

**CITY OF DANA POINT
COUNCIL POLICY**

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BACKGROUND

Public infrastructure assets have a major impact on our community's quality of life, the City's ability to deliver its services, and the quality of those services. Those assets and their component parts include, but are not limited to streets, curbs, gutters, sidewalks, storm drains, water quality facilities, etc. Since incorporation, the City has made a substantial investment in its public infrastructure assets. The purpose of this policy is to guide the City first in decisions necessary to preserve its investment, and then to rationally direct funding for new capital assets.

A separate City financial policy provides guidance for maintaining City facilities such as its buildings and component systems, grounds, parks, trails and medians; and separately, for its vehicle fleet acquisition and usage.

ESTABLISHMENT OF AN ASSET INVENTORY

The Public Works & Engineering Department, in close coordination with other Departments, shall develop and maintain a comprehensive Public Infrastructure Asset Inventory. The Department shall also develop and utilize infrastructure asset management strategies that forecast maintenance requirements and associated costs to ensure continued operation of the assets, along with funding requirements for replacement when needed. Strategies are expected to encompass a variety of sources and techniques to assess and project asset conditions and maintenance costs, and that must continuously evolve as assets age and change. At a minimum, the following should be considered when developing appropriate strategies:

- Identify major asset classes;
- Identify criteria and/or procedures to assess conditions and consequences of not maintaining particular assets in good condition;
- Assess and evaluate the condition of assets within each major asset class; and,
- Suggest asset maintenance priorities based on a host of factors, including but not limited to impacts to the public, risk mitigation, legal requirements, and continuity of operations.

In many cases, the need and thus cost of asset repairs will be based on routine inspections, in addition to expected and available life-cycle data. Examples of asset types covered by this assessment approach include storm drain facilities, sidewalks, and

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improvements necessary to make facilities compliant with the Americans with Disabilities Act (ADA).

From the inventory and maintenance strategy, Public Works shall recommend to the City Manager a prioritized Capital Improvement Plan (CIP) looking out seven fiscal years. The City Manager shall incorporate his/her proposed CIP into the Budget presented to the City Council.

FUNDING OF ASSET MAINTENANCE AND REPLACEMENT

It is the City's policy to ensure that adequate resources/funding are allocated in the Council-approved budget to maintain and replace existing assets before directing resources/funding to build new facilities, or to acquire additional assets that may also have ongoing operating and maintenance obligations. The funding allocation may need to include setting aside funds for future replacement per strategy, particularly where deemed necessary to ensure adequate resources are accumulated for higher-cost projects. This Policy recognizes that new Federal or State requirements may emerge and require investment in new facilities/assets.

The purpose of this Infrastructure Asset Management Policy (Policy) is to protect the City's existing investment in capital assets by 1) ensuring due consideration is given to maintaining existing capital assets when funding is limited and the City must decide between funding routine operations or funding required or desired capital investments; and, 2) avoiding acquisition of new assets when the acquisition, operating, and maintenance cost of the asset, when added to funding for existing City operations and maintenance of existing assets, exceeds available funding.

CAPITAL IMPROVEMENT PLAN (CIP) SCOPE

Each year, the Public Works Department shall develop the CIP budget for the City Manager's consideration, and for the City Manager's budget proposal to the City Council. The CIP should describe and prioritize the capital projects that the City intends to undertake during the next seven fiscal years, and should encompass:

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- A. Definition of a capital project.** For the purposes of the CIP, the definition of a capital project is a project with a useful life of at least five years¹ and a cost of at least \$50,000; and,
- B. Link to needs assessments.** Projects included in the CIP, with minor and occasional exceptions, should be based on the strategy.

ROLES IN THE CIP PROCESS

The Public Works Department is responsible for coordinating the CIP process and compiling the CIP document. Other key roles include:

- A. Review of Capital Project Proposals.** The Administrative Services Department will coordinate a capital project review process within the City Manager approved budget calendar;
- B. Capital Financing.** The Administrative Services and Public Works Departments will jointly develop a capital funding strategy to support the CIP; and,
- C. Approval of the CIP.** The City Manager shall review and propose the CIP to the City Council for their review and approval.

The CIP document will take into account items described in the strategy, as well as feedback from the General Services Department with regard to any overlap with planned maintenance of facilities, and with the Community Development Department for any private-development projects expected to occur.

CIP PROJECT IDENTIFICATION – EXISTING PUBLIC FACILITIES

Each year, the Public Works Department will develop the CIP to include projects necessary to extend the life of existing public facilities, and then any new assets being proposed.

CIP PROJECT IDENTIFICATION – NEW ASSETS

Inclusion of proposals in the CIP for new public assets, including those from private development and donated assets, will be evaluated using procedures developed jointly

¹ Capital assets have a multi-year lifespan. Assets with shorter lives would be more appropriately addressed in the operating budget.

