CAPITAL IMPROVEMENT POLICY AND PLAN

Board Approved on January 26, 2022

Lancaster County Capital Improvement Policy
and
Capital Improvement Plan

Background

Lancaster County has achieved a positive and stable financial position through annual conservative and balanced budgeting, building of sufficient reserves, and a modest debt level. A testament to the County's strong financial position is the Aa2 rating by Moody's Investors Services, which we seek to maintain or improve. The County's high rating is an objective indication of sound financial management.

The County has also done a good job of maintaining its infrastructure over the years. The County now also desires to have a longer-term outlook to ensure that its infrastructure is maintained on an ongoing, more strategic basis. This is achieved by establishing a Capital Improvement Policy and the implementation of a Capital Improvement Plan (CIP).

Capital planning refers to the process of identifying and prioritizing the County's capital needs to determine which capital projects should be funded in the CIP as resources are available. The CIP is separate and distinct from the County's operating budget for several reasons. First, capital outlays reflect non-recurring capital improvements rather than ongoing expenses. Second, capital projects tend to have higher costs requiring more stringent control and accountability. Third, when budgeted through an operating budget, these high costs also create substantial and confusing swings in total annual expenses, confounding operational cost trends. These large costs are also often seen as discretionary and thus a target for cuts to balance the operating budget, leading to deferred maintenance, which in the end creates higher costs and can lead to operating deficiencies. Additionally, revenue from transactions such as the sale of capital assets, grants for purchase of, or heavy maintenance / replacement of, capital assets also confound trends. These one-time revenue sources are not appropriate funding sources for recurring operating expenses.

Capital planning is one of the fundamental building blocks in developing an effective budgeting process. Capital plans help to establish a guide for making capital investment decisions logically and in a deliberate and accountable fashion. In this way, options for major repair, replacement, acquisitions, and construction can be thoroughly evaluated and prioritized. It also provides a mechanism to match cash flows to meet the desired level of capital improvements, as well as providing information to schedule capital projects that conform to cash flow constraints, engage in thoughtful bond planning, or to establish the required levels and the most economical source of project funding.

The purpose of the County's CIP is to recognize and address county needs through long-term planning and balanced investment in supporting its infrastructure. To ensure that this commitment is viable and achievable, appropriate capital improvement factors will be given significant consideration, which addresses county priorities and serves the needs of the County over the next five (5) years.

This document will also provide a planning foundation for future needs assessments to ensure the County is responding to critical infrastructure components of future growth. The CIP represents a beginning in terms of producing a consolidated capital improvement plan and project schedule that will lead to timely and cost-effective completion.

Definitions and Policy Statements

Definitions

Capital Asset (CA) – a singular item or project, or group of like items or projects, with a value of more than $50,000 with a useful lifespan of at least five (5) years, which is owned or leased by the County of Lancaster. This includes costs associated with the purchase, design, engineering, construction, maintenance/upkeep, and component parts of the asset. Examples include, but are not limited to, buildings, parks, bridges, information technology (IT), equipment, etc. Vehicles purchased, leased or any maintenance thereof, are excluded.

Capital Improvement Plan (CIP) – A document which includes policies with respect to the identification and capitalization of county assets; development of a schedule and estimated amounts to maintain, improve, remove, replace, construct, and/or purchase capital assets; the development and maintenance of a Capital Reserve Fund; and the development of an annual Capital Improvement Budget

Capital Improvement Reserve Fund (CIRF) – A separate and distinct Fund of the County that is dedicated to the investment and accounting of funds from various sources, and expenses, for capital items / projects identified in the CIP and approved by the Board of Commissioners through the Capital Improvement Budget.

Capital Improvement Budget (CIB) – A multi-year budget, approved annually by the Board of Commissioners, of at least 5 years showing income and expenses that will implement the CIP through the CRF. The first year of the CIP, as adopted by the Board of Commissioners, represents the CIB for the upcoming fiscal year. Each successive year in the CIB will be reviewed and revised, as necessary.

