

## PURPOSE

The goal of the City's Outlay Plan is to develop a comprehensive program for use by decision makers to guide capital investments in equipment and assets based on an assessment of the community's needs, taking into account the best use of limited resources while providing efficient and effective municipal resources.

There are four components to the City's Capital Outlay Plan.

- Departmental Capital Goods / Equipment Replacement Schedules
- Capital Improvement Plan (CIP)
- Capitalization
- Sale of Merchandise

## DEPARTMENTAL CAPITAL GOODS / EQUIPMENT REPLACEMENT SCHEDULES –

The city strives to maintain its physical assets at a level that minimizes future repair and maintenance costs. To accomplish this goal, the City has established the Departmental Capital Goods / Equipment Replacement Schedules to annually budget and set aside funds for the timely replacement of city equipment.

Departmental Capital Goods / Equipment Replacement Schedules (Reserve Funds) are maintained for;

- Library | Fund 212
- Fire Department | Fund 221
- Ambulance Department | Fund 231
- CCA | Fund 251
- Water Department | Fund 601
- Sewer Department | Fund 602
- Cable Access Department | Fund 615
- General Fund | Fund 801
  - City Clerk Department | 41500
  - Municipal Building | 41940
  - Police Department | 42110
  - Street Department (inclndng Civil Defense) | 43100
  - Parks Department | 45200
  - Technology Shared Components | 49950

## CAPITAL IMPROVEMENT PLAN (CIP) –

- The CIP is a five-year plan for capital improvements that is updated annually. The CIP process includes analyzing projects contributing to the public health and welfare, projects helping to maintain and improve the efficiency of the existing systems, and projects that define a future need within the community.

- The city will identify the estimated cost and potential funding sources for each capital project proposal in the CIP. Purchase contracts for equipment and projects included in the CIP must still be properly authorized according to the City's Purchasing Policy.
- The CIP will include equipment and projects from any City Fund.

## CAPITALIZATION POLICY

### CAPITALIZATION POLICY PURPOSE

To provide uniform criteria for identifying City expenditures to be depreciated and for the proper asset classification of capital expenditures, including guidelines for determining the economic useful life of assets.

### CAPITALIZATION POLICY

#### A. SUMMARY OF GENERAL POLICY

1. It is the general policy of the City of Chatfield to identify an expenditure as a capital asset if it meets the following requirements:
  - a. Is City owned
  - b. Costs **\$5,000** or more
  - c. Has an economic useful life greater than **five** years
2. Expenditures on existing assets may be capitalized if the asset's productive capacity is significantly improved or the useful life of the asset is extended by one year or more. Replacement will be capitalized if they meet the three criteria listed above.
3. Capital items in most cases are new or replacement purchases that have been planned for as part of the Capital Goods Replacement Plan. Expense items are generally those which are used up in a short time (less than five years) or are expenditures which maintain an existing asset in good condition, but do not improve it from its original condition.
4. Lower-value (cost below \$5,000) tools and equipment are expensed to reduce the bookkeeping costs of tracking and depreciating them but should be inventoried and tracked if over \$1,000.

#### B. DEFINITIONS AND POLICY INTERPRETATION

1. Asset Expenditure:
  - a. Assets may be land, buildings, equipment, roadways, physical goods of various kinds, computer software, certain intangible long-lived benefits such as easements, and in certain instances, the cost of demolition, relocation, or renovation of assets. Expenditures for such goods, services and benefits may qualify as capital expenditures. The "cost" of the asset

includes purchase price (including shipping costs), construction costs (including labor, material and overhead used in construction; and reports, studies, plans, consulting, and architectural fees, etc., required in the construction process), capitalized interest (the cost of financing the asset), and in limited, defined instances; (a) the cost of outside legal costs, and (b) qualifying environmental cleanup and mitigation expenditures. Note: Warranty costs and maintenance agreements are not capital expenditures; they are operating costs and must be expensed.

b. A combined or unitary concept will be used in identifying newly purchased or newly constructed assets, and a separable concept when replacing, renovating, or improving major components of existing assets. Example: A newly constructed building is identified as a unitary asset, even though it is composed of major subcomponents. If the HVAC system of an old building is replaced, the new HVAC system is identified as a separable new component with its own estimated useful life. Major components of City assets may be considered separable and subject to separate asset identification, (i.e., an HVAC system, a truck engine, a crane cab, or a building roof). In these cases, either the separable asset may be given; (a) its own new life; (b) the remaining life of the existing asset; or (c) the life of the major asset may be extended, depending on the facts in each case. In other more restricted cases, integral, non-separable elements are considered maintenance expense of the major asset. Example: when bridge pilons are repaired or replaced such expenditures are considered maintenance expense for the bridge and are not capitalized.

