
CAPITAL IMPROVEMENT PROGRAM

SECTION: Financial Services

POLICY NUMBER: AP 508

INITIAL DATE PREPARED: July 1, 2002

LAST DATE REVISED: June 8, 2006

I. PURPOSE

The Capital Improvement Program Policy and Procedures provides the guidelines for the approval, prioritization, budgeting and funding of capital projects undertaken by the Port of Oakland. This revision of AP 508 was approved by the Audit, Budget and Finance Committee on June 8, 2006.

II. BACKGROUND

The Capital Improvement Program (CIP) supplies needed infrastructure to meet Port-wide goals as approved by the Board of Port Commissioners (Board). The CIP is made up of capital projects that are primarily initiated by the three Operating (Revenue) Divisions, Aviation, Maritime, and Commercial Real Estate, in conjunction with Engineering, while also including projects initiated by the Support Divisions. All projects are recommended by the Chief Financial Officer and/or the Executive Director.

A Revenue Division identifies a capital project involving property or facilities that:

1. provide future capacity based on a long range plan forecasting activity and demand;
2. replace assets due to obsolescence, new technology or other reasons;
3. replace major components that extend the useful life of, improves or overhauls an existing asset (see “Capitalization” Administrative Policy number AP 506 for a comprehensive discussion of capital expenditure items);
4. provide or improve assets used by the public or for public access purposes. Such public improvements may generate or increase revenue sources from assets, such as airport and marine terminals, and/or the improvements may be ancillary to revenue producing assets, such as roadways and sidewalks or other public access projects such as parks;
5. require environmental cleanup and/or mitigation, environmental studies and/or documentation; or

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6. improve health, safety and security of Port facilities in order to meet federal, state or local statutory requirements and mandates.

Projects approved in accordance with Administrative Policy AP 506 (Capitalization) and Administrative Policy AP 602 (Inclusion of Projects in the CIP) may be included in the Port's CIP. Capital Improvement Projects must meet specific criteria for capitalized expenditures due to specific accounting standards applicable to Port practices. Capitalization contains a comprehensive list of all items that may be treated as capitalized expenditures.

III. CIP POLICIES AND PROCEDURES

The following section describes policies and procedures regarding the three key areas of activity associated with preparing and revising the CIP:

- A. Obtaining approval to include a capital project in the CIP;
- B. Monitoring CIP projects for budget and schedule adherence; and
- C. Preparing the Port's Capital Improvement Program Long Term Plan (CIPLTP).

A.1. Obtaining Approval for Proposed Capital Projects for Inclusion in the CIP

To be included in the CIP and thus the Long-Term Financial Plan, each proposed Capital Project must meet one or more of the following criteria:

1. ***Government Mandate.*** The project is mandated under federal, state or local statutes or regulations and what the Port believes represents the most efficient and effective means by which to satisfy the mandate.
2. ***Health/Safety/Security.*** The project addresses a significant specific health, safety or security requirement.

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3. ***Infrastructure/Support.*** The project will ensure continuous operation of an asset by upgrade, renovation, overlay or replacement of a major component(s) without which the asset will become unusable, unsafe or inefficient. It will maintain continuity of operations and economic activity, a vital customer service, environmental protection or mitigation, or a public trust purpose.

4. ***Economic Benefit.*** A project that does not fall under the criteria listed above (Government Mandate, Health/Safety/Security or Infrastructure/Support) will be considered for inclusion in the CIP as an Economic Benefit Project. If a project has a cost of \$1,000,000 or greater, the sponsoring Revenue Division must demonstrate that the project will generate a positive Return on Investment (ROI), using methodology and threshold criteria specified or approved by the Chief Financial Officer (CFO). Such criteria may involve a combination of net new revenue and/or operating cost savings that will generate a positive ROI. The required minimum rate of return is a rate greater than the Port's cost of capital funds. The project should also meet all financial criteria or goals set by the Board including maintaining debt service coverage of 1.6 times annual senior parity bond debt service and any Board established policy for subordinate debt.

All CIP projects will be screened and approved by the sponsoring Revenue Division, Engineering and Financial Planning through a two-level Committee structure, using evaluation criteria described above.

