

DFW INTERNATIONAL AIRPORT ADMINISTRATIVE POLICY AND PROCEDURE



Title: Capital Projects		Code Number: FS.010.02
Functional Category Financial Services	Issuing Department: Finance	Effective Date: 05/01/2010

1.0 PURPOSE

- 1.1 To establish policy and procedure governing capital projects, plans, and budgets.

2.0 DEPARTMENTS / PERSONS AFFECTED

- 2.1 All departments.

3.0 POLICY

- 3.1 It is the policy of DFW Airport that capital projects, plans, and budgets should:
 - 3.1.1 Be aligned with the Airport's Strategic and Master Plans and be sufficiently flexible to meet existing and future funding needs.
 - 3.1.1.1 Large-scale strategic capital programs, e.g., CDP/TDP, can be approved at a total program level by executive management and the Board of Directors.
 - 3.1.1.2 Additional flexibility is allowed at the project level for budgeting, administration, and approvals thereby eliminating duplicating controls and approvals already obtained at the program level.
 - 3.1.2 Be prioritized and financially constrained to ensure maximum utilization of funds.
 - 3.1.3 Utilize optimal funding sources and maximize reimbursement opportunities.
 - 3.1.4 Be sufficiently scrutinized, based on adequate decision support and stakeholder input, and be evaluated in a holistic manner.
 - 3.1.5 Follow appropriate guidelines for approvals.
 - 3.1.6 Be appropriately monitored, controlled, and reported.
 - 3.1.7 Comply with appropriate change control process.
 - 3.1.8 Be reviewed periodically for deferral, acceleration, or cancellation.
 - 3.1.9 Be financially closed in a timely manner.
 - 3.1.10 Comply with all applicable laws, regulations, policies, procedures, and principles.

4.0 PROCEDURE

4.1 Capital Planning.

- 4.1.1 Short-term (two-year) Capital Plans should be comprised of projects with reasonably specific scopes, cost estimates, and cash flows.
- 4.1.2 Long-term (greater than two years) Capital Plans can be comprised of projects with general scopes and planning estimates.

- 4.1.3 Capital Plans should:
 - 4.1.3.1 Be aligned with the long-term Master Plan.
 - 4.1.3.2 Be comprised of highest-and-best use projects and be financially constrained.
 - 4.1.3.3 May include planning reserves as well as contingencies.
 - 4.1.3.4 Encompass all relevant stakeholder input.

4.2 Capital Budgeting.

- 4.2.1 DFW Airport should have a quarterly capital budgeting process to be administered by the Finance Department.
 - 4.2.1.1 Capital budgets are comprised of projects approved for funding in the quarterly budget cycle and are a subset of the two-year Capital Plan. Projects ready to begin within the following quarter will be reviewed for approval in that quarter's Capital Budget, which will become an update to the Capital Plan.
 - 4.2.1.2 Identification of potential project requests for the Capital Budget should include coordination with key stakeholders.
- 4.2.2 The Chief Executive Officer and executive vice presidents should approve the prioritization criteria that will be used by the Capital Committee.
- 4.2.3 The Capital Committee will review, evaluate, prioritize, and approve or recommend proposed projects subject to section 4.5 approval levels.
- 4.2.4 Capital Committee voting should be based on a majority vote. (Capital Committee member cannot vote on a project he/she is sponsoring).
- 4.2.5 Approved projects included in the Capital Budget are subject to deferral or cancellation based on changing needs as specified in 4.6.5.
- 4.2.6 Planning Reserves will be permitted to budget funds for recurring capital needs, e.g., equipment, overhead, reimbursable salaries, etc.
- 4.2.7 Contingencies may also be included for unforeseen needs.

4.3 Capital Funding Sources.

- 4.3.1 Capital funds may be used for any allowable purpose as specified in the Board's governing documents.
- 4.3.2 Determination of funding source may vary by specific circumstances and will be determined on a project-by-project basis.

4.4 Capital Project Requests (CIP).

- 4.4.1 Requests for capital funding requires completion of a *Capital Improvement Program (CIP)* form through the CIP web application.
- 4.4.2 Projects should generally be requested and reviewed as part of the quarterly Capital Budget cycle. Emergency project requests (out-of-cycle) should be kept to a minimum; however DFW Airport's project evaluation and approval process should be sufficiently flexible to accommodate these unplanned needs.
- 4.4.3 Projects should be aligned with DFW Airport's Strategic and Master Plans.