c. For purchases, it is policy to identify an expenditure as a unitary “system” whenever the components, taken together, may reasonably be understood to work as a single unit. For example, if a purchase is made for a computer, monitor, keyboard, and software, it is understood that this is a purchase of a computer “system”. If these components, purchased together, cost \$5,000 or more (including shipping costs), then the expenditure is considered a single purchase of a computer system and is capitalized as a unit. (Note: Warranty costs and maintenance agreements may not be Capital Expenditures and must be excluded from the calculation which determines asset cost.)

d. For purchases in volume of capital items with unit value less than \$5,000 and if the aggregate total of the item exceeds \$5,000, then the group of items may be capitalized providing that the two other tests for capitalization are met (i.e., they must be City-owned and have a useful life of more than 5 years). For example, if one filing cabinet is purchased

for \$500, the item will be expensed; but if ten \$500 cabinets are purchased together, they may be capitalized since the aggregate cost is \$5,000. This policy is subject to further interpretation depending on the facts in each case. For example, the purchase of one hundred \$50 wastebaskets would not be considered a capital purchase. In most situations, it is the intention of this policy to capitalize aggregate purchases (\$5,000 or greater) of furniture, fixtures, and equipment where unit values are at least in the range of \$500 to \$1,000. Items valued at less than \$500 are generally treated as consumable supplies and expensed even though their useful lives may exceed five years. The reason for this policy is to reduce the bookkeeping and tracking expense for lower valued capital expenditures. The Clerk's department will decode policy in those cases where differences of interpretation are otherwise unresolved.

Individual assets that cost less than \$5,000, but that operate as part of a network, or are part of a kit or collection, will be capitalized in the aggregate, using the group method, if the estimated average useful life is more than five years. The following networks / kits / collections exist within the city

- The telephone system, with an estimated useful life of 10 years.

## 2. Depreciation

Assets lose value over time; this loss of value is depreciation cost. The principal objective in accounting for depreciation is to charge each accounting period for the estimated loss in value of the depreciable assets incurred during that period.

The City of Chatfield will utilize the straight-line method of depreciation for all assets. Salvage value will not be utilized. Assets will be fully depreciated and carried on the books at \$0.00 value when the book life of the asset has been reached.

## 3. Economic Useful Life

- a. "Economic useful life" is generally construed to mean the period (years) during which the asset is providing benefit to the city. The "physical life" of an asset is the period (years) in which the asset can perform as originally designed, built, and maintained. The economic useful life of an asset may be the same as the physical life, or it may be shorter.
- b. It is general policy to the City to assign asset lives based on an estimate of the period of productive benefit to the City; that is the economic useful life

of the asset. This generally aligns with the useful life of the departmental equipment replacement schedules.

4. Improvement: General Improvements & Public Improvements

a. Improvement.

Improvement is a common term used to describe the construction or purchase of a new asset or the betterment of existing facilities or assets. For example, all qualifying expenditures are incorporated into the city “Capital Improvement Program” (CIP. The term “improvement” in a more restricted sense means:

- (i) The substitution of a better asset for one currently in use
- (ii) The expansion of an existing facility to accommodate increased volumes.
- (iii) The modification of an existing asset to meet a new or changed use (one not intended by its original design).

b. General Improvements

Expenditures for an improvement are capital expenditures and may be given a separable asset life, or an asset life corresponding to the remaining life of the existing asset; or the existing life may be extended (minimum extension of three years).

c. Public Improvements

“Public Improvements” means improvement to assets used by the public: for example, roads, parking lots, sidewalks, parks, etc.

In the case of streets and roads – if the work done impacts the “base” structure the improvement should be capitalized. i.e., sealcoating is considered maintenance – an overlay is considered capital.

