
CHAPTER 9

CAPITAL IMPROVEMENTS STRATEGY

INTRODUCTION

In terms of capital expenditures, Waldoboro is like other communities in Maine in two respects. First, the Town must make capital expenditures in order to meet the needs of the community in a cost effective manner. These capital investments include such things as road reconstruction, fire engines, trucks for snow plowing, building repairs, pavement overlays and other improvements to public property. Second, capital investments can have a large impact on the budget and therefore become obvious targets when it comes to trimming the budget.

In communities that do not have a capital improvements program, individual departments plan for capital investments, often with little communication between departments. For example, if the fire department needs a new truck, funds for the truck are included in the department's budget regardless of other community capital needs. Such communities often defer needed capital spending when there is a budget crunch, and approve whatever is proposed when funds are available. This can result in scarce capital dollars being spent on projects that do not reflect the greatest community needs. It can also result in unexpected emergency expenditures when a piece of equipment fails because it was kept in service beyond its useful life.

The 1990's and beyond will continue to be a period of intense challenge for local governments and how they invest their limited resources. With the decline of Federal and State funding, escalating operating costs in areas such as solid waste, deferred maintenance because of insufficient local revenues, and caps on taxes and expenditures, towns must develop comprehensive capital improvement programs that ensure that limited resources are allocated in the wisest possible way.

Faced with these constraints, providing for Waldoboro's capital improvements and responding to future growth and development will be an increasingly challenging task for municipal leaders. Obviously, what the community can afford (available resources) and what is requested or required in order to provide the best possible service and protection to the Town may vary widely with the result that competition for funding among local program alternatives will be great.

WHAT IS A CAPITAL IMPROVEMENT PROGRAM?

A capital improvement program can be defined as a schedule for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from a long-term work program together with their estimated costs and sources of financing. Simply put, **a capital improvement Program is a method to plan, schedule and finance capital investments over a period of several years.** It sets forth each project or other contemplated expenditure in which the local government is to have a part and specifies the full resources estimated to be available to finance the project expenditures. The **capital budget** covers projects in the first year of the multi-year capital program.

Benefits. A capital improvement program has a number of benefits:

1. It serves as a link between the Comprehensive Plan and its implementation.
2. It focuses attention on community objectives and financial capabilities and facilitates coordination of capital and operating budgets.
3. It helps to reconcile the timing of projects with the availability of financial manpower, equipment and material resources.
4. It relates public facilities to public and private development policies and plans.
5. It keeps the public informed about future needs and projects.
6. It allows for coordination with other private and public agencies and for careful planning and design, thereby reducing project duplication and avoiding costly mistakes.
7. It enhances credit ratings and helps reduce fluctuations in the tax rate and debt service requirements.
8. It identifies the most economical means of financing capital projects.

PROGRAM DIMENSIONS

Like most any municipal government program, a capital improvement program has numerous dimensions which must be considered.

Statutory Dimension. State and local laws need to be examined in terms of their applicability to the capital improvement process. In Maine, the legal foundation of the capital improvement process lies in Title 30-A, Chapter 233, Section 5801 of the Maine Revised Statutes. This law allows municipalities to establish reserve funds, including capital improvement accounts (for a specific type of capital improvement) and capital equipment accounts (for the purchase of capital equipment). The law places legal restraints and controls on local revenue raising and spending capacity. Section 5702 and Chapter 12 place a limit on total outstanding debt of 15% of State valuation. Within the 15% limitation, municipalities can incur debt of no more than the following: general purposes 7 1/2%; school purposes 10%; storm or sanitary sewer 7 1/2%, airports, water and special districts 3%.

Financial Dimension. Inflation, increased pension and health benefits, energy costs, insurance costs and a number of other mandated Federal and State programs and requirements such as solid waste disposal all limit local discretion to make various investment decisions. These mandates and "uncontrollable costs" all place restrictions on available funds for capital purposes.

Declines in Federal and State financial assistance have led to several creative financing techniques which add to an already complex financial picture such as bonds with variable rates, put features, zero coupons, industrial development bonds and industrial revenue bonds. Industrial development and revenues bonds have "crowded" the municipal bond market making it more difficult to issue general obligation bonds to finance capital improvements.