- 4.4.4 Sufficient decision support and collaboration is required as part of the CIP submission.
- 4.4.5 General project criteria should include the following:
 - 4.4.5.1 Discretionary/expansion.**
 - 4.4.5.1.1 A cost/benefit analysis with at least a 10% Internal Rate of Return (IRR) and be appropriately matched to the asset's useful life (assume 25-year maximum on commercial development projects).
 - 4.4.5.1.2 At most a three-year payback for non-commercial development type projects.
 - 4.4.5.1.3 An Independent Project Review conducted by Finance (required if over \$2 million).
 - 4.4.5.2 Non-discretionary.**
 - 4.4.5.2.1 Validation of non-discretionary project justification.
- 4.4.6 Contingency amounts may be included in project budgets provided the amount is reasonable and reflects the project's risk.
 - 4.4.6.1 Construction projects may generally include a 5-15% contingency.
 - 4.4.6.2 Asset purchases may generally include a 0-10% contingency.
 - 4.4.6.3 Chief Financial Officer may approve contingency levels outside these stated ranges.
- 4.5 Approval Authority Levels.**
 - 4.5.1 All capital requests require sponsor vice president and executive vice president concurrence, in addition to the approvals outlined below.
 - 4.5.2 The Chief Executive Officer and executive vice presidents should collectively review and approve the projects to be included in the Capital Budget.
 - 4.5.3 Emergency project needs (projects unable to wait for quarterly Capital Budget reviews) and budget or scope changes on existing projects, requires the following approvals.
 - 4.5.3.1 Up to \$200,000 – Vice President of Finance.
 - 4.5.3.2 Over \$200,000 but less than \$750,000 – Capital Committee and Chief Financial Officer.
 - 4.5.3.3 Over \$750,000 – Chief Executive Officer.
 - 4.5.4 All approvals must be obtained prior to obtaining approval of an Official Board Action (OBA).
- 4.6 Capital Project Monitoring and Reporting.**
 - 4.6.1 Projects should be monitored and controlled to ensure projects are within budget, scope, and restricted to those authorized to spend on the project.
 - 4.6.2 A cash flow forecast should be developed and maintained on all projects in the two-year Capital Plan. Included in this forecast should be Estimate at Completion (EAC) and project schedule.

- 4.6.3 Project Managers are responsible for entering their detailed project plan, including EAC and milestones in the capital forecasting system. The project plans should be updated monthly, but not less than quarterly.
- 4.6.4 Finance, in conjunction with Airport Development and Engineering Department (ADE) should generally review the project budgets at each of the following milestones:
 - 4.6.4.1 Approved Project Budget – original estimate.
 - 4.6.4.2 Design – percentage complete depending on size and complexity.
 - 4.6.4.3 Construction/Purchases – contract bids are received.
- 4.6.5 Projects with significant deviations to budget, schedule, or scope are subject to deferral or cancellation.
- 4.6.6 Capital reporting should meet the decision support needs of the organization.
- 4.7 **Capital Project Budget and Scope Adjustments.**
 - 4.7.1 Requests for funding increase and/or scope change requires completion of a *Capital Improvement Program (CIP)* form through the CIP web application.
 - 4.7.2 Guidelines for significant changes still within the approved project budget and scope should be maintained by the project implementer and/or project sponsor and enforced by a change control process.
 - 4.7.3 **Budget Adjustments.**
 - 4.7.3.1 When the total EAC is greater than the current budget, the project manager should submit a project funding modification request, subject to approvals in section 4.5.
 - 4.7.3.2 When the total EAC is less than current budget, Finance in coordination with the project manager and/or sponsor, will determine the amount of project savings to be released through a budget reduction, and the timing of such release.
 - 4.7.3.3 When the EAC for a line item exceeds the budget for that line item (still within total project budget), the project manager should adjust the appropriate line items and may utilize available contingency.
 - 4.7.3.4 As the project progresses, the project manager and Finance should review the levels of contingency and make budget adjustments in accordance with the risk level.
 - 4.7.3.5 When appropriate, budget realignments between individual projects within a specific Capital Program (similarly grouped approved projects) may not require additional approvals.
 - 4.7.4 **Scope Adjustments.**
 - 4.7.4.1 Changes to approved scope require a funding modification to justify the scope change, even in the event of no dollar change. All scope changes require approvals shown in section 4.5.
- 4.8 **Capital Project Deferrals and Cancellations.**
 - 4.8.1 Approved Projects may be subject to deferral or cancellation by the Capital Committee when:

- 4.8.1.1 There is a higher priority project; or
- 4.8.1.2 Planned activity is delayed from the original start date by more than six months; or
- 4.8.1.3 Directed by the Chief Executive Officer, the Chief Financial Officer, or the Board.

4.9 **Capital Project Closures.**

- 4.9.1 Project closure actions may be warranted under any of the following conditions:
 - 4.9.1.1 Project scope is complete.
 - 4.9.1.2 Project's Date of Beneficial Occupancy (DBO) is achieved.
 - 4.9.1.3 Project sponsor has indicated project is complete.
 - 4.9.1.4 At the direction of the Chief Executive Officer and executive vice presidents.
 - 4.9.1.5 Any other indications that funding is no longer required.
- 4.9.2 Finance and the project manager should work with all stakeholders to ensure final closeout activities are completed to facilitate a timely and mutually agreeable financial project closure schedule.

4.10 **Capitalization versus Expense Accounting Treatment.**

- 4.10.1 Proper accounting treatment should be followed according to Generally Accepted Accounting Principles (GAAP).
- 4.10.2 Minimum thresholds for capitalization are a unit value of \$15,000 for personal property and \$50,000 for real property, and at least a one-year useful life, except for grant funded assets, which will remain at a minimum \$5,000 unit cost and one-year useful life to facilitate compliance with federal tracking and inventory requirements.
- 4.10.3 The following are generally eligible to be capitalized with the project:
 - 4.10.3.1 Costs associated with its acquisition, demolition, installation, construction, estimating fees, bid advertising, architectural and engineering fees, testing, surveying, start-up, environmental, staff charges, completion costs, and other costs necessary to bring the asset to its intended use.
 - 4.10.3.2 Warranties or maintenance agreements within one year of Date of Beneficial Occupancy (DBO) providing such agreements are an integral part of the purchase/installation.
 - 4.10.3.3 Studies conducted subsequent to the project being approved and specific to the capital project that is ultimately constructed.
 - 4.10.3.4 Major or extraordinary maintenance, or improvements, extensions, enlargements, or betterments, provided:
 - 4.10.3.4.1 Useful life is significantly extended and/or
 - 4.10.3.4.2 Productive value or functionality is significantly enhanced and
 - 4.10.3.4.3 Minimum program cost is \$50,000.

4.10.3.5 Purchases of like-type or related personal property that are part of an established program with a minimum combined cost of \$50,000 even if individual components within the system have unit costs less than the capitalization thresholds outlined in section 4.10.2.

4.10.3.6 Interest expense for projects funded with debt.

5.0 RESPONSIBILITIES

- 5.1 **Chief Executive Officer.** Responsible for approving Capital Plans, Budgets, individual capital projects in excess of \$750,000, and prioritization criteria.
- 5.2 **Chief Financial Officer.** Responsible for approving Capital Plans, Budgets, individual capital projects in excess of \$200,000, and prioritization criteria.
- 5.3 **Executive Vice Presidents.** Responsible for approving Capital Plans and Budgets. Also responsible for concurring with CIPs sponsored by their departments.
- 5.4 **Vice Presidents.** Responsible for ensuring capital requests contain sufficient decision support and are aligned with DFW Airport's Strategic and Master Plans. Also responsible for concurring with CIPs sponsored by their department and presenting them to the Capital Committee and executive management for approvals.
- 5.5 **Capital Committee.** Responsible for providing overview and consultation to the Capital Plan, Capital Budget, and project prioritization. Also responsible for reviewing and approving emergency (out-of-cycle) requests.
- 5.6 **Finance Department.** Responsible for:
 - 5.6.1 Developing and maintaining Capital Plans and Capital Budgets in consultation with the Capital Committee and in conjunction with the Planning Department and other key stakeholders.
 - 5.6.2 Recommending and determining the proper source of funding for capital projects.
 - 5.6.3 Developing and maintaining cash flow forecast of Sources and Uses of funds with periodic updates from stakeholders as part of a rolling Capital Plan.
 - 5.6.4 Ensuring adequate project decision support, including Independent Project Review, where applicable.
 - 5.6.5 Maintaining and following appropriate guidelines for approvals.
 - 5.6.6 Monitoring, controlling, and reporting of capital projects, including recommendations for project deferral, acceleration, or cancellation.
 - 5.6.7 Administering project budgets including adjustments.
 - 5.6.8 Consolidated capital related management reporting.
 - 5.6.9 Determining the correct accounting treatment.
 - 5.6.10 Administering grants and PFC's.
 - 5.6.11 Administering Airline Trust account funds in a trustee capacity as outlined in the Capital Improvement Trust Account Agreement.
 - 5.6.12 Maintaining a prioritized list of all capital projects by status.
 - 5.6.13 Financially closing capital projects.

