CAPITAL IMPROVEMENT PROGRAM AND BUDGET POLICY

The Village of Bannockburn has a significant investment in its streets, facilities, parks, natural areas, infrastructure and other capital improvements. The Village Board has demonstrated a firm commitment to investing in Village capital projects. The guidelines set forth in this policy establish and maintain capital asset parameters that comply with governmental financial reporting standards, provide for adequate stewardship over Village resources and encourage planning for future growth and infrastructure repair. The Capital Improvement Program (CIP) is a multi-year financial plan for the construction or acquisition of capital assets. The CIP not only identifies future capital needs, but it estimates the capital costs to be incurred to complete each project and acquisition, the funding sources for each project and the impact that each project will have on the operating budgets.

I. DEFINITIONS

For purposes of this policy, the Village of Bannockburn will use the following definitions:

Buildings - Permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property. The cost of buildings includes all labor, materials, and professional services required to construct the building, and any other costs to put the building into its intended use.

Building improvements - Major repairs, renovations, or additions made to a building that increase the future service potential of the building and benefit future periods. The buildings and the improvements become one and are inseparable. Examples of building improvements include major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system.

Capital Asset – Any expenditure that results in the acquisition of or addition to a capital asset, which is held or used for more than **three (3) years** and cost at least **$20,000.** Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles and infrastructure.

Capital Budget - A capital budget, which is often contained within a CIP, is the annual budget for capital projects and acquisitions, which are approved by the Village Board.

Capital Improvement Program – the Village Board's approved financial plan of capital projects for a period of five years. The CIP identifies capital project and acquisition needs; provides cost or expenditure estimates for those needs; identifies probable sources of financing; evaluates, prioritizes, and schedules projects and acquisitions; and forecasts the likely impact of projects and acquisitions on the operating budget.

Depreciable land improvements - Improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time. These improvements are built or installed to enhance or facilitate the use of the land for a particular purpose. Depreciable land improvements may include walking paths and trails, fences and gates, landscaping, sprinkler systems, fountains, and beaches. These are unlike non-depreciable land improvements and land since the useful life of the improvement is determinable.

Infrastructure Assets – long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature and cost at least **$50,000.** These include roads, sidewalks, bike paths, bridges, buildings, drainage systems, water systems, sewer systems, etc. Although these assets are long-lived, useful lives are assigned to these assets and they are depreciated.

Land – An inexhaustible asset that has an unlimited life and therefore is not depreciated.

Land improvements - Betterments, improvements, and site preparations that ready land for it intended use. Like the land itself, these improvements are inexhaustible and therefore not depreciated. Some examples of land improvements would be excavation, filling, grading, demolition of existing buildings, and removal or relocation of other property (telephone or power lines).

Useful Life – the period over which a capital or infrastructure asset has utility to the Village in performing the function for which it was purchased.

II. CAPITALIZATION THRESHOLD

The capitalization threshold, or minimum value of an asset at the time of acquisition, is established as follows:

	Asset Class	Threshold
1.	Roads	$ 50,000
2.	Land & Land Improvements	$ 50,000
3.	Buildings & Improvements	$ 50,000
4.	Water & Sewer mains	$ 50,000
5.	Sidewalks/Paths	$ 50,000
6.	Machinery & Equipment	$ 20,000
7.	Vehicles	$ 20,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The Village has chosen, as is allowable under GAAP, to only report infrastructure on a prospective basis. The capitalization threshold is established to clarify what capital expenditures belong in the capital budget.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

III. Method of Depreciation

For simplicity and consistency, the straight-line depreciation method (cost divided by useful life) will be used for depreciation of all depreciable capital assets. In addition, it will be assumed that the capital assets will have no salvage value. A full year of depreciation will be taken in the year assets are placed in service or disposed of. Regardless of the actual date an asset is placed into service, the asset is treated as being placed into service at the beginning of the fiscal year, allowing a full year's depreciation in the year of acquisition. Regardless of the actual date an asset is disposed of, the asset is treated as being disposed of at the end of the fiscal year, allowing a full year's depreciation in the year of disposal.

Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation and amortization reflected in the statement of net position. The range of estimated useful lives by type of asset is as follows:

Assets	Years
Buildings and Improvements	40
Sidewalks, Paths	20
Infrastructure - Roads	40
Storm & Sanitary Sewers	75
Machinery and Equipment	5-10
Vehicles	5
Infrastructure – Water Mains/Hydrants	40
Land Improvements	10-20

IV. GENERAL POLICIES

The Village shall maintain a Five-Year Capital Improvements Program and capital improvements will be made in accordance with that plan. The program shall be updated annually through the budget process.

The corresponding year of the Capital Improvement Program will be incorporated into the annual operating budget as the Capital Budget. Each year, the Village Board will develop a capital budget that lists and describes the capital expenditures to be undertaken by the Village during the coming fiscal year.

The CIP will be arranged to indicate order of priority of each capital project and to state for each project the following:

a) A description of each proposed project and the estimated total cost of the project
b) The proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established reserved funds, the amount estimated to be

received from the federal or state government and the amount to be financed by the issuance of debt obligations showing the proposed type or types of obligations, together with the period of probable usefulness for which they are proposed to be issued.

c) An estimate of the effect, if any, upon operating costs of the Village

As part of the development of the Capital Improvements Program, the condition of Village infrastructure will be evaluated to appropriately prioritize and schedule maintenance and replacement.

V. PRIORITY CRITERIA

Capital projects and/or assets will receive a higher priority if they meet some or most of the following criteria:

- The project or asset meets a policy goal or fulfills a strategic objective of the Village Board
- The project or asset is required under a state or federal mandate, law or regulation.
- The project or asset will mitigate or eliminate a known safety hazard.
- The project or asset will maintain and improve the delivery of public services to the majority of the population.
- The project or asset will improve the quality of existing infrastructure.
- State or federal grant funds are available to assist in funding project or asset.

VI. IMPROVEMENT, REPAIR AND MAINTENANCE EXPENSES

Routine repair and maintenance costs will be expensed as incurred and will not be capitalized. Street resurfacing, patching, etc. is considered maintenance and will not be capitalized. Repairs of water and sewer assets will not be capitalized unless the repairs materially extend the life of the original asset.

VII. FUNDING SOURCES

All Village capital improvements will be constructed and expenditures incurred for the purpose as approved by the Village Board, with funds rolled over from year to year until a project is deemed complete. The Village will use a variety of different sources to fund capital projects and assets, with an emphasis on the "pay-as-you-go" philosophy. Funding for operating and maintenance costs for approved capital projects and assets must be identified at the time capital improvements are approved.

References:

1. https://www.irs.gov/irm/part1/irm_01-035-006
2. Statement No. 34 of the Governmental Accounting Standards Board (June 1999)
3. http://www.doa.la.gov/osrap/library/gasb34/01-31%20guide%20for%20 capitalization%20and%20depreciation%20of%20capital….pdf