

Capital Improvement Program (CIP) Policy

Purpose and Scope

The purpose of this policy is to establish a **Capital Improvement Program (CIP)** for the City of Kindred that guides the planning and financing of major capital projects in a comprehensive, multi-year manner. The CIP is a strategic multi-year plan (covering a rolling 5-year period, updated annually) for investing in the City's infrastructure, facilities, and capital assets. It identifies and prioritizes capital needs, estimates project costs, outlines funding sources, and projects future operating budget impacts of capital investments. By adopting a long-term, fiscally sustainable capital plan, the City will effectively manage its capital assets and ensure that critical infrastructure needs are met in a timely and cost-effective manner for the benefit of current and future residents.

Definition of Capital Projects

For the purposes of this policy, capital projects are defined as investments in tangible long-lived assets (infrastructure, facilities, and major equipment) that meet the following criteria:

- **Long-Term Useful Life:** The project results in an asset with a useful life of at least 5 years or more.
- **Minimum Cost Threshold:** The project has a total cost exceeding \$25,000.
- **Capital Asset Categories:** Capital projects may include new construction, expansion, major rehabilitation of existing assets, or significant one-time equipment purchases that substantially extend an asset's life or capacity. Routine maintenance and minor repairs are not considered capital projects under this policy.

Roles and Responsibilities

CIP Committee: The Public Works Superintendent or designee, in coordination with the City Auditor, are responsible for developing the annual CIP. City staff shall identify capital needs within their areas and submit CIP Project Summary sheets each year. The Public Works Superintendent will coordinate the evaluation of project requests and the preparation of the draft CIP document.

Governing Body Approval: The City Council will review and adopt the CIP as part of the annual budget process. Adoption of the CIP signifies the City's commitment to a planned, multi-year capital investment strategy, although appropriation of funds for specific projects is accomplished through the formal budget approval for each fiscal year. Council approval

is required for any amendments to first-year funded projects or major changes to project priorities outside the normal annual update cycle.

Multi-Year Planning and Annual Updates

The City's CIP operates on a rolling 5-year planning horizon, balancing immediate capital needs with longer-term investments. Each year, the CIP is updated and extended one additional fiscal year into the future, maintaining a continuous multi-year outlook. This annual update process allows the City to revisit priorities, accommodate new needs or changing conditions, and refine project cost estimates and scheduling.

Key characteristics of the multi-year CIP include:

- **Phased Planning:** Projects are scheduled over the multi-year period based on priority, funding availability, and logical sequencing. The first year of the CIP is incorporated into the annual capital budget and appropriated upon adoption. Outer-year projects (years 2–5) are planning estimates and not spending commitments until they are subsequently approved in a budget.
- **Annual Revision:** Each budget cycle, City staff will update the CIP by adding a new fifth year, moving projects forward in timing as appropriate, and re-evaluating ongoing projects. The CIP update will reflect the latest available information on project costs, funding sources, and community needs. This ensures the CIP remains a living document that adapts to the City's circumstances while maintaining a stable long-term vision.
- **Alignment with Other Plans:** The CIP will be developed in alignment with the City's strategic plan, comprehensive land use plan, master facility plans, and other long-range planning documents. This ensures that capital investments support the City's broader goals and objectives for community development and service delivery.

Capital Project Identification and Prioritization

Project Identification: Capital needs are identified through multiple channels, including staff assessments of infrastructure, citizen requests or community input, the Comprehensive & Transportation Plan mandates or regulatory requirements, and alignment with strategic initiatives or growth projections. During the CIP development, all staff shall evaluate their facilities, equipment, and service delivery needs to propose projects that address safety concerns, asset condition, capacity for future growth, and service improvements. The City will maintain an up-to-date inventory of capital assets to inform the planning process and timing of asset replacements.