Another interesting trend is the shift in the provision of capital facilities to the private sector which includes developer fees, use or user fees, sale-leaseback arrangements, tax increment financing and privatization and contracting out. However, many local government officials remain skeptical of funding mechanisms that appear to be gimmicks or are really just a simple shifting of costs from one

pocket to another.

Growth Management Dimension. The timing and placement of capital improvements must take into consideration growth and management issues. Coherent capital improvement policies must be formulated to coordinate and foster careful management and prevent deterioration and facility neglect.

Political Dimension. There is no question that politics affects the budgetary process and capital improvement decisions. Politically, it may be tempting to shift scarce resources to other priorities and thus defer essential maintenance and repair. The negative effects of delaying projects may not be felt for several years, long after the elected official has left office. While politics can never be removed from the capital improvement decision making process, it is important not to defer necessary capital expenditures. Public officials have a stewardship responsibility to preserve, maintain and improve capital facilities for the current and future citizens of their community.

PROGRAM MECHANICS

A capital improvement program should begin with an inventory of existing public facilities and an assessment of their condition. Basic inventory information consists of a description of the asset, its location, age, condition, original cost, current value, maintenance and operating costs, type and extent of use, depreciation, estimated replacement cost, and the proposed date for rehabilitation or replacement.

Next, a complete list of projects contemplated should be developed and reviewed. The most difficult aspect of project review is the prioritization of projects. However, this is a necessary part of the planning process.

Once projects are identified and reviewed, capital financing alternatives must be explored. Finally, the program and capital budget must be adopted. Once the program is adopted, it must be implemented and monitored. An important part of the capital program or cycle is the annual revision. Each year, another year is added so that a five-year program is always available. Annual revisions are periodic and forward looking; as projects move closer to the year of implementation, they can be re-examined, thus keeping the whole process flexible.

SUMMARY OF WALDOBORO CAPITAL IMPROVEMENT PROGRAM

Waldoboro has had a capital improvement program in effect for a number of years. It is updated annually by the Town Manager, working with the Budget Committee and the Board of Selectmen. Waldoboro's CIP program includes budgeted expenditures for specific years, as well as annual appropriations into approximately eight reserve funds. The updated, 1997 capital improvement program contains provisions for funding several reserve funds over the next five years, even though the actual expenditure of those funds will not occur during the five-year window of the plan. Reserve accounts represent a "save for the future" approach to funding at least a portion of the Town's capital expenditures.

Recommended Projects. Waldoboro's 1997 Capital Improvement Program contains 18 recommended projects which are described below and summarized in Table 1. The list includes some short-term projects, such as road improvement projects, as well as others such as the public works garage which may not be implemented for a number of years.

1. Water System Purchase and Improvements. Proceed with the purchase of and

improvements to the Waldoboro water system and fund through a combination of grants and loans from the U.S. Department of Agriculture, Rural Development Agency.

Cost: \$2,200,000

- 2. Fuel System Project (Municipal Building).** Replace the two fuel tanks located at the municipal building before October 1, 1998 and fund through the capital reserve program.

Cost: \$31,350

- 3. Sand/Salt Storage Building.** Proceed with the construction of a sand/salt storage building during the summer of 1998 and fund through Public Works capital reserve and MDOT Sand/Salt Storage Facility Program.

Cost: \$157,000

- 4. Kalers Corner Project - MDOT Project.** Appropriate approximately \$2,000 per year for 10 years to provide Town's share of a Biennial Transportation Improvement Project approved by MDOT for improvements to the Kalers Corner intersection.

Cost: \$80,000

Capital Equipment Reserve Program. Fund the capital equipment reserve program at a rate of \$108,018 to fund projects # 5 through # 12 as summarized in the following paragraphs.

Cost: \$540,090

- 5. Photocopier.** Replace the 1989 photocopier within the next five years and fund through the capital reserve program.

Cost: \$8,015

- 6. Computer Upgrade.** Upgrade the office computer system within the next five years and fund through the capital reserve program.

Cost: \$10,800

- 7. Police Cruiser Replacement.** Continue to replace one police cruiser per year over the next five years.

Cost: \$98,125

- 8. 1992 Ford F-350 Replacement.** Replace the 1992 Ford F-350 light duty/utility truck in 1998 and fund through the capital reserve program.

