

VILLAGE OF MUKWONAGO CAPITAL IMPROVEMENT PLANNING POLICY

I. Background. The intent of the capital improvement planning policy is to ensure that the Village of Mukwonago has set in place a long-term plan regarding improvements and replacement of buildings, equipment, apparatus, parks, and public infrastructure, including its utilities. It is prudent that the Village Board and management have a process where these items are reviewed prior to the annual budget process.

II. Policy Management.

A. The Village Board must approve a five-year capital improvement plan that is updated annually.

1. The five (5) year capital improvement plan will include consideration of major equipment replacement needs as well as any other projects or future capital expenditures.
2. The plan will contain a 6th year column to capture projects and major purchases expected to occur beyond the 5 year plan to allow for longer range planning and potential funding opportunities.

B. The Village Board will hold at least one Capital planning workshop that is considered an open meeting, thus being open for public input.

1. The Capital Improvement Planning process will begin at a staff level in May and the Capital Planning workshop(s) should be expected to be held in early September.

C. The first year of the five-year capital improvement plan with consideration of any changes will be rolled into the current year capital improvement budget during the annual operating budget process.

III. Funding Plan.

A. Delaying capital maintenance and replacement of equipment results in higher future costs and decreased resident service. A funding plan ensures capital needs can be addressed on an ongoing basis without unreasonably large increases in property taxes over the prior year.

1. As part of the annual capital improvement plan process, the Finance Director will develop for consideration by the Village Board a target for changes in the property tax levy necessary for debt service in subsequent budget years. This target will be used to develop guidelines for the level of borrowing needed to support the annual capital improvement budget. The target will be based on a combination of factors including, expected growth in tax base, inflation rates, or similar factors. The

- borrowing target may be exceeded with the approval of a 2/3 majority of the Village Board.
2. Utility projects funded by utility rates will be analyzed for future rate impacts as part of the annual budget process.
 3. Development-related projects for which tax incremental financing would be utilized will be considered outside of the borrowing targets noted above in accordance with the dedicated revenue stream (tax increments or other sources) used to pay the debt.
- B. The plan uses a combination of reserves on hand, allowable tax levy increases, and debt service tax levy that will become available in future years to fund annually recurring purchase requests.
- C. Reserves on hand are derived from the Village's Designated and Capital Improvement Funds
1. The use of reserves allows the Village to gradually increase the tax levy to fund these purchases rather than including large one-time jumps.
 2. Reserves will generally fund projects that are carried over from a prior year to complete the project. Savings from a completed project or a capital purchase, or the cancelation of a project after funds have already been allocated in a prior budget also results in reserves that are available to fund the subsequent year's planned capital.
 3. Impact fee eligible projects can also be funded from impact fee reserves if those funds are readily available.
 4. An evaluation of available General Fund reserves and possible transfer of a portion of those reserves to the capital equipment fund and/or capital improvement fund through a current year budget amendment will be considered during the budgeting process.

IV. Procedures.

- A. The Village begins the capital planning process by summarizing all existing capital assets including equipment, apparatus, buildings, and infrastructure assets purchased with an individual value of more than \$5,000 and an estimated useful life of greater than one year. This inventory listing includes the year the asset was purchased, estimated life, and estimated replacement year.
- B. Department Heads then complete a capital needs assessment. One part of that assessment is to review their existing asset inventory and ensure that assets needing replacement during the next five years are requested. Departments are also provided with a listing of the overall capital plan for their review and update

1. Department Heads will submit new requests and revise existing items using the capital planning feature of the Village's digital budget book software which contains all the necessary fields to describe the item and cost for consideration in the five-year plan. Justification for the project or purchase and a priority code should also be included in the request.
 - a. Projects or purchases that are appearing for the first time, or those changing in priority or scope, will be noted as such and discussed with the Village Board prior to establishing placement in the Capital Plan.
 2. Projects deemed necessary or desirable by Village Board members should be discussed with the appropriate Department Head and Administrator for consideration and inclusion in the plan, following the same process used by Department Heads.
- C. Prioritization of capital requests should be considered as follows:
1. Critical items have legal, safety, or regulatory requirements where not addressing the situation could lead to legal action, fines, penalties, or high risk of liability against the Municipality. Examples include rapidly deteriorating infrastructure; main breaks; critical safety equipment failure
 2. High priority items include those required to maintain key services at expected levels where delaying the item could cause a significant drop in service or functionality
 3. Medium priority items include those that could provide efficiency benefits or cost savings, but are not essential to maintaining high service levels
 4. Low priority items are the "nice to haves" but could easily be postponed if funding is not available.
- D. Once all capital purchase requests are received by the Finance Director, they are split into three groups and the process to determine the appropriate funding mechanism for each item begins.
1. Non-Debt Financed Purchase Requests: Non-debt financed purchase requests can be thought of as falling into one of three categories: annually recurring, smaller dollar purchases or shorter-lived assets.
 - a. Annually occurring purchases should be financed through annual revenues rather than borrowed funds. This method allows for tax rate stabilization and lower debt service payments due to fewer borrowings.
 - b. Lower cost assets should not be financed if the cost of financing becomes too high in comparison to the asset's overall value.
 - c. Shorter-lived assets should not be financed for terms longer than the expected useful life of the asset.

- i. Shorter-lived assets can be financed with debt if the debt is structured to be repaid within the asset's useful life.
 2. Debt Financed Purchase Requests: Debt financed purchase requests are higher cost, more infrequent purchase requests. Due to the infrequency of purchase, paying for these assets with annual operating funds would lead to a tax rates fluctuating significantly from one year to the next. To maintain tax levy stability, these purchases should generally be financed with long-term debt.
 3. Storm Water Utility District, Sanitary Sewer, and Water Utility Purchase Requests: These requests are primarily for infrastructure improvement that relate to one of the Village's utilities. The costs of these assets may be financed through user fees and funds on hand or the issuance of long-term revenue debt. If debt financing is used the debt will be repaid through user fees of that utility, rather than through the general tax levy. Storm Water projects that are outside of the Storm Water Utility District are funded through the tax levy or with other Village reserves.
- E. The Finance Director and Village Administrator review the equipment and project requests to verify that they are in line with the Village's overall goals and make any necessary changes in consultation with the Department Heads.
- F. The Finance Director and Village Administrator then present a draft five-year Capital Improvement Plan to the Village Board for the Capital Planning workshop(s) for further discussion and consideration.
- G. Once the Capital Planning workshop(s) have been completed, the necessary changes are made and the first year of the Capital Improvement Plan will be rolled into the Capital Improvement Budget and will go through final review and approval during the annual operating budget process.