- **Studies for Capital Projects**

- In the early stages of planning for Capital Projects, many potential infrastructure projects begin in the Concept phase where you only have a general understanding of the need, scope, and cost. Without adequate vetting, these assumptions could be carried forward into the design phase, resulting in project risks related to cost, feasibility, and community alignment. In other cases, the need for potential capital improvements may not be clear without additional evaluations.
- To reduce these risks, staff should identify and include Studies as standalone “projects” in the Capital Improvement Plan when appropriate. A Study is a formal, scoped effort to gather data, assess needs, evaluate alternatives, and establish stakeholder alignment for a potential capital project. In some cases, a “Do Nothing” alternative may be selected as an outcome of the study, thus ending any future time or effort spent on the potential capital improvements. In other cases, one or more capital projects may be the outcome of the study, which are then added to the CIP.
- The Study Phase should be started approximately one year or more prior to the proposed construction start year depending on its size and complexity, allowing time for the completion of both the study and design phases. This timing provides space to refine assumptions, evaluate potential alternatives, engage stakeholders, and verify that the Council supports moving forward with designing the selected alternative.
- Including Studies as distinct CIP projects ensures that early planning is purposeful, transparent, and appropriately resourced. It bridges the gap between infrastructure needs and well-defined capital projects, supporting better decision-making and more responsible use of limited public funds.

Prioritization Criteria: Because requests typically exceed available resources, the City will use a prioritization process to rank proposed capital projects objectively and transparently. Each project will be evaluated against criteria such as:

- **Health & Safety:** Projects that address urgent public health or safety issues, or remedy conditions that pose an imminent risk to citizens or employees will receive the highest priority.
- **Legal Mandates/Regulatory Compliance:** Projects required to comply with federal or state mandates, laws, court orders, or regulatory standards are prioritized to ensure the City meets its legal obligations.

- **Asset Preservation:** Capital investments that maintain or replace existing assets to extend their useful life and avoid costly failures are prioritized to protect the City's prior investments and maintain service reliability.
- **Service Enhancement or Expansion:** Projects that improve the delivery or efficiency of City services, address capacity deficiencies, or expand services to meet growth and development demands are evaluated for priority.
- **Strategic Alignment:** Projects that directly advance the City's Comprehensive & Transportation Plan, master plans, or strategic goals will be given priority consideration.
- **Operational Budget Impact and Efficiency:** The City considers the impact of each project on future operating budgets, including potential cost savings or productivity improvements. Projects that reduce ongoing maintenance or utility costs, or enable more efficient service delivery, may receive higher priority.
- **Funding Availability:** While need and urgency drive priority, the availability of funding can affect scheduling. If a project can leverage significant outside funding or must be completed to secure a grant, the City may prioritize it to take advantage of that opportunity. Projects with dedicated revenue streams or those critical to an enterprise fund's operations will also be prioritized within those funding constraints.
- **Economic Development:** Projects that directly support or stimulate local economic growth, job creation, or increased property and sales tax revenues. These include infrastructure improvements in commercial areas, business park expansions, or utility extensions to serve planned economic development zones.
- **Convenience:** Projects that enhance the convenience of residents, staff, or service delivery but do not address safety, legal, or efficiency goals may be considered when resources allow, especially if bundled with higher-priority improvements.

Project Priority Designation

To help organize and schedule projects within the Capital Improvement Plan, each project will be assigned a priority designation of **High**, **Medium**, or **Low**. These designations reflect the project's relative urgency and importance and guide its placement within the **5**-year planning window.

Priority levels are defined as follows:

- **High Priority**
Projects that are essential and imminent. These may address urgent safety

concerns, legal mandates, system failures, or other critical needs that require funding and implementation in the upcoming fiscal year or early in the planning period. High-priority projects should typically appear in Year 1 or Year 2 of the CIP.

- **Medium Priority**

Projects that are important but not time-critical. These projects should be completed within the current five-year planning period but do not require immediate funding. They may involve planning for future needs, supporting service improvements, or addressing aging infrastructure that is still functional. Medium-priority projects are typically placed in Years 2–5 of the CIP.

- **Low Priority**

Projects that provide community benefit but have limited urgency or are more discretionary in nature. These projects are appropriate for inclusion in the CIP to allow for long-term planning but are less likely to be funded in the near term unless conditions change. Low-priority projects may be placed in later years of the CIP or carried as placeholders for potential future consideration.

This prioritization process helps decision-makers balance diverse needs and deploy limited resources to the highest and best uses for the community. Priorities may be adjusted as conditions evolve or as new information becomes available.

