

	<p><b>Capital Improvement Plan Policy</b></p> <p><b>Board of Directors</b></p>	<p><b>Issued: March 28, 2011</b>  <b>Revised: August 30, 2021</b></p> <p><b>Approved by: Board of Directors</b></p>
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## **Capital Improvement Plan Policy**

### **1. Scope and Definition**

The Capital Improvement Plan (CIP) policy is intended to guide funding decisions during the Capital Budget review process and the subsequent reporting of progress on individual projects.

Capital Assets are significant pieces of property such as buses, rail cars, facilities and equipment, with a value of \$5,000 or more and a useful life exceeding one year. Due to the size of these expenditures and the length of time required to complete them, Capital Metro's capital planning process will cover a five-year period and will be re-evaluated annually.

The CIP is a schedule of capital improvement projects that Capital Metro plans to undertake during the upcoming five-year period and includes project descriptions, estimated costs, sources of funding and other information that is consistent with sound capital project management or that may be required by the Capital Metro Board of Directors (the "Board").

The Capital Budget covers the first year of the CIP and includes projects for which funds have been authorized for expenditure by the Board for the fiscal year. Ongoing capital projects will be re-evaluated annually prior to the inclusion in that year's Capital Budget.

### **2. Capital Investment Goals**

The goals of the Capital Improvement Program include:

- Prioritizing the capital projects to be undertaken by Capital Metro consistent with the Strategic Plan and the goals and objectives therein.
- Providing a method for public review and input on capital decisions.
- Providing a framework for the management, monitoring and reporting on the progress of capital projects.
- Ensuring the fiscal integrity of the CIP as it relates to Capital Metro's overall budget.
- Ensuring transparency in the implementation of the CIP.

### **3. Prioritization of Projects**

For all capital projects, performance metrics to objectively evaluate the success of the project are identified through scope, schedule and budget. A methodology to measure and validate anticipated project benefits will be defined, e.g., how project benefits will be measured and what data will be used to perform the comparison. These performance metrics will be directly linked to this policy. The measurements should be reviewed and approved (i.e., documented via workflow) by the appropriate executive sponsor prior to submission to the Finance Department.

The President & CEO or designee shall have the authority to adjust the level of required analysis in the development of the Capital Budget based upon the project's legal or regulatory requirements, complexity, or whether the project is a routine maintenance project (e.g., supported by a facilities or fleet plan, IT strategic plan) versus an expansion or non-routine project. However, this flexibility does not reduce or remove project approval and reporting requirements.

Capital Metro will invest in capital projects that have the greatest potential to produce positive results for our customers, local communities and the region consistent with sound management of financial resources. In this regard, it is the Board's intention that capital projects relate to one or more of the following criteria and be in alignment with Capital Metro's Strategic Plan to be given priority for approval:

- **Cost Reduction**—Instituting improvements that can produce quantifiable operating efficiencies and make better use of resources or implementing projects which minimize additional operating expenses.
- **Customer Experience**—Providing innovations that improve the transit environment and customer experience, service reliability to minimize disruptions and delays, and managing system capacity to align with existing or future service demand and optimizing use of the fleet and public facilities.
- **Regulatory**—Ensuring compliance with Federal and State mandates such as the Americans with Disabilities Act.
- **Ridership**—Maintaining current riders and attracting new customers.
- **Safety**—Ensuring the physical well-being of Capital Metro's customers, employees and the general public and enhancing Capital Metro's ability to respond to safety or security incidents.
- **State of Good Repair**—Maintaining the Authority's current "core business" through investments in projects which are necessary to operate the existing infrastructure or add an additional dimension/mode to existing systems and including adherence to maintenance and replacement cycles.

Projects will be rated and ranked based on the above criteria and cost to produce the best value return on investment.

Capital projects which address multiple priority areas should have a greater likelihood of approval. The CIP will align with, and support, the regional metropolitan planning organization's long-range transportation plan where appropriate.

Capital Metro will develop a consistent system by which capital projects are approved, beginning with the Strategic Plan and the prioritization of Capital Metro's goals and objectives.

In addition, the following factors will be considered in making capital investment decisions:

- a. The asset must have a value of at least \$5,000 or more and have a useful life exceeding one year.
- b. If financed by debt, the useful life should exceed the term of the bond.
- c. The availability of grant resources against which local funds can be leveraged will enhance the likelihood of approval.
- d. The age and condition of the capital asset:
  - Assets that are older and in poor condition should generally rank higher on the rehabilitation or replacement list; and
  - Specific vehicle rehabilitation or replacement programs should be established for revenue and non-revenue vehicles.
- e. Cost-benefit relationships. Benefits may be measured in terms of avoided cost or the ability to recover the capital investment within a given period of time. Also, important to the cost-benefit relationship are on-going operating costs, including staffing requirements and replacement cycle.
- f. Engineering considerations. Projects should be evaluated in the scheduling/order of projects. The interdependencies between projects are an important consideration in the scheduling of construction projects. For example, major rehabilitation to a bridge on a rail line might coincide with a track rehabilitation to achieve economies and avoid duplication of effort.