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by the Public Works and Administrative Services Departments. At minimum, the procedure shall provide for the following:

- A. Long-term operating and maintenance costs.** Identify the annual cost to operate and maintain the asset over its lifecycle;
- B. Anticipated sources of funding.** Identify the sources of funding to acquire, operate and maintain the asset; and,
- C. Proposed timing of the project.** Identify the proposed schedule including all entitlement approvals, bidding, design, land acquisition, construction, and other relevant milestones to complete the project.

CIP PROJECT SELECTION

The Administrative Services Department will employ procedures to assess and evaluate project proposals. Principles and practices reflected in the selection process will include:

- A. Long-term forecasts.** Long-term forecasts to better understand the need for capital spending, assess operational impacts and costs, and eventual replacement costs;
- B. Impact on other projects.** Projects should not be considered in isolation. One project's impact on others should be recognized and costs should be shared between projects where appropriate;
- C. Allow for funding of preliminary activities.** Recognition that, for some projects, undertaking some preliminary engineering/planning and discretionary approval effort before committing to funding the whole project is advised. However, even these expenditures can be considerable, so projects should be evaluated and prioritized appropriately;
- D. Full consideration of operating and maintenance costs.** The City should first ensure it has adequate ongoing financial resources to operate and maintain an asset before allocating resources to build it;
- E. Full lifecycle costing.** Analysis of the cost of a proposed project should encompass the entire life of the asset, from planning and acquisition, to maintenance, and on to replacement or eventual disposal;
- F. Predictable project timing and scope.** Schedule and scope estimates should be practical and achievable, within available and forecast financial and human resources;
- G. Public support.** Projects should have the support of the Dana Point community; and,

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H. Leveraging resources through cooperation with others. Where possible, the City should take advantage of opportunities for intergovernmental and/or public-private partnerships to best leverage the City's capital investment.

BALANCED CIP

The CIP should be a balanced seven-year plan. This means that for the entire seven - year period, revenues will be equal to projected expenditures in the CIP. It is possible that the Plan will have more expenditures than revenues in any single fiscal year, as long as the CIP fund has a positive fund balance. However, over the life of the seven-year Plan all expenditures will be provided for by the combination of fund balance and identified revenues. The City may provide a separate listing of projects deemed important, but where projected funding does not provide for a balanced CIP. The City Council may choose to examine the unfunded projects and defund a project that is on the balanced CIP in favor of another project that is not, or to fund a project on the list should previously unknown funds become available.

CIP FUNDING STRATEGY

The City may elect to use pay-as-you-go (i.e., cash financing), or secure debt financing to acquire an asset. The City Council's stated priority is to utilize a pay-as-you-go approach to financing projects to minimize incurring debt where feasible. Guidelines are provided below to lead the City in making the choice between pay-as-you-go and debt financing.

- A.** Factors which favor pay-as-you-go financing include circumstances where:
 - 1.** The project can be adequately funded from available current revenues and/or fund balance;
 - 2.** The project can be completed in an acceptable timeframe given the available revenues; and,
 - 3.** Additional debt levels could adversely affect the City's ability to fund future, ongoing operations and maintenance, and/or adhere to its legal debt limit.

- B.** Factors which may allow for long-term debt financing include circumstances where:
 - 1.** Revenues available to pay debt costs are considered sufficient and reliable; and,
 - 2.** Market conditions present favorable interest rates;

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3. A project is mandated by State or Federal government and current revenues or unassigned fund balances are insufficient to pay project costs;
4. A project is immediately required to meet or relieve capacity needs, and current revenues or unassigned fund balances are insufficient to pay project costs;
5. The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project and based on the City's ability to pay debt service (i.e., asset life is greater than or equal to debt term)
6. The users/beneficiaries of the asset financed pay user fees or choose to directly pay the cost of servicing the debt.

CAPITAL PROJECT MANAGEMENT

Responsible management of capital projects is essential to create the best value for the community. The following policies shall be observed to help ensure the best project management possible:

- A. Project Management.** Every CIP project should be managed by qualified personnel responsible for the following, at a minimum:
 1. Developing the project budget, and communicating material budget variances in a timely manner;
 2. Developing Cash flow forecasts prior to project approval, and update as needed after project commences;
 3. Ensuring required phases are completed on schedule, and communicating schedule variances in a timely manner;
 4. Authorizing project expenditures and monitoring project cash flows;
 5. Ensuring adherence to regulations and laws; and,
 6. Periodically reporting project status.

- B. Regular progress reviews.** Regular capital project and program reviews are to be conducted to monitor project performance, and regular reports shall be generated by the Public Works Department.

- C. Limits on amendments.** For an appropriated capital project, the total cost of the project, including all change orders, shall not exceed the amount of the Council-approved budget without Council approval. All amendments shall be

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reviewed and evaluated in accordance with the City's purchasing policy. The Public Works Department shall manage capital projects within prior-approved time and cost constraints. If an amendment is necessary, proper documentation explaining why should be processed. Any amendment to a construction contract shall stay within the City Council approvals.