Funding Sources and Capital Financing Strategy

The City is committed to a prudent capital financing strategy that draws on a mix of funding sources to implement the CIP while maintaining long-term fiscal health. Each project in the CIP will include an identified funding source (or combination of sources) and financing plan. Overall, the City will seek to optimize the use of current revenues (“pay-as-you-go”) and debt financing (“pay-as-you-use”) in a balanced manner, guided by principles of fiscal responsibility, intergenerational equity, and adherence to the City’s debt management policies.

Funding Sources: The CIP may be funded from one or more of the following sources, depending on project type and availability of funds:

- **Grants and Matching Funds:** The City will actively seek federal, state, or regional grants and matching funds to support capital projects whenever available and aligned with City priorities. Grant funding can significantly reduce the City’s direct cost for a project. The CIP will highlight projects dependent on or enhanced by grant funding, and such projects may be scheduled to coincide with grant award cycles or deadlines.

- **Intergovernmental Agreements:** The City may partner with state, county, neighboring cities, or regional entities to share the costs and benefits of capital projects that have cross-jurisdictional impact. Joint powers agreements or similar arrangements will be used for multi-jurisdiction projects.
- **Annual Budget Contributions (Pay-as-You-Go):** Wherever feasible, the City will finance capital projects on a pay-as-you-go basis using current revenues or accumulated reserves. This may include dedicated capital sales taxes, portions of property tax levy, special revenue funds, or general fund transfers that have been set aside for capital purposes. Pay-as-you-go financing avoids interest costs and does not encumber future budgets with debt. The City will consider pay-as-you-go for smaller projects, recurring capital purchases, or initial project phases, especially when adequate fund balances are available.
- **Capital Reserves and Special Funds:** The City may maintain dedicated capital reserve funds or stabilization funds where savings are accumulated over multiple years to fund specific future capital needs. The CIP will include planned use of reserve funds (or annual contributions to reserves) as a financing source for applicable projects. Strategic use of reserves helps smooth out the budgetary impact of large expenses, avoiding sharp tax or rate increases in any single year.
- **Debt Financing (Bonds/Loans):** For large-scale or long-lived capital investments, the City may issue general obligation bonds, revenue bonds, or other debt instruments to finance project costs, spreading the payments over the useful life of the asset (the “pay-as-you-use” approach). Debt financing will be considered when it is appropriate to spread the cost of a project across current and future beneficiaries, promoting intergenerational equity so that future residents who will benefit from the asset also contribute to its cost. The term of any debt issued should not exceed the expected life of the project or asset being financed. All debt issuance will comply with statutory debt limitations. The City will evaluate the affordability of new debt in the context of its existing obligations and projected revenues, to maintain debt at sustainable levels without overburdening the operating budget. Before recommending debt financing, other funding alternatives will be examined.
- **Repayment of Debt Financing:** Any debt issued for projects need to identify a source for repayment of the debt. Options for repayment of debt include the following:
 - **User Fees and Utility Rates:** The City operates utility enterprises (e.g. water, sewer) that fund capital improvements through user charges. Capital projects for enterprise funds should be financed primarily from utility rates,

connection fees, or reserves of those enterprises, especially when the improvements benefit the ratepayers of that utility. The City will periodically review utility rates to ensure they are sufficient to fund ongoing maintenance and a portion of capital replacement needs (including building capital reserves). For major utility expansions or treatment facilities, revenue bonds or state loans may be used, with debt service paid from utility revenues.

Note: NDCC 21-03-04 allows cities to issue bonds on revenue-producing utilities (water, sewer, etc.) beyond the normal debt limit, with voter approval.

- **Special Assessments:** The City may use special assessment financing for infrastructure improvements that benefit specific properties. Pursuant to NDCC 40-22 through 40-27, the City can establish improvement districts and levy assessments on the benefitting properties to repay debt issued for the improvement. Special assessment bonds or warrants will be issued in compliance with NDCC requirements, and the total assessments will be set to cover all project costs and financing costs. The City will ensure transparency and fairness in the assessment process and will not use general taxes to subsidize improvements that primarily benefit specific property owners (unless a policy decision is made to contribute a portion).
- **Developer Contributions:** For growth-related infrastructure, the City will utilize any developer impact fees, off-site improvement, voluntary contributions or other exactions to help fund the necessary capital improvements that support new development. Such revenues will be programmed in the CIP for projects such as roads, parks, or utilities required by new development. The timing of these projects will be coordinated with the pace of development and availability of these funds.
- **Leases:** For certain facilities or equipment, the City may consider lease financing if it is cost-effective and in compliance with NDCC provisions. Leasing can be an alternative to debt for items like vehicles, heavy machinery, or office space, but the City will compare the long-term cost of leasing versus owning before proceeding.
- **Public-Private Partnerships (P3) and Other Sources:** Where appropriate, the City may consider P3 arrangements, financing districts, or other innovative funding mechanisms to deliver capital projects. Any alternative financing approach will be evaluated for long-term cost-effectiveness and risk before inclusion in the CIP.

