to the uses stipulated in the proposition submitted for voter approval. GO Bonds are typically issued based on a 17 or 20-year amortization period.
- (b) Commercial Paper – Short-term debt instruments that have maturities ranging from 1 to 270 days. Interest is paid at maturity, but principal payments are rolled forward by issuing new Commercial Paper. GO Bonds are eventually issued to refinance the outstanding Commercial Paper – typically every three years. Only projects that have been approved as part of a Bond Referendum, and therefore qualify for GO debt-financing, may be funded using Commercial Paper. The combined amortization period of the Commercial Paper and GO Bonds is not to exceed 20 years.

- (c) Certificates of Obligation (COs)- COs can be issued for all types of capital projects and are backed by ad valorem taxes, pledged revenues or a combination thereof. They do not require voter authorization. COs are issued with five, ten, fifteen, and twenty-year amortizations to match the useful life of the asset being acquired.
- (d) Revenue Bonds (RBs)- Revenue Bonds are secured by the revenues of the City's utilities and can only be issued for utility-related capital projects. Revenue Bonds are issued with five, ten, fifteen, and twenty-year amortizations to match the useful life of the asset being acquired.
- (e) Tax Notes (TNs)- Also referred to as Tax Anticipation Notes, may be used for any capital project with a short useful life or a project that the City wishes to pay off within a relatively short period of time. Amortizations range from one to five years.
- (f) Non-Debt Funding Sources
 - (1) Current Funds- cash transferred from the Operating Budget.
 - (2) Interest Income- interest accrued between the time debt is issued and cash outlays for project expenditures actually occur.
 - (3) Impact Fees – reimbursements from new development for water and roadway improvements made by the City in designated service areas.
 - (4) Other Government Entities - such as County participation in roadway projects.
 - (5) Grant Funds- including Community Development Block Grant (CDBG)- funds obtained through the Federal grant program.
- (g) Reimbursement Certificates – Projects that were not included in the Adopted Capital Budget and, therefore, not anticipated as part of the annual debt issuance, may be funded through a Reimbursement Certificate. If a project incurs a shortfall, and it is anticipated that the shortfall will be covered through the issuance of debt at a future time, a Reimbursement Certificate must be issued. The Reimbursement Certificate must be issued within 60 days of the actual payment of project expenditures and must include all future funding requirements related to the project – not just the amount needed up until the time additional debt can be issued. While an official act of the City Council is not required, Reimbursement Certificates are only utilized with the knowledge and consent of the Council.

5. BOND PROPOSITIONS AND CHARTER RESTRICTIONS

Funds and projects authorized as the result of a Bond Referendum are subject to certain Charter-imposed restrictions as outlined below:

- (a) GO Bond Funds (1991 and Before) – Bond authorization is first to be used to fund the individual projects listed as part of the proposition approved by voters and bond ordinance approved by Council. Transfers may be made between voter-approved projects within the same bond proposition and program area. GO bond funds may not be transferred to another CIP Fund until all the projects in that bond proposition have been completed. Once the proposition's projects have been completed, the funds may be utilized to fund additional projects that are of the same nature or to subsidize voter-approved projects in another program area.
- (b) GO Bond Funds (1997 and After)- Bond authorization is restricted to the individual projects listed as part of the proposition approved by voters and the bond ordinance approved by Council. The authorization may not be used to fund projects that are not specifically listed in the proposition. Even if all the specified projects are completed, the remaining authorization may not be used to fund other projects, even if similar in nature. Remaining GO debt funds, if any, must be used to retire debt issued for that specific proposition. Transfers are only allowed between voter-approved projects within the same bond program and bond proposition. See City Charter, Article X, Section 10.
- (c) Undesignated Projects- Bond propositions may include language that allows for the funding of "undesignated projects." While these funds must be used for the same general purpose as described in the proposition, they do not identify specific projects. While not stipulated by the Charter, the following priorities should generally be followed in spending undesignated bond funds:
 - (1) Supplement, as needed, authorized projects specified in the bond proposition to ensure funding for their completion.
 - (2) Expand or enhance projects specifically authorized in the bond proposition.
 - (3) Additional projects that qualify within the bond proposition and that are specifically approved by the City Council.