5. Asset Classes & Estimated Useful Lives (if not listed follow the assigned Useful Life from the Departmental Capital Goods Replacement Schedules)–

Classes of Assets	Threshold	Useful Life
<b>Buildings / Structures</b> <ul style="list-style-type: none"> <li>Seasonal / Shelters – 20 years</li> <li>Sewer Treatment Plant – 25 years</li> <li>Buildings – 40 years</li> </ul>	\$5,000	10 – 40 yrs.
<b>Building Improvements</b> <ul style="list-style-type: none"> <li>HVAC Systems – 20 years</li> <li>Roofing – 20 years</li> <li>Carpet Replacement – 10 years</li> <li>Electrical / Plumbing – 30 years</li> </ul>	\$5,000	5 – 30 yrs.
<b>Equipment / Machinery</b> <ul style="list-style-type: none"> <li>Fire Department Air Bottles 15 years</li> <li>Pick Ups – 5 years</li> <li>Plows – 15 years</li> <li>Dump Trucks – 15 years</li> <li>Playground Equipment, Scoreboards, bleachers, radio towers, lights, fishing dock – 20 years</li> <li>EMS Training Equipment – 10 years</li> <li>Telephone System – 10 years</li> </ul>	\$5,000	5 – 20 yrs
<b>Furniture &amp; Fixtures</b> <ul style="list-style-type: none"> <li>Desks, tables, chairs – 15 years</li> </ul>	\$5,000	5 – 12 yrs
<b>Infrastructure</b> <ul style="list-style-type: none"> <li>Drainage Sys.- Catch basins &amp; storm pipe – 40 years</li> <li>Water Dist. System – Pipes – 40 years</li> <li>Sewage Collection Sys.– Manholes &amp; Pipes – 40 yrs.</li> <li>Wells &amp; Storage Syst. – 40 years</li> <li>Lift Stations – 30 years</li> <li>Streets - New (bituminous) 40 years Over lay (bituminous) 20 years</li> <li>Sidewalk – 20 years</li> <li>Lights – 20 years</li> <li>Curb &amp; Gutter – 40 years</li> </ul>	\$5,000	20 – 40yrs
<b>Vehicles</b> <ul style="list-style-type: none"> <li>Ambulances – 10 years</li> <li>Cars / Light Trucks – 5 years</li> <li>Fire Trucks –15 years</li> </ul>	\$5,000	5 – 10 years

All fixed assets with a useful life of more than one year and an original value between \$1,000 and \$5,000 will be recorded and inventoried but will not be capitalized and depreciated. These records will be compiled and maintained by the individual departments. The Clerks department will track capitalized assets only.

## **\*SALE AND DISPOSAL OF CITY EQUIPMENT / GOODS**

### SALE AND DISPOSAL POLICY PURPOSE

This policy is intended to streamline the process of disposing of equipment and tangible goods that are no longer needed by the City of Chatfield. Unless otherwise directed by the City Council, all equipment and goods that are owned by the city but no longer needed, \* with the exception of land and buildings, and specialty equipment such as ambulances and fire trucks, are to be sold via a standard process.

### PROCESS STEPS

1. On a routine basis, the city will make it known that standard procedure for disposing of equipment and goods includes the advertisement of these items on [publicsurplus.com](http://publicsurplus.com).
2. A notice will be placed in the City's official newspaper, making residents aware that an item will be listed for sale and directing them to the public surplus website.
3. Each item will be posted on [publicsurplus.com](http://publicsurplus.com) for a minimum of ten business days.
4. The Department Head responsible for the decision to sell the equipment will report the matter to the appropriate City Council Committee either immediately prior to, or immediately after, the sale of the item sold.
5. All proceeds from the sale of these goods will be placed in the reserve fund for future capital purchases of the appropriate Department.

Department Heads will determine the need to dispose of the various pieces of equipment within their area of responsibility and will coordinate the sale of the items with the City Administrator. The City Administrator will have the primary responsibility to coordinate the sale of the goods, with the responsible Department Head being available to answer questions or show the item to interested parties.

An employee who violates this policy may be subject to disciplinary action up to and including termination.

*Capital Outlay Policy Adopted by City Council Sepr 08, 2008 | Capitalization Policy Adopted Jun 14, 2004 | Capitalization Policy Revised Novr 1, 2007 | Capital Outlay Policy Revisions Adopted Octr 25, 2021 | Capital Outlay | Capitalization & Sale of Merchandise Policy Combined Jan 09, 2023 | Capitalization Policy revised to remove collections Ma, 2023 | 2024 Annual Review Revisions Adopted Jan 8, 2024 | 2025 Annual Review Revisions Adopted Dec 9, 2024 – Annual Meeting Distribution Jan 13, 2025*