Level 1: The *Capital Project Review Committee* (CPRC) will consist of six members:

Manager of Financial Planning – Committee Chair

Capital Projects Coordinator (non-voting)

Aviation designee

Maritime designee

Commercial Real Estate designee

Engineering designee

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The CPRC is responsible for considering and screening:

- proposed Capital Projects costing \$100,000 or more;
- proposed cumulative changes of \$100,000 or more in budget and/or scope of previously approved CIP projects, including related impacts on proposed funding sources.

The CPRC will meet monthly to review **all** proposed capital projects. Summary findings from the CPRC's project monitoring activities must be presented to the CIP Steering Committee at its quarterly meeting. Sponsors of proposed capital projects must arrange to place proposed projects on the agenda of an upcoming CPRC meeting no later than one week prior to the scheduled meeting date.

Projects having a total estimated cost of less than \$100,000 (i.e., those charged to the "Miscellaneous" CIP project element) may be initiated by submitting a "Request for Engineering, Construction, or Special Maintenance Work" (a.k.a. "Work Order Request") to the Chief Engineer, following prior approval by the requesting Revenue Division's Director and the CFO or his/her designee.

Level 2: The *CIP Steering Committee* will consist of six members:

Executive Director
Deputy Executive Director of Administration and Engineering
Deputy Executive Director of External Affairs
Deputy Executive Director of Finance
Deputy Executive Director of Operations
Port Attorney

The Steering Committee is responsible for considering and screening:

- proposed Capital Projects costing \$5 million or more;

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- proposed changes in budget and/or scope of previously-approved CIP projects that result in a total individual CIP project element budget of \$5 million or more, including related impacts on proposed funding sources.

The Committee will be assisted by Financial Planning staff and other staff as appropriate. This Committee will review all proposed capital projects with an estimated cost of at least \$5 million, at meetings to be scheduled at least once per calendar quarter. Sponsoring Division staff of the proposed capital projects must arrange to place projects on the agenda of an upcoming meeting no later than two weeks prior to the scheduled meeting date. Sponsoring Revenue Division staff will also update the Committee on CIP status and progress at each meeting.

A.2. Project Studies

The Port's Purchasing Policy Manual (AP 700) and Port Ordinance No. 1606 govern the amount that can be spent on long-range capital project studies to identify future Port facility requirements (see Section III. C). Capital project studies can include master plans, preliminary design feasibility studies, traffic studies, passenger surveys, maps or other capital planning tools. The cost of studies performed for proposed capital projects that are ultimately approved for inclusion in the CIP will be included (capitalized) as part of the project's cost. Otherwise, the cost of studies for projects that do not receive committee approval for inclusion in the CIP, or study costs not linked to the CIP must be charged off to the Sponsoring Revenue Division's operating expenses.

A Revenue Division will typically request Engineering to conduct an initial, conceptual estimate of project cost, construction feasibility and timeline for completion, by submitting a Work Order Request form to Engineering for approval by the Chief Engineer. The evaluation methodology is to be applied in a uniform manner to all requested project studies, and must be approved by the Director of Engineering. This evaluation should precede the development of a RIPCIP. Requests for project studies having a cost of \$100,000 or more must be screened and approved by the

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CPRC and signed off by the CFO. Project studies having a cost of \$500,000 or more must be further approved by the CIP Steering Committee.

A.3. Request for Inclusion of a Project in the Capital Improvement Program (RIPCIP)

The CIP approval process must ensure that the Port invests in projects that best meet the objectives and criteria described above. To achieve that goal, the Port requires that project sponsors complete the RIPCIP (or “Green Sheet”) for projects costing \$100,000 or more, and follow these steps before placing a project on a CPRC or CIP Steering Committee agenda. (A capital project study costing \$500,000 or more for a major CIP project of \$5 million or more may be approved without a ROI, provided that no costs may be expended beyond the preliminary design feasibility study without an approved RIPCIP and ROI for the CIP project.)