Useful Life – the functional and operational life expectancy for capital assets can be estimated based on one or more of the following:

- Experience of and intended use by County with respect to the asset
- Industry expertise, professional or authoritative opinions
- Insurance timetables

Cost - Including but not limited to examples such as engineering, design, purchasing, construction, and where applicable the maintenance/upkeep of infrastructure.

Policy Statements

This policy shall cover County capital initiatives such as bridge projects, information technology (IT) equipment/peripherals, infrastructure projects, equipment (such as industrial lawnmowers, dump trucks, construction implements, etc.), and other capital undertakings that meet the County's definition of a "Capital Asset." It shall exclude vehicle (cars, vans, trucks, etc.) purchases, leases, and related maintenance.

Those costs shall be included as part of the operating budget of departments and agencies. Given the varying life cycles of vehicles, daily usage, types of vehicles, etc. these costs are better served in operating budgets.

Capital project financial resources shall include, but are not limited to, transfers from various County funds, bond proceeds, state, and federal resources (such as grants), the sale of capital assets, and private sector sources.

Establishment of a Capital Improvement Reserve Fund

The County shall implement, maintain, and fund a Capital Improvement Reserve Fund (CIRF) in accordance with established fiscal and governmental accounting guidelines. The CIRF is the funding mechanism by which the CIP is implemented. The initial funding of this reserve shall come from an allocation made by the County from the County's Unassigned Fund Balance based upon a recommendation to be made in conjunction with the County Controller, Budget Services Director and approved by the Board of Commissioners.

An annual review will take place during the County's fiscal year-end process and contributions to the CIRF will be made in accordance with the following policy:

The County shall maintain a minimum unrestricted General Fund Balance (total of assigned and unassigned funds) equal to 25% of the current year's budgeted General Fund revenues for purposes of positive cash flow and emergencies. Any amounts that exceed the previous year's ending balance in the County's Unrestricted General Fund Balance (total of Assigned and Unassigned General Fund Balances) and exceed 25% of the current budgeted General Fund revenues may be transferred to the Capital Improvement Reserve. The calculation of the amount recommended to be transferred will be completed by the Controller during the fiscal year-end closing process, while the Annual Comprehensive Financial Report (ACFR) is being developed. Transfers to the CIRF should be accounted in the operating budget as a line item and will be shown in the ACFR. This policy does not change the reporting methodology used when reporting the "capitalization" of items for County Financial Reporting purposes.

The recommended amount of funds to be transferred shall be made to the Board of Commissioners by the County Controller and Budget Services Director prior to completion of the ACFR. The Commissioners shall approve, at a public meeting, the amount to be transferred to the CIRF. Should it be determined by the Board of Commissioners that the County's current Capital Improvement Plan or funding of the Capital Improvement Reserve Fund to be fiscally untenable, for reasons such as, the County budget reflects an unstable or undesirable financial outlook, an emergent need/crisis has arisen, the economic outlook is unstable, or any other reason deemed relevant by the Board, this policy maybe suspended. The Board can reinstitute the policy by a vote in public session at such time they believe it is prudent. Where possible, capital projects are also funded from non-recurring funding sources such as debt proceeds and grants.

The recommended minimum amount of unrestricted General Fund Balance is partly based on Moody's Investor Services Rating Methodology to maintain an Aa rating, which is the second highest rating category.

According to Moody’s, for an Aa rating, Fund Balance as a Percentage of Revenues should be between 15% and 30%, as of 2020 Lancaster County is 26.6%. Cash Balance as a Percentage of Revenues should be between 10% and 25%, as of 2020 Lancaster County is at 29.4%. In addition to these criteria, 5-Year Dollar Changes in these balances is also evaluated.

Credit ratings are an indicator of general economic and financial conditions, and the rating indicates the potential direction of economic and fiscal performance. Good credit ratings have a positive effect for governments and taxpayers with lower interest rates on debt, meaning lower payments for needed projects.

Ratings are partly based on factors such as finances and management, in fact, these factors combined account for 50% of Moody’s rating (*Moody’s Rating Methodology 9/27/2019*). Finances looks at Fund and Cash Balances, and Management looks at Institutional Framework and Operating History.