6. ADMINISTRATIVE GUIDELINES

(a) CIP Fund Structure

To ensure that debt proceeds are used in accordance with the City Charter and regulations governing debt proceeds, separate CIP funds will be maintained. Approved projects will be established and accounted for in one of the following based on their source of funding:

Current CIP Funds:

- (1) GO projects are accounted for in a separate fund for each Bond Proposition (by year) and Program Area.
- (2) Projects funded by Tax-Supported COs and/or cash transfers are accounted for in a single fund.
- (3) Internal Service projects funded by COs and/or cash transfers are accounted for in a separate fund for each internal service department.
- (4) Utility projects funded with Revenue Bonds are accounted for in a separate fund for each utility.
- (5) Utility projects funded by COs and/or cash transfers are accounted for in a separate fund for each utility.

Projects that are being funded from multiple funding sources may be accounted for in multiple CIP funds which, when combined, constitute the entire project.

- ### (b) Availability of Funds after Adoption of Capital Budget-
- Once the City Council has adopted the annual Capital Budget, departments may place projects for bid and award those bids prior to the issuance and actual receipt of debt proceeds. **However, if payments are actually made by the City for the approved project prior to the receipt of the debt proceeds, a Reimbursement Certificate is required.** Generally, this will only occur with projects that are funded by COs or Revenue Bonds.

- ### (c) Approval of Purchase Orders That Exceed First Year Funding-
- CIP projects often extend over multiple years. Because the City only issues debt when the funding is needed and not in advance, project purchase orders (PO) may exceed the approved debt issuance for the first year's expenditures. The City Council's approval of a multi-year project in the CIP is considered to be a commitment to provide future funding, to the extent reflected on the approved project sheet, to complete the project.

It will be clearly stated on the Purchasing Report sent to Council for approval if the PO is committing funds beyond those approved in the first year.

(d) Project Initiation/Changes

Once approved as part of the Capital Budget, a line-item budget is established for the project in the City's financial system. The line-time budget will typically establish a project budget utilizing the following distribution codes: (1) labor, (2) materials, (3) outside and professional services, (1) land, and (5) land improvements. Changes to project budgets require that a signed Expense Budget Authorization (EB) form be filed with Budget and Research and reflect the Department Head's signature.

(e) Projects Requiring Additional Funding

Applies to projects that incur expenditures greater than what was anticipated and funded in that particular year's Capital Budget. Additional funding may generally be made available through the following means:

- (1) Funds may be transferred from other similar projects that are completed or close enough to completion that it is apparent surplus funds will be available. (See Requirements and Restrictions on Project Transfers section.)
- (2) Funds may be transferred from similar projects that are substantially behind schedule and will not be utilizing their funding during the current fiscal year. (See Requirements and Restrictions on Project Transfers section.)
- (3) Interest Income may, under certain conditions, be available to apply to the project. (See Allocation of Interest Earnings to Projects section.)
- (4) Approval of a Reimbursement Certificate. (See requirements for Reimbursement Certificates under the Capital Project Funding Methods section.)
- (5) See the Signature Authorization Directive related to Council approval of Change Orders.

(f) Requirements and Restrictions on Project Transfers

(1) Transfer of GO Bond Funds:

Under no circumstance can funds from the issuance of GO Bonds be transferred to a different CIP fund. Transfers may be made, however, between projects within the same fund.

(2) Transfer of CO and Revenue Bond Funds:

Transfers are not allowed between tax-supported, revenue-supported, or utility-supported CIP funds. Transfers may be made between projects within the same fund if the language used in the issuance of the debt, describing the purpose and use of funds, was broad enough to include the project that would be the recipient of the transfer.