Capital Financing Strategy: This CIP policy is closely integrated with the City's broader financial policies to ensure fiscal responsibility in capital financing. The CIP financing strategy will be developed in tandem with the City's multi-year financial forecasts to determine a sustainable level of capital investment and debt issuance that the City can afford without overextending resources. The City will balance pay-as-you-go funding with

debt financing to achieve an optimal capital program: current revenues will be used to fund projects that are smaller, recurring, or have shorter lives, while long-term debt will be reserved for large, long-lived projects or urgent needs that exceed current funding capacity. In all cases, the impact of capital decisions on the operating budget will be analyzed to ensure that new facilities can be supported without compromising the City's ongoing fiscal stability.

Capital Improvement Plan Document and Implementation

CIP Document Content: The Capital Improvement Plan shall be published as a formal document each year as part of the budget process. The CIP document will typically include:

- **CIP Executive Summary:** A CIP Executive Summary (overview) highlighting total planned capital expenditures by year, by project category, and by funding source. This section provides a high-level snapshot of the capital plan, including key projects and their contribution to community goals. The summary should also include recently completed projects, changes in the CIP from the prior year, and overview of prioritization process, projects that were considered but not included in the planning period, and a glossary of common terms used in the plan.
- **Project Sheets:** Detailed information for each capital project or capital purchase planned in the five-year period. Each project description should include the project title, the department responsible, a brief description of project Scope and the Purpose & Need of the project, the estimated total project cost with a breakdown by expenditure category if applicable, the proposed funding source(s) and financing plan, the schedule or phasing of the project (planning, design, construction start year), an estimate of any additional operating costs or savings once the project is completed for Year 1 projects, and a location map. Photos may be included for context.
- **Financing Plan and Debt Impact:** A consolidated summary of how the CIP will be financed, including the amount of pay-as-you-go funding, new debt issuance, grants, and other sources over the multi-year period. This section will outline the projected annual debt service from proposed new debt and its impact on the City's debt metrics, demonstrating that the plan is affordable and within the City's debt capacity. It will also highlight use of any reserves or special funds and how those help mitigate future liabilities or tax impacts.
- **Operating Budget Impact:** A summary table or narrative describing the cumulative operating budget effects of the CIP projects. This includes noting any new positions,

maintenance costs, or savings that will result when projects come on-line. The City will not undertake capital projects that it cannot prudently operate and maintain in future years.

Implementation and Monitoring: Once the CIP is adopted, the first-year projects are included in the annual budget appropriations and are authorized to proceed. Project implementation will follow the City's procurement policies and project management practices. The responsible departments shall ensure projects stay within budget and on schedule, and will report progress periodically. The City will monitor ongoing projects through the year and provide updates in status reports, ensuring accountability for project delivery.

- If during implementation a project's scope, cost, or timeline changes significantly, staff must evaluate impacts on the CIP and may recommend adjustments. Changes to funded projects will be brought to the Council for approval as per the City's budget amendment procedures. No project should be added to the first year of the CIP mid-cycle without Council approval, unless it is an emergency capital need, in which case an emergency amendment can be made with appropriate justification.
- **Cost Estimate Adjustments**
 - To maintain budget accuracy within the Capital Improvement Program, cost estimates may be recommended to be reviewed and updated under the following conditions:
 - The estimate is older than 2 years, and
 - The project is scheduled to occur within the next 5 fiscal years
 - Projects scheduled beyond the active planning window may retain older cost estimates unless changes in scope, pricing trends, or external conditions suggest a need for earlier review. This approach prioritizes accuracy for near-term capital planning while allowing flexibility for longer-range concepts.
 - Estimates that are not updated in a given year but remain in the CIP will have their cost escalated to account for inflation using a default annual rate of 5%, compounded annually. This ensures the CIP reflects anticipated year-of-expenditure costs, even when formal estimate updates have not occurred.
- The City will maintain a CIP project tracking system to oversee expenditures, project status, and completion. Throughout the year, staff will provide updates on the status of capital projects, including completed projects, those in progress, and any variances in schedule or budget.