#### **4. Financing the CIP**

Capital Metro will attempt to budget for capital improvements on a pay-as-you-go basis using current revenues and available fund balances.

Capital Metro will seek federal, state and municipal grant funds, whenever available, to support the CIP.

The Board, under the provisions of Texas Transportation Code, Chapter 451, Subchapter H, may issue bonded debt at any time and for any amounts it considers necessary or appropriate for the acquisition, construction, repair, equipping, improvement or extension of its transit authority system subject to the following statutory limitations:

- a. The Board, by resolution, may authorize the issuance of bonds payable solely from revenue.
- b. Bonds which are to be paid in whole or part from taxes may not be issued except when authorized by the voters in an election held for the purpose of considering the issuance of debt.
- c. Capital Metro may not issue bonds secured by ad valorem tax revenue.
- d. For the purposes of issuing debt, the Board may encumber one or more transit authority systems to purchase, construct, extend, or repair one or more other transit authority systems.

- e. The Board may, by order or resolution, issue bonds that are secured by revenue or taxes of Capital Metro without an election held for the purpose of approving this debt if the debt has a term of not more than 12 months and is payable only from revenue or taxes received on or after the date of the debt's issuance and before the end of the fiscal year following the fiscal year in which the bonds are issued.
- f. Capital Metro may not issue short-term debt under Chapter 451, Subchapter H, or bonds secured by the revenue of Capital Metro to finance any portion of the purchase, acquisition, construction, operation or maintenance of a fixed rail transit system unless the system is approved at a referendum as set out in state law (See, Transportation Code, Sec. 451.071).

Bond proceeds will be invested until they are needed in a manner consistent with the requirements of Capital Metro's Investment Policy.

## **5. The Capital Improvement Plan (CIP)**

Annually, Capital Metro will prepare a rolling five-year CIP. The first year's CIP spending constitutes the annual Capital Budget. The CIP and Capital Budget will be approved by the Board as part of the regular budget process and following a public hearing as required by state law and Board policy.

The CIP will align with and be driven by Capital Metro's Strategic Plan. It should also align with, and support, the regional metropolitan planning organization's long-range transportation plan where appropriate.

The CIP should include, at a minimum, the following elements:

- Prioritization of capital projects anticipated over a five-year period;
- Description of planned capital projects, including project category and scope;
- Financing of capital projects, including implications for ongoing operational costs;
- Sources of funding for projects including local and federal funds; and
- Policies for capital planning, estimating costs, tracking spending, managing risk, approving capital projects and reporting on projects.

The CIP should include sufficient detail for the Board and the general public to understand the projects that will be undertaken and how they fit into the overall strategic vision of Capital Metro.

The Capital Budget should clearly account for amounts budgeted for each of Capital Metro's departments, including sources of funding. All capital costs listed in the CIP and Capital Budget will be shown in current dollars and will be updated annually when submitted for inclusion in the CIP.

Prior to undertaking a capital project, all ongoing operational and maintenance costs shall be identified and included as part of the overall CIP.



## **6. Capital Project Monitoring**

Any change in project costs from the previously approved CIP must be justified in writing and include a new project summary along with the reasons for the change in the project cost. Staff should regularly report budget variances to the Board.

Staff will provide the Board with quarterly status reports on actual operations and capital expenditures in comparison with the amounts budgeted and the planned schedule for carrying out the project. These reports should include updates on all key capital projects, including general information on the percentage of CIP projects within original budget and the percentage of CIP projects completed on original schedule.

For individual projects, the following should be reported: work completed compared to budget spent, status of project budget, project completion and any contract management concerns. To assist with reporting on capital projects, Capital Metro will track capital projects using a consistent method, including, at a minimum, tracking the baseline budget, contract awards, contract changes and expenditures to date.

Each project will be evaluated against the original investment criteria at least annually. When determining whether the project accomplished its intended goals, the performance measurement methodology outlined in the original project analysis should be used.

No budget transfer will be made from the Capital Budget to the operating budget without the approval of the President/CEO.

Capital project funds will be re-evaluated annually until the project is completed. Following completion of a capital project, remaining surplus capital funds will lapse and may be reallocated as follows:

- a. Funding derived from Capital Metro's own-source revenues will revert to reserve and may subsequently be allocated for any capital or operating purpose as approved by the Board.
- b. Remaining federal grant authority will be used for other projects authorized under federal law and regulations consistent with the approved CIP.
- c. Funding derived from bond proceeds may be reallocated for other capital projects consistent with the terms of the relevant bond issue and the CIP.

## **References**

### **Financial Policies**

### **Investment Policy**