Cost: \$27,321

- 9. 1993 Ford F-350 Replacement.** Replace the 1993 Ford F-350 light duty/utility truck in 1999 and fund through the capital reserve program.

Cost: \$21,668

- 10. 1990 Ford L-8000 Replacement.** Replace the 1990 Ford L8000 heavy duty truck in 1999 and fund through the capital reserve program.

Cost: \$74,214

- 11. **1992 Ford L-8000 Replacement.** Replace the 1992 Ford L8000 heavy duty truck in 2000 and fund through the capital reserve program.
 Cost: \$72,832

- 12. **1978 JD Backhoe Replacement.** Replace the 1978 JD backhoe in 1998 and fund through lease/purchase or long-term debt.
 Cost: \$70,714

- 13. **Surface Paving Program.** Continue to fund the surface paving program that will provide for five miles of surface paving each year.
 Cost: \$150,000 annually

- 14. **Miller Road Project.** Undertake improvements to Miller Road including drainage, widening and surface improvements and fund through a combination of the highway construction reserve account and operating (force) accounts.
 Cost: \$11,444

- 15. **Deaver Road Project.** Undertake improvements to the Deaver Road including drainage, widening and surface improvements and fund through a combination of the highway construction reserve account and operating (force) accounts.
 Cost: \$85,520

- 16. **Flanders Corner Road Project.** Undertake drainage and surface improvements to Flanders Corner Road and fund through a combination of the highway construction reserve account and operating (force) accounts.
 Cost: \$34,105

- 17. **Renovation/Ventilation Project (Municipal Building).** Undertake renovation/ ventilation improvements to the municipal building as funding permits and fund through a combination of capital reserve funds and a general obligation bond.
 Cost: \$175,000

- 18. **Public Works Garage Project.** Undertake the replacement of the Public Works garage as funding permits and fund through a combination of capital reserves and a general obligation bond.
 Cost: \$832,890

TABLE 9-1

PROPOSED CAPITAL IMPROVEMENT PROGRAM 1998-2002

Capital Project	Project Cost	Priority	Estimated Replacement Schedule					Capital Reserve Funding	Other Funding
			1998	1999	2000	2001	2002		
Water System Purchase, Improvement	\$2,200,000	1	<-----Unknown----->						\$2,200,000
Fuel System Project, Municipal Building	\$31,350	2	\$31,350					\$31,350	
Sand/Salt Storage Building	\$157,000	3	<-----Unknown----->					\$66,481	\$91,019
Kalers Corner Project	\$80,000	4	<-----Unknown----->					\$20,000	\$60,000
Photocopier	\$8,015	5	<-----Unknown----->					\$8,015	
Computer Upgrade	\$10,800	6	<-----Unknown----->					\$10,800	
Police Cruiser Replacement	\$98,125	7	\$18,064	\$18,575	\$19,504	\$20,479	\$21,503	\$98,125	
1992 Ford F-350 Replacement	\$27,321	8	\$27,321					\$27,231	
1993 Ford F-350 Replacement	\$21,668	9		\$21,668				\$21,668	
1990 Ford L-8000 Replacement	\$74,214	10		\$74,214				\$74,214	
1992 Ford L-8000 Replacement	\$72,832	11			\$72,832			\$72,832	
1978 JD Backhoe Replacement	\$70,714	12	\$70,741						\$70,741
Surface Paving Program	\$750,000	13	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$336,420	\$413,580
Miller Road Project	\$11,444	14	<-----Unknown----->					\$5,975	\$5,469
Deaver Road Project	\$85,520	15	<-----Unknown----->					\$26,473	\$59,047
Flanders Corner Road Project	\$34,105	16	<-----Unknown----->					\$8,707	\$25,398
Municipal Building Ventilation/Renovation	\$175,000	17	<-----Unknown----->					\$110,602	\$64,398

TABLE 9-1

PROPOSED CAPITAL IMPROVEMENT PROGRAM 1998-2002

Capital Project	Project Cost	Priority	Estimated Replacement Schedule					Capital Reserve Funding	Other Funding
Public Works Garage	\$832,890	18	<-----Unknown----->					\$159,652	\$673,238
CAPITAL RESERVE PROGRAM	\$540,090		\$108,018	\$108,018	\$108,018	\$108,018	\$108,018	\$540,090	