(3) Transfers Between CIP Projects

The authority to transfer funds between CIP projects is limited to the following dollar amounts (see separate requirements for Public Works Projects and GP&L):

Authorized Position	Approval Limits
Director	Up to \$50,000
Managing Director	Up to \$250,000
Deputy City Manager	Up to \$500,000
City Manager	\$500,001 +

(4) Transfers Between CIP Projects- Public Works Projects

The authority to transfer funds between CIP projects is limited to the following:

Authorized Position	Approval Limits
Director	Up to \$350,000
Managing Director	Up to \$500,000
Deputy City Manager	Up to \$750,000
City Manager	\$750,001 +

(5) Transfers Between CIP Programs- Electric Utility

The authority to transfer funds between CIP Programs is limited to the following:

Authorized Position	Approval Limits
Assistant Directors or Equivalent	Up to \$350,000
Director or Deputy City Manager	Up to \$750,000
City Manager	\$750,001 +

(g) Allocation of Interest Earnings to Projects

Interest earnings may accumulate between the time debt is issued for projects and the time the money is actually expended. These earnings must first be used to fund any arbitrage liability that may accrue. Once this liability is covered, the funds may be available to cover inflation cost, unanticipated project costs, or to fund new projects of a similar purpose in the upcoming Capital Budget.

- (1) Interest earnings are available after the arbitrage liability has been booked covering the same period of time interest was earned. Twenty percent of the difference between the accumulated interest earnings and the accrued arbitrage liability is kept in reserve for future arbitrage requirements.

- (a) Accumulated Interest Earnings
- (b) Less Accrued Arbitrage Liability
- (c) Unencumbered Interest Earnings
- (d) Less 20% of (c) Reserve for
Future Arbitrage Liability
- (e) Net Interest Earnings Available

- (2) Interest earnings may be allocated to fund new projects that are approved as part of the annual CIP process or fund anticipated capital projects that are approved by a Budget Amendment.

- (3) The authority to allocate available interest earnings to CIP projects is limited to the following dollar amounts:

Authorized Position	Approval Limits
Budget Director	Up to \$50,000
Deputy City Manager	Up to \$100,000
City Manager	\$100,001 +

This section only applies to the allocation of interest earnings outside of the normal development of the annual CIP – for example, the approval limits would apply when a project has exceeded its budgeted cost and needs additional funding.

(h) Changes to Approved Projects

There may be situations that occur where the detail description included on the project page in the approved CIP will change and it is no longer in the City's best interest to proceed as particularly described. In those situations, the project may be altered under the following criteria:

- (1) The use of the funds accomplishes the same general intent or the funds are being used for the same general purpose as described in the approved project sheet.
- (2) It will not be necessary to request funding for the item as it was originally described in the project sheet for at least three years.
- (3) The change does not cause the project to exceed the approved funding.

- (4) The change does not materially alter the location or boundaries (if any) of the project.
- (5) The change does not, in effect, create a new project.
- (6) The City Manager must authorize any changes to approved CIP project.

(i) Department Labor Charged to CIP Projects

Labor may be charged at the regular or overtime rate, whichever is appropriate, for hours worked by employees performing services directly related to a CIP project. In addition to the gross hourly rate, the related FICA and TMRS burden may also be charged to the project. The departments listed below have been approved for charge-outs to CIP projects:

General Fund Departments:

Engineering, Transportation and Parks

Other Departments:

Streets, Electric, Water, Wastewater and Facilities Management

Departments not listed above that wish to charge labor to CIP projects should first contact Budget and Research.

(j) Closing CIP Projects

It is important that surplus funding committed to projects be made available, by closing the project, as soon as possible to avoid the issuance of unnecessary debt. Semi-annually, Budget and Research requests that departments provide a listing of all projects that can be closed. Departments may also request that projects be closed at any time during the year. Ongoing projects (e.g., HVAC Upgrades) do not have a final close-out, but will have expenditures closed out on an annual basis. Each year, prior to the beginning of the CIP Budget development, Budget and Research will review each project for activity. Projects that have been inactive for at least six months will be reviewed with departments to determine if they can be closed. The Finance Department will coordinate with Budget and Research the closing of jobs that are linked to CIP projects.