1. The Revenue Divisions, in conjunction with Engineering, prepare a RIPCIP, which must explain and document the following information:
 - a. Project Statement, Description and Scope
 - b. Project Classification and Justification (section III.A)
 - Government Mandate
 - Health, Safety, Security
 - Infrastructure/Support
 - Economic Benefit (ROI calculation required)
 - c. Engineering estimated cost (including design, construction and soft costs, such as architectural, permit, legal, environmental and other non-construction costs)
 - d. Transfer from CIP Reserves, as applicable (identify CIP reserve element number)
 - e. Proposed (in conjunction with Finance) funding source(s), including:

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- Bond proceeds
 - Commercial Paper proceeds
 - Passenger Facility Charge (airport only)
 - Customer Facility Charge (airport only)
 - Federal or Other Grants (Revenue Divisions must indicate the results of a Grant Search when submitting a project and RIPCIP for approval. The Revenue Divisions will coordinate the grant application process with Financial Planning.)
 - Port cash
 - Other (identify)
- f. Timeline and expenditure schedule to in-service date
- g. Financial analysis
- Projected net new revenue generated
 - Projected net cost savings generated
 - Projected operating cost
 - ROI calculation for Economic Benefit projects (based on methodology and criteria specified by Financial Planning)
2. Engineering assigns RIPCIP tracking numbers to projects and maintains a RIPCIP numbers log for tracking purposes.
3. On the basis of the design feasibility and cost analysis, the Revenue Division must take one of the following actions:
- a. Project recommended – forward the RIPCIP to Financial Planning for review and approval;

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- b. Project not recommended – return the RIPCIP to the Engineering Division and Revenue Division for revision;
 - c. Abandon project.
4. Financial Planning will review the RIPCIP as follows:
 - a. ROI assumptions and calculation (using a methodology approved by the CFO) for Economic Benefit Projects (Revenue Division must conduct ROI analysis);
 - b. Impacts on consolidated and divisional debt service coverage; and
 - c. Funding sources analysis.
5. Upon completion of its review, Financial Planning staff shall place proposed project RIPCIP on the CPRC Committee agenda for consideration. CPRC forwards approved RIPCIP to CIP Steering Committee for projects over \$5 million.
6. Financial Planning forwards approved project RIPCIP's to Engineering and to the Revenue Division(s) or returns incomplete RIPCIP's to Revenue Division(s) for revision. If approved, Finance enters appropriate data into the Work Management System (WMS).
7. Upon receipt of the approved RIPCIP from Financial Planning, the Revenue Division will coordinate with Engineering to commence the procurement process in accordance with Port policies.

A.4. Project Statement Revisions (PSR's)

1. An approved PSR is required for a CIP project having a change in scope of at least \$100,000. Engineering will prepare and number PSR's and maintain a log for tracking purposes. All PSR's will include the following information (see attached example document):

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- a. Project Element Number
 - b. Work Order Number
 - c. Date
 - d. Project Title
 - e. Project Scope
 - f. Requested Scope Revision
 - g. Requestor, Engineering Project Manager, Project Manager
 - h. Anticipated Environmental Documentation Required
 - i. Anticipated New Permit Requirements
 - j. Anticipated Legal Requirements
2. Each PSR must also update the project classification and current request based on these criteria:
- a. Government Mandate
 - b. Health, Safety, Security
 - c. Infrastructure/Support
 - d. Economic Benefit
3. Each PSR must identify:
- a. Original and current budget
 - b. Proposed budget change
 - c. Proposed new budget

If the revised budget exceeds the original or current budget, the Revenue Division must identify:

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- A new, approved funding source and amount; or
- Available CIP reserves by project element number, and provide an updated reconciliation of the available reserves by project element.

If the revised budget amount is less than the original approved budget, the project sponsor Revenue Division shall apply the difference to increase their CIP reserves, and provide an updated reconciliation of available reserves by project element, to Financial Planning.

Prior to closing a project element, the Revenue Division will submit a PSR to transfer: 1) from a reserve or from another CIP project element if the cost exceeds budget; or 2) to a reserve if the actual cost is less than budget.

4. A PRS will be used to transfer a budget for a work order that is transferred from one CIP element to another.
5. With each PSR, the Revenue Division must prepare an updated ROI analysis that updates the original RIPCIP and/or prior PSR's.