Sufficient fund balances provide important cash flow and emergency reserve benefits. Rating agencies and government finance organizations recognize the importance of having a sufficient fund balance in addition to long range financial planning for non-operating, or capital, expenses.

Highlighting the importance and rationale behind the rating standards, Moody’s states:

“A local government’s fiscal position determines its cushion against the unexpected, its ability to meet existing financial obligations, and its flexibility to adjust to new ones. Financial flexibility is a key area of analysis, as it provides insight into a local government’s ability to maintain or augment its financial position going forward, ensuring a sufficient buffer to address any unexpected contingencies.”

“The most important aspect of financial operations is the local government’s ability to achieve structural balance: long-term revenues matching long-term spending. The focus here is on whether financial reserves are increasing in step with budgetary growth.”

“The interplay between legally dictated resources and responsibilities contributes to the stability of a local government’s credit profile and its capacity to match revenues to expenditures over time. A local government with a stable institutional framework is less likely to face an abrupt change in its obligations without the corresponding ability to meet those obligations.”

“When evaluating a credit, we seek to understand the probable impact of fund balance policies, multi-year financial or capital planning, liquidity management, accuracy of budget forecasts, and willingness to make mid-year adjustments. Reliance on non-recurring, or “one-shot” revenues, such as proceeds from the sale of assets, windfall delinquent tax collections, or the use of fund balance as a revenue source, leaves the municipality vulnerable should these one-time revenues fail to materialize in the future. Ultimately, we believe actual results are the best indicator of the effectiveness of all these factors. The five-year operating history shows whether the local government’s financial position is strengthening or weakening, and whether management has been effective at planning for the future and adjusting when things have not gone as planned.”

These statements speak to the importance of separately accounting, and budgeting, for operating and capital needs. Lancaster County has done well in achieving financial stability within its operating structure, rating agencies such as Moody's recommend taking the next steps, establishing fund balance and reserve policies and Capital Improvement Planning and Budgeting.

Capital Improvement Planning and Implementation

The CIP is a proposed schedule for the expenditure of funds to maintain, acquire, or construct necessary capital assets over the next ten-year period. This plan provides the public, residents, and stakeholders transparent information on how the County plans to address significant capital needs over the next ten fiscal years. The Board reviews the County's ten-year Capital CIP on an annual basis. The program is reviewed annually and revised based on current community needs, asset conditions, available resources, and funding opportunities.

The CIP process precedes the budget process and is used to develop the capital project portion of the annual budget. Approval of the CIP by the Board of Commissioners does not equate to a final approval of all projects contained within the plan. With approval of the CIP, the Commissioners acknowledge that the projects contained in the plan represent a reasonable interpretation of the anticipated needs for the County and that projects contained in the first year of the CIP are suitable for inclusion for the current fiscal year's budget. Once adopted, implementation of the projects listed in the Annual Capital Improvement Plan shall follow County Purchasing Policies.

Lancaster County's CIP is a collaborative effort. Each of the County's departments and offices are asked to contribute and the Capital Improvements Committee reviews and ranks the submitted projects.

Members of the Capital Improvement Committee include:

- Chief Clerk/Administrator (or designee)
- County Controller
- Budget Services Director
- Director of Facilities Management
- Director of Purchasing
- Two other County officials as appointed by the County Commissioners

The Capital Improvement Plan shall be drafted in conjunction with departments and agencies of Lancaster County government and is to be formally presented for consideration by the Commissioners as part of the annual budget process.

As part of its annual budget process, the Capital Improvement Plan committee shall meet as necessary to review, analyze, and rank recommended projects for funding. The final written CIP shall be developed by, and the recommendation of the Capital Improvement Committee to the Board of Commissioners, shall be completed by the Budget Services Director.

The CIP and policies herein are to be reviewed annually by the Capital Improvement Committee in conjunction with the annual budget process. Recommended changes shall be provided in writing to the Board of Commissioners at any time which is deemed prudent and practical but shall precede a vote to approve annual funding.

