

Capital Improvement Plan

Overview

A Capital Improvement Plan (CIP) is typically an unaudited planning document used to identify needed capital improvements and other assets, along with methods of financing the CIP. The City's auditors define a capital asset as any individual item with a useful life of more than one year. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized but are considered as expenses. Also included in the CIP is the estimated life of the capital improvement and its resulting annual depreciation. The CIP includes the name of each project, its estimated cost, proposed financing, useful life in years and annual depreciation. The depreciation is calculated on the "straight line" method, meaning that the cost of each project or capital expense is divided by its useful life in years. A detailed CIP is essential in determining the amount of cash flow from one year to the next.

Inside Water System - CIP

Figure 3 is Pikeville's Inside Water System CIP and includes the purchase and installation of radio read water meters, a raw water intake project, water treatment plant improvements and water line replacements. Over the next five years, approximately \$2,694,350 of water system infrastructure is anticipated to be installed, resulting in about \$154,000 in new depreciation added to the depreciation schedule.

Financing of the radio read meters will be through a general obligation bond on the open market, and financing of the intake will be primarily with a grant. All other projects will be funded with available cash in the inside water system account.

Outside Water System - CIP

Figure 4 is Pikeville's Outside Water System CIP and includes the purchase and installation of radio read water meters, water line replacement, booster station improvements, service line replacements and new valve inserts. Over the next five years, approximately \$1,194,650 of water system infrastructure is anticipated to be installed, resulting in about \$42,660 in new depreciation added to the depreciation schedule.

Financing of the radio read meters will be the same as financing for the inside water system radio read meters and financing of the water line replacement in FY 2020 will be through a loan and a grant. All other projects will be funded with available cash in the outside water system account.

Inside Wastewater System – CIP

Figure 5 is Pikeville's Inside Wastewater System CIP which includes the largest of the water and wastewater projects over the next five years, a \$21,161,883 wastewater treatment plant improvement project. Also included is lift station improvements, slip lining projects and an odor control system. Over the next five years, approximately \$22,074,383 of wastewater system infrastructure is anticipated to be installed, resulting in about \$572,597 in new depreciation added to the depreciation schedule.

*Please note that all figures are projections and are subject to change.

Financing of the wastewater treatment plant improvement project will be through \$10,500,000 in loans from United States Department of Agriculture (USDA), a \$2,500,000 general obligation bond on the open market, a \$4,500,000 USDA grant, a \$500,000 Appalachian Regional Commission grant, a \$2,361,000 grant Economic Development Agency grant and a \$800,883 Housing and Urban Development – Community Development Block Grant. The odor control project is anticipated to be paid with \$200,000 from coal severance money. All other projects will be funded with available cash in the outside water system account.

Outside Wastewater System – CIP

Figure 6 is Pikeville's Outside Wastewater System CIP which includes a telemetry system, flow hoods, line replacements, lift station repairs and a new collection system in the Mullins Hill area. Over the next five years, approximately \$1,669,722 of wastewater system infrastructure is anticipated to be installed, resulting in about \$45,418 in new depreciation added to the depreciation schedule.

Funding for the Mullins Hill project will be by the City of Coal Run Village. When completed this system will be dedicated to the City of Pikeville. Although the City will not have to pay for any of the Mullins Hill wastewater project, it will take ownership to operate and maintain. The value of the new system will be added to the depreciation schedule. All other projects will be funded with available cash in the outside water system account.

Other considerations

The CIP can serve as a planning document and should be review and updated annually. The document should cover at least five years and include major purchases such as equipment, controls, and water meters as well as line extensions, pump replacements and rehabilitation projects. The CIP can also be helpful in developing budgets, especially if the budget contains depreciation as an expense.

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