A.5. Approval of Contracts and PO's Related to CIP Projects

Professional Service Contracts and Purchase Orders (PO's) must be approved by the Executive Director (or his/her designee), Legal and the Board in accordance with Purchasing Policy and Port Ordinance No. 1606.

The Port of Oakland Purchasing Manual (AP 700) provides instruction on completing and submitting PO's or Contracts for approval.

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A.6. Board Approval of Contracts and PO's Related to CIP Projects

Board Agenda Reports submitted to the Board for the purpose of approving contracts or revisions of contracts related to CIP Projects must include a Budget and Financial Impact section.

The Budget and Financial Impact section must contain the following:

- a. Description of Project (including which criteria the project is submitted under);
- b. CIP Element(s) number and name;
- c. Total Project Cost;
- d. Funding Source;
- e. CIP To-Date Spending;
- f. Current Spending Request;
- g. Statement that the CFO has reviewed the request and found that an Economic Benefit project is economically feasible and that it will provide adequate debt service coverage.

A.7. Monitoring CIP Projects for Budget and Schedule Adherence

1. Prior to each quarterly CIP Steering Committee meeting, Financial Planning staff will hold quarterly meetings with each Revenue Division and the Engineering Division to review project progress, budget and spending on CIP projects.

Project Manager(s) will report schedule slippage and cost overruns that may affect project/program delivery timeframes.

Financial Planning will determine the impacts of changes on the project scope, the CIP budget and debt service coverage.

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2. Each Revenue Division will present the CIP Steering Committee with a quarterly *CIP Progress Report* which will highlight:
 - Progress on the overall CIP and key Capital Projects;
 - Changes in project schedules;
 - Changes in project scope affecting estimated completion cost, and the project budget impacts;
 - Identification of funding sources for increased budget requests;
 - Impact on the one-year and five-year CIP budgets.
 3. The CPRC will review and approve/disapprove requests for changes in CIP project budgets of \$100,000 or more (CIP Project Statement Revision). See Change Order Policy (AP 603) for specific financial limits of Port Engineering staff.
 4. The CPRC and CIP Steering Committee will meet annually to review completed projects with total costs of \$5 million or greater.
 5. Engineering Estimates

An approved PSR is required for a change in project cost of \$100,000 or more. Changes to original cost estimates shall be tracked in the WMS. Preliminary cost data can be utilized for discussion and planning purposes, but will not be included in the CIP budget and/or funding analysis without submission and approval of an appropriately revised PSR or RIPCIP.

The Revenue Divisions will estimate the impact of changes to the ROI, and identify potential funding from a CIP reserve, another project element, or other source(s).

For all CIP projects, the Revenue Division and/or Project Engineer will inform Financial Services when spending approaches **80%** of the approved project budget.

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Engineering will prepare a report to include spending-to-date, percent of project completion, and an explanation of a significant variance. Engineering will present the report at the next Quarterly Project Review meeting held by Financial Planning, Engineering and the responsible Revenue Division.

6. Use of the CIP Budget Transfer Form

The CIP budget transfer form may be used to transfer an unexpended CIP budget balance from one work order to another within a CIP element. All other budget transfers require the use of a PSR.

The CIP budget transfer form must be completed and approved by the Revenue Division Manager, Chief Engineer and Financial Planning Manager.

7. Use of the Work Request Form

The work request form shall be used to account for CIP costs by work order number within a project element. The requesting division will include the following information on the work request form:

- a. Date
- b. Proposed CIP element number
- c. Title
- d. Detailed description of work to be performed
- e. Justification
- f. Cost Estimate (Budget)
- g. Requestor Name
- h. Name of Project Manager
- i. Distribution List

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The work request form will be signed by the Project Manager, Revenue Division Manager, Chief Engineer and CFO or their designees. The sum of the approved work request budget amounts may not exceed the related approved project element budget amount.