Development of the Capital Improvement Plan

The Government Finance Officers Association (GFOA) identifies the first step in capital planning as identifying needs. When identifying needs, it is best to recognize and categorize the organization's Capital Assets. For the first time, this has been accomplished through the leadership of the Director of Facilities Management, and assistance of the County Controller and department / agency heads. A summary of the County's capital assets is included in this document and will be used to assist with future capital improvement planning.

From there, GFOA states that "governments should develop a capital asset life cycle for major capital assets. The capital asset life cycle should include costs to operate, maintain, administer, and renew or replace the capital asset. This will assist in identifying the need and schedule for capital asset replacement or major renewal. In addition, using information such as development projections, strategic plans, comprehensive plans, facility master plans, and regional plans; governments should identify present and future service needs that require capital infrastructure or equipment.

Determine financial impacts. GFOA recommends that the full extent of the capital project/asset and the associated life cycle costs be determined when developing the multi-year capital plan. In this process, attention should be given to:

- The scope and timing of a planned project should be well defined in the early stages of the planning process
- Governments should identify and use the most appropriate approaches when estimating project costs and potential revenues. If a government's internal resources are not sufficient to estimate a capital project's cost, revenues and/or life cycle costs, outside assistance should be procured.
- For projects programmed beyond the first year of the plan, governments should adjust cost projections based on anticipated inflation
- A clear estimate of all major components required to implement a project should be outlined, including land acquisition needs, design, construction, contingency, and post-construction costs
- The ongoing life cycle costs associated with each project should be quantified, and the sources of funding for those costs should be identified.

Prioritize capital requests. Though the initial prioritization process may be impacted by legal requirements and/or mandates, GFOA recommends that, when evaluating capital requests, governments should first prioritize based on:

- Health and Safety - Priority should be given to high-risk safety issues that require a capital project to correct
- Asset Preservation - Capital assets that require renewal or replacement based on capital asset life cycle
- Service/Asset Expansion/Addition - Infrastructure improvements needed to support government's policies, plans, and studies

In this process, attention should be given to:

- Coordination with related entities
- Allow submitting departments and agencies to provide an initial prioritization
- The impact on operating budget impacts resulting from capital projects
- Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, payback period, cost-benefit analysis, life cycle costing, cash flow modeling)
- Use a rating system to facilitate decision-making"

To develop the CIP, Budget Services requests that each department and agency develop an Agency Capital Plan (ACP) that defines the long-term agency capital asset needs that integrate organizational goals into the capital decision-making process. The agency should:

- Assess resources needed to achieve results
- Identify gap between current performance and needed capabilities
- Detail functional requirements
- Analyze current asset performance
- Evaluate alternatives – including noncapital options.
- Link proposed investments to strategic and program performance
- Analyze benefits, costs and return on investment (ROI)

The Director of Facilities and Budget Services Director worked together to develop a form for departments and agencies to identify Capital Asset needs for the CIP (example attached). The form gives the opportunity to provide important information on the asset, discussed below, that leads to the scoring and ranking of projects for the CIP.

Capital Asset Decision Spreadsheet (Matrix)

The scoring of the requests is predicated upon the Federal General Services Administration (GSA) model that uses a decision support software called "Expert Choice" to help it rank prospectus-level projects. This software allows subjective factors to be considered through a series of paired comparisons. GSA uses broad criteria in the evaluations, such as economics, project urgency, customer impacts, and community planning. In these broad categories are numerous subjects, such as safety and historic factors.

The County will not be judging projects in conjunction with unlike projects. For example, a bridge project, chiller unit, and office renovations, will each be judged within the category established.

The pages that follow reflect the "scoring model" that was used:

FY 2022 Capital Prioritization Matrix & Allocated Funding

Agency	Agency Priority	Project ID	Project	Requested Amount	Project Priority Category	Dollar Category	ASSET CRITICALITY	Mission Dependency	Consequences Non-Functional Facility	Critical to Department, Critical to County, Intra-Dependency	Building Use	FISCAL IMPACT	Funding	Operating Impact	Relationship	RISK	Public Safety	Legal Ramifications	Time to Complete	OVERALL SCORE	FY
							50.00%	37.50%	10.00%	15.00%	37.50%	**20.00%**	40.00%	40.00%	20.00%	**30.00%**	55.00%	35.00%	10.00%		

Above is an example of the scoring model document

Part A

ASSET CRITICALITY

The following nine questions are designed to assist County departments and agencies, and the County Commissioners in the prioritization of Capital Assets.