Integration with Annual Budget: The capital budget (first year of the CIP) will be adopted as part of the overall annual budget. Future year projects (years 2 through 5) are approved on a planning basis and do not receive expenditure authority until they are incorporated into an adopted budget. However, the multi-year CIP approval indicates Council's support in concept and gives staff direction for long-term planning. The operating budget will include any operational costs associated with new capital projects coming online, ensuring those costs are funded and accounted for when the asset is placed into service.

Fiscal Stewardship: This CIP policy reinforces that capital planning and budgeting are conducted with a focus on fiscal stewardship and community benefit. By proactively planning for capital investments and integrating financing considerations, the City will avoid ad-hoc or reactionary decisions, thus reducing the risk of emergency repairs or financial strain. The CIP process helps stabilize tax rates and user fees over time by preventing spikes in spending since projects are timed and financed in a manner that spreads costs out and takes advantage of external funding when available. It also ensures that elected officials, staff, and the public have a transparent view of the City's capital needs and resource limitations, fostering informed decision-making and public trust.

Public Engagement and Stakeholder Input

Public and stakeholder engagement is an important component of the Capital Improvement Plan (CIP) process. The City ensures that the development and updates of the CIP are conducted in an open and transparent manner.

- **Transparency:** The proposed CIP will be made available to the public in draft form before City Council consideration. Supporting materials and presentations will be prepared to help residents understand the projects, priorities, and funding plans. After adoption, the final CIP will be posted on the City's website for public access.
- **Public Access to Meetings:** Meetings where the CIP is reviewed or adopted will be open to the public. Residents and stakeholders are welcome to attend and observe the City's discussion and decision-making process regarding capital projects and priorities.
- **Coordination with Other Agencies:** The City will coordinate its CIP with overlapping or adjacent jurisdictions (such as counties, school districts, and regional authorities) to identify shared opportunities, avoid conflicts, and ensure efficient use of public resources. Input from these agencies will be incorporated into the planning process where appropriate.

By maintaining openness and accessibility throughout the CIP process, the City promotes transparency and builds public trust in how infrastructure investments are prioritized and funded.

CIP Calendar

The following is the recommended calendar for completing the various elements of the Capital Improvement Program:

- **January:** Establish milestone dates for CIP preparation and approval. Staff begin identifying potential new capital needs.
- **Early February:** Staff prepare and submit proposed projects and updates to existing projects.
- **Late February:** Staff-led evaluation of submitted projects using prioritization criteria; draft scheduled project list prepared.
- **Early March:** Finance staff reviews funding options, evaluates pay-as-you-go vs. debt financing, and drafts funding plan. Continued staff reviews of Projects and Prioritization.
- **April:** Draft-final CIP prepared and submitted to Public Works Committee.
- **May:** Draft CIP submitted to Finance Committee for review.
- **June:** Revisions to draft CIP as needed based on feedback between Public Works Committee and Financing Committee.
- **July:** CIP Committee submits final CIP for inclusion into preliminary budget.
- **August:** CIP to be approved with the preliminary budget
- **September-October:** Adoption of the CIP as part of the City's annual budget.

Fiscal Responsibility and Policy References

This Capital Improvement Program policy is intended to be consistent with and supportive of the City's overall financial policies and recognized best practices in capital planning. Key principles embedded in this policy follow guidelines recommended by the Government Finance Officers Association (GFOA). The City's approach to capital planning emphasizes long-term fiscal sustainability, ensuring that infrastructure investments are made at a pace and scale the community can afford while addressing the most pressing needs. By formally adopting this CIP policy, the City Council reaffirms its commitment to

proactive capital planning, sound capital financing, and transparent governance in building and maintaining the public facilities that are essential for a thriving community.

All City officials and staff shall adhere to this policy in preparing, updating, and implementing the Capital Improvement Program. This policy shall be reviewed and updated as needed to incorporate evolving best practices or to reflect changes in the City's financial environment or capital priorities. Any amendments to this policy require approval by the City Council.