8. Post-Completion Project Review

During the second quarter of each fiscal year, the CIP Steering Committee will review each project completed in the prior fiscal year whose total actual cost exceeded \$5 million. Financial Planning staff will distribute the list of completed projects to members of the Steering Committee and will provide the following information two weeks prior to the next scheduled meeting:

- a. A list of all CIP projects costing \$5 million or more that were completed during the current fiscal year.
- b. An “Annual Project Status Report” on all current projects whose budget is \$1 million or greater. The report shall include:
 - Description
 - Element
 - Original Budget Amount
 - Revised Budget Amount
 - Original completion date
 - Actual or revised completion date
 - Original and revised ROI
 - Total Project Cost
 - Funding source
 - Explanation of budget variances
 - Explanation of revised completion date

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A.8. Preparing the Port's Capital Improvement Program Long-Term Plan

Annually, the Board of Port Commissioners will approve a Capital Improvement Program Long-Term Plan (CIPLTP). The plan will be for five years and will contain all projects that are anticipated to start in the five year period. The projects in the plan are uncompleted, previously approved projects and projects approved through the RIPCIP approval process.

The Revenue Divisions, in conjunction with Financial Services and Engineering, will update their respective CIPLTP on an annual basis as follows:

1. Engineering will provide the total project cost, in-service date and expenditure schedule based on project criteria submitted by the Revenue Divisions.
2. Revenue Divisions will provide the required ROI calculations for CIP projects, and submit them to Financial Planning for review, approval and inclusion in the consolidated CIPLTP.
3. A Feasibility Study will be conducted on the CIPLTP. A Bond Feasibility Study is prepared to support the issuance of revenue bonds by the Port. The primary purpose of the Bond Feasibility Study is to present the prospective bond holder with a study that demonstrates the Port's ability to support growth in Maritime, Airport, and Commercial Real Estate activity, including maritime demand, airport passenger traffic, and revenues for each Revenue Division, and at the same time, satisfy the covenants of its bond resolution. The key elements of Bond Feasibility Study incorporate the following analyses:
 - An analysis of the socioeconomic/demographic characteristics of the Bay Area and its environs.
 - A review of the historical air traffic and air service at the airport and projections of future aviation activity levels for the airport.

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- A review of the historical maritime operations and projections of future maritime activity.
 - A review of the historical commercial real estate facilities and projections of future activity.
 - A review of the capital project(s) being financed with the issuance of the revenue bonds, along with a discussion of the need for the capital project(s).
 - An analysis of the financial operations of the Port, including projections of the anticipated future financial performance. This section includes a projection of the Port's ability to satisfy certain covenants of the bond resolution.
4. The first year study will be prepared by the Port's feasibility consultants. The second year, the Port will prepare the study in-house. The feasibility consultants and Port staff will then alternate on the preparation of the study.
 5. After the second year, Port staff will prepare in-house feasibility studies whenever a \$10 million or greater project is proposed for addition to the CIPLTP.
 6. Financial Planning will submit the consolidated CIPLTP, including a summary of significant changes from the prior year, to the CIP Steering Committee, the Port Audit, Budget and Finance Committee (ABF) and the Board of Port Commissioners in the third quarter of each fiscal year for approval in concept by the Board. Whenever the Board approves the CIPLTP in concept, the multi-year funding anticipated to complete each project will be approved in concept.