1. Mission Dependency

"Mission Dependency" means the value an asset brings to the performance of the mission. Ideally, this determination would be made by the agency. However, until the time when Capital Asset Management plans are implemented at the department level, it is the responsibility of Budget Services to ask these questions when making funding decisions.

Determination:

- The agency could not meet their goals and objectives without this project (Weight = 5)
- The health and safety of the public, employees, residents, or inmates would be at risk without this project (Weight = 4)
- The project provides emergency services for national/local security purposes (Weight = 3)
- There is an alternative option that can replace the function of this asset (Weight = 2)
- The asset is not necessary for the agency's mission or public health (Weight = 1)

2. Consequences

If the following project were destroyed or non-functional; then what is the impact or consequences?

- Critical (Weight = 5)
- Significant (Weight = 4)
- Relevant (Weight = 3)
- Moderate (Weight = 2)
- Low (Weight = 1)

3. Critical to Department/Critical to County/Intra-dependency

- Very High Priority/24-7 operations/Impossible (Weight = 5)
- High Priority/Brief: Hours/Extremely difficult (Weight = 4)
- Medium Priority/Few days only/some difficulty (Weight = 3)
- Low Priority/Seven days/Little difficulty (Weight = 2)
- Very Low Priority/Prolonged/No difficulty (Weight = 1)

4. Asset Use

- Residents, Employees, and Inmates (Weight = 5)
- Mainframes, laboratory, or electric power distribution system (Weight = 4)
- Historical and legal documents (Weight = 3)
- Materials and supplies (Weight = 2)
- Industrial Equipment (print shops, mail centers, etc.) (Weight = 1)

Part B

FISCAL IMPACT

1. Funding

- The project has dedicated funding (Weight = 5)
- The project has federal funding match (Weight = 4)
- The project has department funding match (Weight = 3)
- The project has some outside sources (Weight = 2)
- The project has no outside funding; it is totally reliant on the Capital Budget (Weight = 1)

2. Operating Impact

- The project significantly reduces staffing (Weight = 5)
- The project significantly reduces operation and maintenance costs (Weight = 4)
- The project will not impact operation and maintenance costs or require new staffing (Weight = 3)
- The project requires extraordinary operation and maintenance costs (Weight = 2)
- The project requires significant additional staffing (Weight = 1)

3. Relationship to Other Projects

- The project is standalone or is coordinated with another funded project to create economies of scale savings (Weight = 5)
- The project is coordinated with another requested project to create economies of scale savings (Weight = 4)
- The project should coincide with another project(s) (Weight = 3)
- The project clashes with other project(s) to create significant costs in time, money and inconvenience (Weight = 0)

Part C

Risk

1. **Public Safety and Related Utilities**

- The project is absolutely necessary for the public health, safety, and welfare (Weight = 5)
- The project will have a moderate effect on public health, safety, and welfare (Weight = 3)
- The project will have no effect on the public health, safety, and welfare (Weight = 1)
- The project will have an adverse effect on the public health, safety, and welfare (Weight = 0)

2. **Legal Ramifications**

- The project answers a legal mandate (Weight = 5)
- The project answers a potential litigious situation (Weight = 4)
- The project will not address any legal issues (Weight = 3)
- The project may expose the County to litigation (Weight = 2)
- The project will expose the County to litigation (Weight = 1)

3. **Time Initiation to Completion**

- The project will be completed within one year after initiation (Weight = 5)
- The project will be completed within two years after initiation (Weight = 4)
- The project will be completed within three years after initiation (Weight = 3)
- The project will be completed within four years after initiation (Weight = 2)
- The project will be completed in five or more years after initiation (Weight = 1)