- 5.6.14 Coordinating scheduling of Capital Committee agendas and meetings.
- 5.7 **Planning Department.** Responsible for providing guidance to ensure projects, budgets, and plans are aligned with DFW Airport's Master Plan.
- 5.8 **Airport Development and Engineering Department (ADE).** Responsible for:
 - 5.8.1 Managing the change control process for construction projects they are implementing, including milestone reviews.
 - 5.8.2 Timely notification of project completion of construction projects, including closeout of capital commitments.
- 5.9 **Procurement and Materials Management Department (PMM).** Responsible for timely closeout of capital commitments on non-construction projects.
- 5.10 **Departments.** Responsible for:
 - 5.10.1 Completing project request (CIP) including sufficient decision support and appropriate collaboration.
 - 5.10.2 Obtaining sponsoring department's vice president and executive vice president concurrence on the CIP request.
 - 5.10.3 Submitting updates to asset renewal plans with five-year forecast of asset renewal needs.
- 5.11 **Project Managers.** Responsible for:
 - 5.11.1 Project management activities, including timely project plan updates (estimated DBO date, Estimate at Completion, project schedule, changes, etc.)
 - 5.11.2 Notifying Finance of actual project DBO date.
 - 5.11.3 Utilizing the change control process.

6.0 DEFINITIONS

- 6.1 **Airport Improvement Program (AIP).** FAA's rolling three-year Capital Plan.
- 6.2 **Capitalization.** Accounting treatment whereby capital expenditures accumulate and flow to the Balance Sheet as an Asset upon project completion, and are depreciated on the Income Statement over the life of the asset.
- 6.3 **Capital Committee.** Committee which reviews and recommends or approves capital projects from all funds except PFIC (Grand Hyatt), Seized Funds, or Airline Trust Funds. Chaired by Vice President of Finance, with members including vice presidents from various departments.
- 6.4 **Capital Improvement Trust Agreement.** Agreement signed by DFW signatory airlines which entitles them to a settlement allocation which they may use on capital projects and/or debt service on Airline Facility Improvement Corporation (FIC) bonds.
- 6.5 **Capital Budget.** Approved and funded capital projects and their respective funding source on a financially constrained cash-flow basis.
- 6.6 **Capital Plan.** Longer-term plan of capital needs which is financially constrained and links the more comprehensive long-term Master Plan with the shorter-term Capital Budget.
- 6.7 **Change Control Process.** Primary purpose is systematic oversight, review, coordination, approval, and documentation to manage significant changes to capital projects within the

