

**Resolution 4/21/20B (2020)**

**Adopt an Asset Management Financial Policy/Procedure**

**WHEREAS**, Wis. Stats. 60.40 allows the Town to develop, accept and preserve the Town financial management process by the preparation and adoption of a Town budget;


**NOW, THEREFORE, BE IT RESOLVED**, the Town Board accept the attached "Asset Management" Financial Policy/Procedure as printed.

**WHEREAS**, the Town of Farmington approves this resolution of establishing a Asset Management policy/procedure. This resolution can be re-visited and modified as referenced to "priority and replacement" on attachment.

Adopted: April 21, 2020

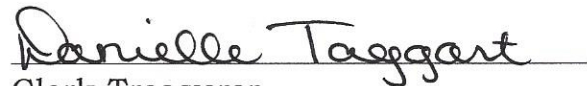
Approved by a vote of 3 yes 0 no

  
Chair

  
Supervisor I

  
Supervisor II

ATTEST:

  
Clerk-Treasurer

TOWN OF FARMINGTON  
FINANCIAL POLICY/PROCEDURE

SUBJECT: ASSET MANAGEMENT

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## Why an Asset Management Policy Is Important

Good infrastructure is vital for our community to thrive. This policy supports our infrastructure by:

- Promoting wise investment in new infrastructure.
- Protecting the historical investments Town of Farmington has made in its infrastructure.

## Capital Improvement Plan (CIP)

Each year, the Town of Farmington Board will create a long-range capital improvement plan (CIP). The CIP will define and prioritize the capital projects that the Town of Farmington plans to take on in the next five years.

- **Definition of a capital project.** A capital project in a CIP is a project with a three- to five-year life cycle and a cost of at least \$5,000.
- **Link to needs assessments.** All projects in the CIP, with minor and few exceptions, should be based on needs assessments performed to determine the benefit of the asset compared to its cost.

## CIP Project Identification

Each year, the Town of Farmington Board will suggest potential projects for the CIP. At a minimum, this process will provide for the following:

- **Long-term operating and maintenance costs.** A plan will identify the cost to operate and maintain the asset over its life cycle.
- **Funding source.** A plan will describe where the funding is expected to come from to acquire, operate, and maintain the asset.
- **Project timing.** A plan will identify the proposed schedule for planning, bidding, construction, and other milestones in acquiring the asset.

## CIP Project Selection

The Town of Farmington will create a process to assess capital projects. The selection process should include:

- **Long-term forecasts.** Long-term forecasts should be prepared to make clear the resources available for capital spending and to assess the impacts of operation and replacement costs.
- **Project impact.** A project should not be considered on its own. The impact a project has on other projects should be recognized and costs shared between them where appropriate.
- **Funding of preliminary activities.** For some projects, it may be wise to fund only preliminary engineering/planning before promising to fund the whole project. These expenses can be large, so they should be assessed and prioritized.
- **Operating and maintenance costs.** Resources should be identified to operate and maintain an asset before assigning resources to build it.
- **Life cycle costing.** The cost study of a proposed project should include the life of the asset—from planning and acquisition to disposal.
- **Project timing and scope.** Schedule and scope estimates should be achievable within the requested financial and human resources.

## **Balanced CIP**

The CIP is a balanced, long-term plan. For the entire period of the CIP, revenues will be equal to the projected costs. It is possible that the plan will have more costs than revenues in any single year of the plan (with the exception of the first year, which is intended to become an appropriation plan for the Town of Farmington). However, over the life of the five-year plan, all expenses will be covered with revenues. The Board may record, on a separate document, projects that are deemed important but cannot fit into a balanced CIP. The Town Board may choose to look at unfunded projects and defund an existing project in favor of another.

## **CIP Funding Strategy**

The Town of Farmington may elect to use debt financing to acquire an asset or pay-as-you-go financing (i.e., cash financing). Below are guidelines to help the Town of Farmington make the best choice between debt and pay-as-you-go financing.

Factors that favor pay-as-you-go financing include situations where:

- The project can be funded from current revenues and fund balances (reserves);
- The project can be finished within an acceptable time frame given the available revenues;
- Additional debt levels could have a harmful effect on the Town of Farmington's credit rating or repayment sources; or,
- Market conditions are unstable or suggest difficulties in marketing a debt.

Factors that favor long-term debt financing include situations where:

- Revenues that will be used to pay back debt are believed to be sufficient and reliable. This makes it more likely that long-term financing can be obtained;
- Market conditions present favorable interest rates and demand for government debt financing;
- A project is immediately required to meet or relieve capacity needs and existing cash reserves are insufficient to pay project costs; or,
- The useful life of the asset is five years or longer.

## **Capital Budget**

Each year, the Town of Farmington will develop a capital budget that will be the spending plan for capital. The first year of the capital improvement plan will be an important input into the capital budget for the fiscal year.

## **Asset Inventory**

Town of Farmington will develop a full asset inventory that projects equipment replacement and maintenance needs for a multiyear period and will update this projection each year. The asset inventory will describe the current condition of Town of Farmington's assets. It will compare this condition to a standard for asset condition. It will account for the full cost to maintain assets up to standard condition over their life cycle and account for risks associated with assets that are below standard condition. The Town will inventory and assess the assets and ensure that the records are consistent with the capital asset records.

## **Priority of Asset Maintenance and Replacement**

It is the policy of the Town of Farmington to maintain its assets at a level that protects capital investment and reduces future maintenance and replacement costs. Each year Town Board will develop and approve a prioritized asset maintenance spending plan.

## **Funding of Asset Maintenance**

It is the Town of Farmington's policy to assign enough resources to preserve the Town of Farmington's existing assets to the best of its ability before assigning resources to build or acquire new assets that also have operating and maintenance needs. This policy protects our historical investment in capital assets. It also helps us build or acquire new assets that we can't afford to maintain.

Asset Management policy  
Developed and adopted: 3/2020