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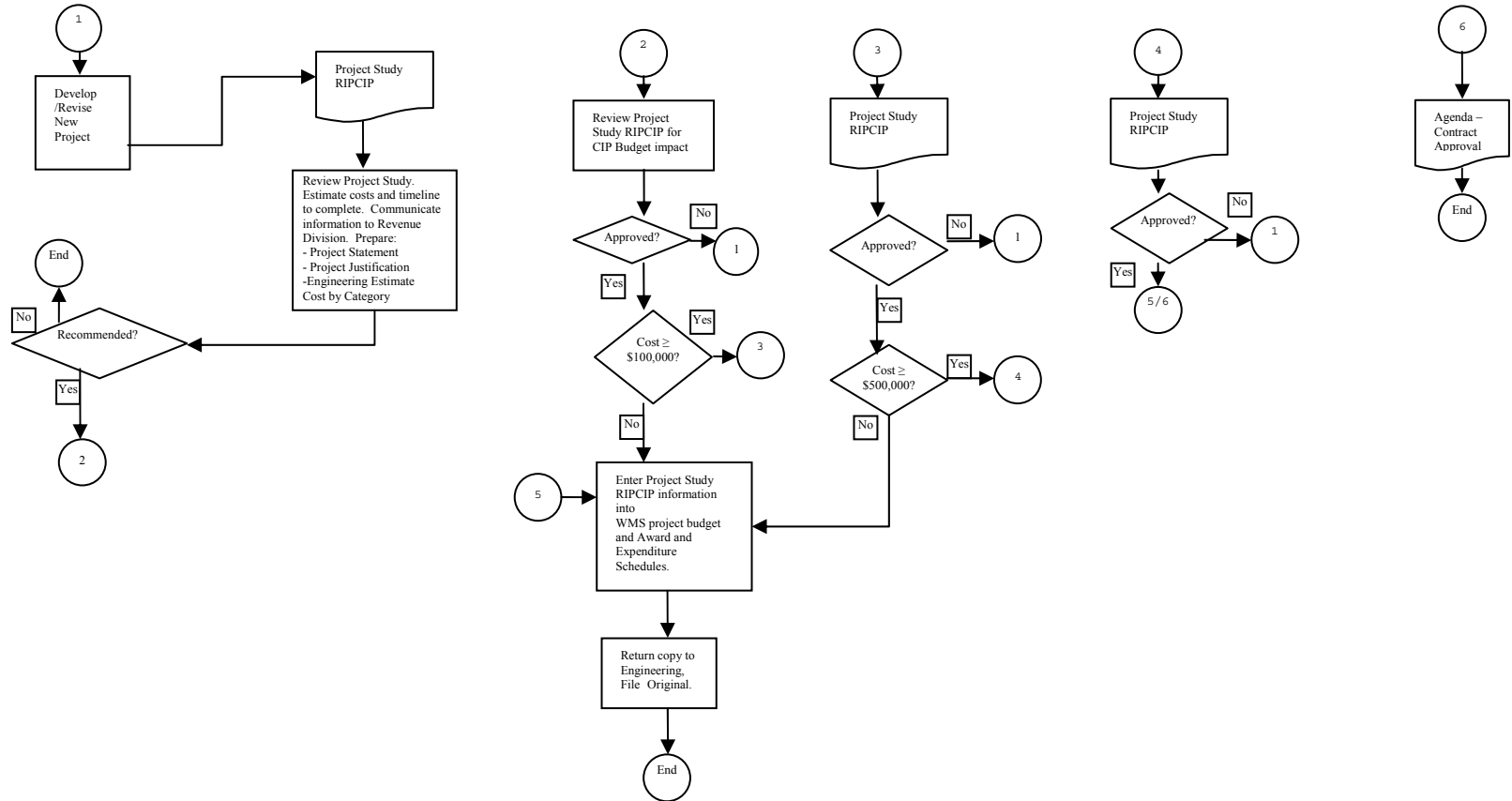
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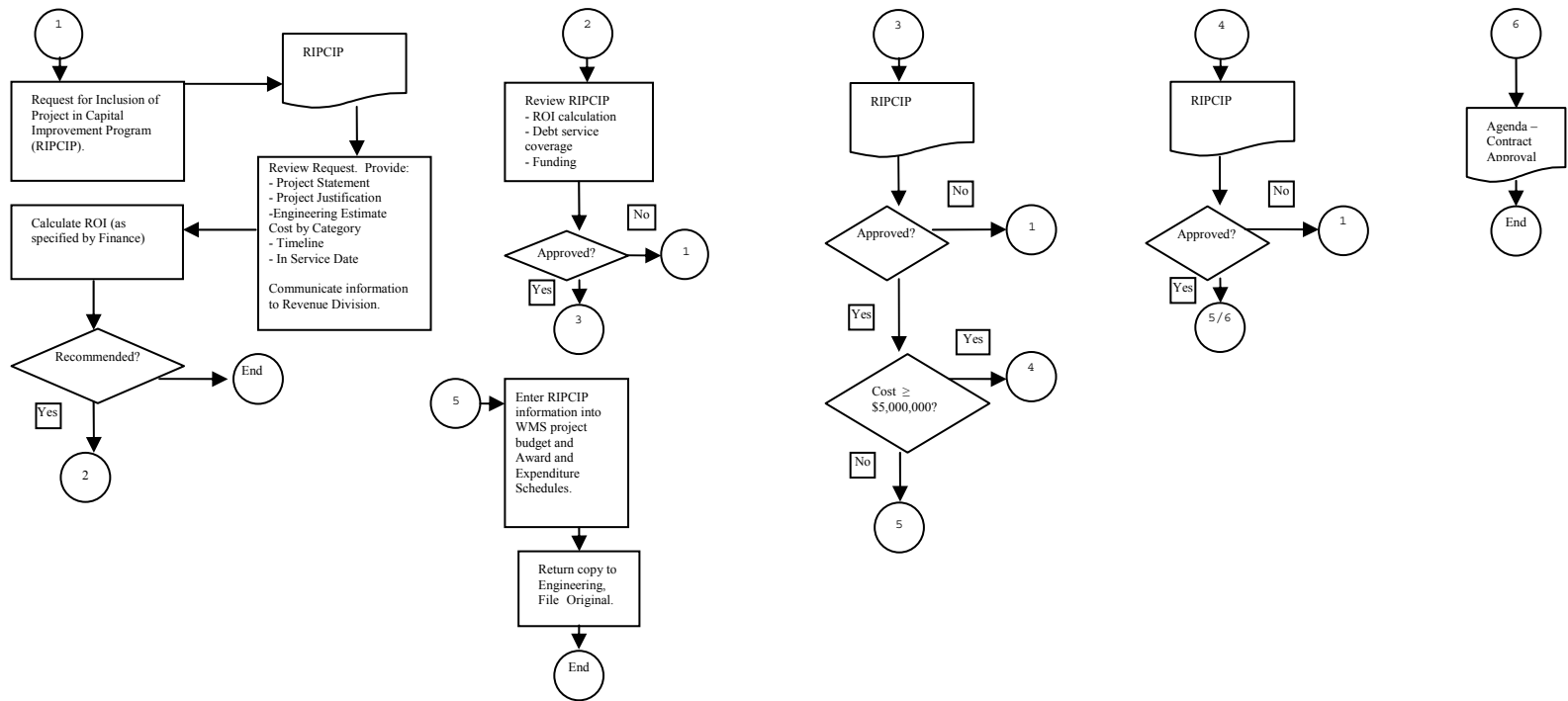
IV. INCLUSION IN ANNUAL PORT BUDGET