- approved project budget and scope. Managed by the vice president or designee of project implementing department, in conjunction with the sponsoring department vice president or designee; also provides an opportunity for input by Finance, Asset Management, and impacted stakeholders.
- 6.8 **Commercial Development.** Generally refers to capitalized improvements to land which supports revenue-producing real estate development.
- 6.9 **Commitment.** An encumbrance which represents a potential future obligation. Typically in the form of a Requisition, Contract, or Purchase Order.
- 6.10 **Contingency.** A line item within a project representing funding for potential unknown project cost (project budget detail 19).
- 6.11 **Date of Beneficial Occupancy (DBO).** The date the capital asset is put into service for its intended use. Triggers depreciation charges in the Fixed Asset System.
- 6.12 **Discretionary Project.** Not mandated and has acceptable consequences of deferral.
- 6.13 **Emergency Request.** Project requests with unacceptable consequences of waiting until the next periodic capital budget review for approval; also known as. out-of-cycle request.
- 6.14 **Estimate at Completion (EAC).** Projected total cost to complete a project.
- 6.15 **Facility Improvement Corporation (FIC).** A separate DFW entity whose funding sources and uses are restricted to the consolidated Rental Car Facility (RAC). Projects require approval of the FIC Board.
- 6.16 **Federal Aviation Administration (FAA).** Regulatory body of the Federal Department of Transportation which oversees many of the airport and aviation regulations and provides Airport Improvement Program (AIP) grant funding and administers the Passenger Facility Charge (PFC) program.
- 6.17 **Financial Project Closure.** Closure in Board systems, including end-dating account strings.
- 6.18 **Generally Accepted Accounting Principles (GAAP).** Standard framework of guidelines for financial accounting.
- 6.19 **Independent Project Review.** Independent analysis conducted by Finance (Business Analysis Group) to verify project justifications, assumptions, and business case, from a decision support perspective. Generally applicable to discretionary/expansion projects, required for those exceeding \$2 million.
- 6.20 **Internal Rate of Return (IRR).** Financial measure generally used as part of a capital budgeting process to rank various alternative choices at the discount rate that gives a net present value (NPV) of zero. It is a commonly used measure of investment efficiency.
- 6.21 **Master Plan.** Airport's long-term macro level Capital Plan developed by the Planning Department, i.e., Vision for the Future Realized (VFR 2030).
- 6.22 **Milestone (MS).** Significant event in project life cycle which is captured in the capital forecasting system as MS1 (project approval), MS2 (Design), and MS3 (construction bid awarded), and MS4 (project DBO date achieved).
- 6.23 **Non-Discretionary Projects.** Projects which are mandated or represent unacceptable consequences of deferral.

- 6.24 **Official Board Action (OBA).** Monthly Board of Director approval on contracts or Purchase Orders of \$50,000 or greater as well as other significant Board business.
- 6.25 **Out-of-Cycle Request.** Project requests with unacceptable consequences of waiting until the next periodic capital budget review for approval; also known as emergency project.
- 6.26 **Passenger Facility Charge (PFC).** A funding source administered by the FAA, but not a federal program and subsequently does not require federal language in contracts. Eligibility is similar to AIP grant eligibility requirements.
- 6.27 **Passenger Facility Improvement Corporation (PFIC).** A separate DFW entity whose funding sources and uses are restricted to the DFW Grand Hyatt hotel. Projects require approval of PFIC Board.
- 6.28 **Payback.** Financial measure generally used as part of a capital budgeting process to rank various alternative choices by measuring the time it will take to recoup the initial capital investment, based on the cash inflows generated from that initial capital investment.
- 6.29 **Personal Property.** Assets which are not permanently attached to real property and are easily movable.
- 6.30 **Planning Reserve.** Funding estimate for planning purposes included in capital plans and budgets as a tentative cost estimate until a capital request is submitted and approved.
- 6.31 **Project Plan.** A plan entered in the capital forecasting system which details project information by task such as start and end dates, estimate at completion, milestones, and other related information. This data translates into a financial cash flow.
- 6.32 **Real Property.** Assets comprised of land, improvements to land, buildings or other permanent structures, and leasehold improvements, which are generally not movable.
- 6.33 **Sources of Funds.** Cash inflows in a Capital Budget or Capital Plan.
- 6.34 **Sponsor.** Department responsible for the capital asset being requested.
- 6.35 **Uses of Funds.** Cash outflows in a Capital Budget or Capital Plan.
- 6.36 **Capital Improvement Program (CIP) Form.** Online capital request form required for capital funding.

7.0 APPROVAL / REVISION HISTORY

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| 7.1 | 09/01/2008 | FS.010.00 – Original document. |
| 7.2 | 11/01/2009 | FS.010.01 – Reduced approval authority levels and revised section 4.2.4. |
| 7.3 | 05/01/2010 | FS.010.02 – Added 3.1.1.1 and 3.1.1.2. |