Capital Asset Management Policies

The following policies establish the framework for Metro’s overall capital asset planning and management. They provide guidance for current practices and a framework for evaluation of proposals for future projects. These policies also seek to improve Metro’s financial stability by providing a consistent approach to fiscal strategy. Adopted financial policies show the credit rating industry and prospective investors (bond buyers) the agency’s commitment to sound financial management and fiscal integrity. Adherence to adopted policies ensures the integrity and clarity of the financial planning process and can lead to improvement in bond ratings and lower cost of capital.

1. Metro shall operate and maintain its physical assets in a manner that protects the public investment and ensures achievement of their maximum useful life.

   Ensuring the maximum useful life for public assets is a primary agency responsibility. Establishing clear policies and procedures for monitoring, maintaining, repairing and replacing essential components of facilities is central to good management practices. It is expected that each Metro department will have written policies and procedures that address:
   - Multi-year planning for renewal and replacement of facilities and their major components;
   - Annual maintenance plans.

2. Metro shall establish a Renewal & Replacement Reserve account for each operating fund responsible for major capital assets.

   Ensuring that the public receives the maximum benefit for their investments in major facilities and equipment requires an ongoing financial commitment. A Renewal & Replacement Reserve should initially be established based on the value of the asset and consideration of known best asset management practices. Periodic condition assessments should identify both upcoming renewal and replacement projects and the need to adjust reserves to support future projects. If resources are not sufficient to fully fund the Reserve without program impacts, the Council will consider alternatives during the annual budget process. Establishing and funding the Reserve demonstrates Metro’s ongoing capacity and commitment to these public investments.

3. Metro shall prepare, adopt and update at least annually a five-year Capital Improvement Plan (CIP). The Plan will identify and set priorities for all major capital assets to be acquired or constructed by Metro. The first year of the adopted CIP shall be included in the Proposed Budget.

   The primary method for Metro departments to fulfill the need for multi-year planning is the Capital Improvement Planning process. The CIP allows a comprehensive look at Metro’s capital needs for both new facilities and renewal and replacement of existing ones, and allows the Council to make the necessary decisions to ensure financial resources match forecasted needs.
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4. Capital improvement projects are defined as facility or equipment purchases or construction which results in a capitalized asset costing more than $50,000 and having a useful (depreciable life) of five years or more. Also included are major maintenance projects of $50,000 or more that have a useful life of at least five years.

A clear threshold ensures that the major needs are identified and incorporated in financial plans.

5. An assessment of each Metro facility will be conducted at least every five years. The report shall identify repairs needed in the coming five years to ensure the maximum useful life of the asset. This information shall be the basis for capital improvement planning for existing facilities and in determining the adequacy of the existing Renewal & Replacement Reserves.

A foundation step for capital planning is an understanding of the current conditions of Metro facilities. It is expected that Metro departments have a clear, documented process for assessing facility condition at least every five years. The assessment processes may range from formal, contracted engineering studies to in-house methods such as peer reviews. The assessment should identify renewal and replacement projects that should be done within the following five years. The Renewal & Replacement Reserve account should be evaluated and adjusted to reflect the greater of the average renewal & replacement project needs over the coming five years or 2% of the current facility replacement value.

6. The Capital Improvement Plan will identify adequate funding to support repair and replacement of deteriorating capital assets and avoid a significant unfunded liability from deferred maintenance.

Using the information provided by facility assessments, Metro departments should use the CIP process to identify the resources necessary to keep facilities in an adequate state of repair. In situations where financial resources force choices between programs and facility repair, the annual budget process should highlight these policy choices for Council action.

7. A five-year forecast of revenues and expenditures will be prepared in conjunction with the capital budgeting process. The forecast will include a discussion of major trends affecting Agency operations, incorporate the operating and capital impact of new projects, and determine available capacity to fully fund the Renewal & Replacement Reserve.

Incorporation of capital needs into agency five-year forecasts ensures that problem areas are identified early enough that action can be taken to ensure both the maintenance of Metro facilities and integrity of Metro services.
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8. To the extent possible, improvement projects and major equipment purchases will be funded on a pay-as-you-go basis from existing or foreseeable revenue sources. Fund Balances above established reserve requirements may be used for one-time expenditures such as capital equipment or financing of capital improvements.

Preparing a CIP and incorporating it into five-year forecasts enables Metro to plan needed capital spending within foreseeable revenues. This minimizes the more costly use of debt for capital financing and ensures renewal and replacement of facility components takes place without undue financial hardship to operations.

9. Debt (including capital leases) may only be used to finance capital, including land acquisition, not ongoing operations. Projects that are financed through debt must have a useful service life at least equal to the debt repayment period.

Because interest costs impact taxpayers and customers, debt financing should be utilized only for the creation or full replacement of major capital assets.

10. When choosing funding sources for capital items, every effort should be made to fund enterprise projects either with revenue bonds or self-liquidating general obligation bonds. For the purpose of funding non-enterprise projects other legally permissible funding sources, such as systems development charges should be considered.

11. Acquisition or construction of new facilities shall be done in accordance with Council adopted facility and/or master plans. Prior to approving the acquisition or construction of a new asset, Council shall be presented with an estimate of the full cost to operate and maintain the facility through its useful life and the plan for meeting these costs. At the time of approval, Council will determine and establish the Renewal & Replacement Reserve policy for the asset to ensure resources are adequate to meet future major maintenance needs.

New Metro facilities should be planned within the overall business and service objectives of the agency. To ensure that the public gains the maximum utility from the new facility or capital asset, Metro should identify the full cost of building and operating the facility throughout its useful life. Resources generated from its operation or other sources should be identified to meet these needs.