The Port's Annual Budget will include all projects in the Capital Improvement Program Long-Term Plan.

Revenue	Engineering	Finance	CPRC	CIP Steering Committee	Port Commission
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Revenue	Engineering	Finance	CPRC	CIP Steering Committee	Port Commission
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PORT OF OAKLAND

Engineering Division

Project Statement Revision No.

CIP No:	Work Order No:	Date:
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Project Title:

Engineering Project Manager:

Revision requested by:

Current Project Scope:

Requested Scope Revision:

Special Comments:

Anticipated Env. Documentation Required: None Cat Ex (CEQA) Cat Ex (NEPA)
 Initial Study/Negative Declaration EIR EA/FONSI EIS

Anticipated Permit Requirements None BAAQMD BUILDING
 BCDC CORPS RWQCB Other

Schedule and Budget Information (\$1000s)

Estimated Items	Current Budget	Proposed Change	Proposed New Budget
Construction Cost	\$	\$	\$
Consultant Cost			
Port Labor & Fringe Benefits		0	
Port Overhead (170% of Port Labor)		0	
Miscellaneous & Other		0	
Total Element Budget	\$	\$	\$
Scheduled Board Approval Date			
Scheduled Board Award Date			
Scheduled Construction Start Date			
Scheduled / Projected Completion Date			

APPROVALS

Chief Engineer	Date	Revenue Division CIP Manager	Date	Chief Financial Officer	Date
Director of Engineering	Date	Revenue Division Director	Date	For CIP Committee	Date

Original to: Engineering Project Management

cc: Finance/Budget Analysis
CIP Program Manager

Form revised 2001-12-11