CITY COUNCIL DIRECTED POLICY
Policy # 22-02 ccd

Complete all fields that apply. For those that do not, enter N/A.

TO: City Council **EFFECTIVE** **FROM:** Russ Blackburn, City Manager

DATE: 10/1/2022 **INITIATED BY:** Industry Best Practices

POLICY TITLE: City of Port St. Lucie Capital Asset Policy

PURPOSE STATEMENT

To provide effective guidelines, set responsibilities for the acquisition, depreciation and disposal of the City's capital assets including setting procedures to monitor and account for small and attractive assets.

DEFINITIONS

N/A

POLICY

I. Capital Assets and Capitalization Thresholds

A capital asset is real or personal property that has a cost equal to or greater (each individual item) than the cost noted by each class and has an estimated useful life of at least two years. When federal or state grant funds are used to purchase capital assets each individual item purchased that has a cost equal to or greater than $5,000 shall be capitalized. The City of Port St. Lucie reports capital assets under the following categories:

1. Land and land improvements ($100,000 capitalization threshold),
2. Buildings and building improvements ($100,000 capitalization threshold),
3. Infrastructure and infrastructure improvements ($100,000 capitalization threshold),
4. Improvements other than buildings ($100,000 capitalization threshold),
5. Leases ($100,000 capitalization threshold),
6. Construction work in progress ($100,000 capitalization threshold),
7. Machinery and equipment ($5,000 capitalization threshold),
8. Computer software ($100,000 capitalization threshold).
9. Subscription-based information technology arrangements ($100,000 capitalization threshold).

II. Reporting Capital Assets

Capital assets should be reported at purchase cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees.

Donated capital assets should be reported at their estimated fair market value at the time of acquisition plus ancillary charges, if any. Valuation techniques are used to determine fair value. The City should use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use

of unobservable inputs. The City will use valuation techniques consistent with one or more of the three approaches identified in Statement No. 72 of the Governmental Standards Board "*Fair Value Measurement and Application"* to measuring fair value: the market approach, cost approach, and income approach.

When the historical/purchase cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record.

The basis of valuation for capital assets constructed by the City should be the costs of material, direct labor, and overhead costs identifiable to the project.

When reporting leases as the lessee, a lessee should recognize the lease liability and a leased asset at the commencement of the lease term unless the lease is a short-term lease or transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term. The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

When reporting leases as the lessor, a leases receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relates to future periods. The Finance Department is responsible for correctly reporting these assets at the date of acquisition. Any improvements made to a capital asset that extends the useful life of the asset beyond one year should be capitalized.

III. Depreciating Capital Assets

Capital assets shall be depreciated over their estimated useful lives unless they are:

1. Inexhaustible (i.e. land and land improvements)
2. Construction work in progress

It is the responsibility of the Finance Department to estimate the useful life of each capital asset. The straight-line method will be used to calculate depreciation for each capital asset recorded in the property system starting with the month that the asset is received by the city. The Finance Department is responsible for recording the assets in the correct general ledger codes/account numbers.

IV. Physical Inventory

A bi-annual (once every other year) physical inventory shall be taken and reviewed by the assigned custodian in each department. The inventory is taken using a preprinted capital asset register with any variances between the register/listing and physical inventory reconciled as follows:

1. Identify those assets that were purchased or transferred in, but not added to or changed on, the individual capital asset records or listing of small attractive assets.

2. Investigate the disposal or transfer out of assets not located.

V. Capital Asset Definitions and Categories

A. *Land and Land Improvements*

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow grass, shrubs, and trees.

Land improvements consist of betterments, site preparation, and site improvements that ready land for its intended use. The cost associated with land improvements is added to the cost of land. Land and land improvements should not be depreciated.

Examples of items to be capitalized as land and land improvements are:

1. Purchase price or fair market value at time of gift;
2. Commissions;
3. Professional fees (i.e. title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.);
4. Land excavation, fill, grading, and drainage;
5. Demolition of existing buildings and improvements (less salvage);
6. Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.).

Items such as roads, bridges, and paved parking lots are not considered land improvements but are considered infrastructure.

B. *Buildings and Building Improvements*

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

Examples of items to be capitalized as buildings and building improvements are:

1. Original purchase price of the building;
2. Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired;
3. Environmental compliance (i.e. asbestos abatement);
4. Professional fees (i.e. legal, architect, inspections, and title searches);
5. Cancellation or buyout of existing leases;
6. Completed project costs of constructed buildings;
7. Cost of building permits;
8. Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building;
9. Additions to buildings (i.e. expansions, extensions, or enlargements);
10. Conversion of attics and basements to usable space;
11. Structures attached to the building such as covered patios, garages and enclosed stairwells;
12. Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents;
13. Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling or parquet;
14. Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing;
15. Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet and cabinets;
16. Interior renovation associated with casings, baseboard, light fixtures and ceiling trim;
17. Exterior renovation such as installation or replacement of siding, roofing, or masonry;
18. Installation or upgrade of plumbing and electrical wiring;
19. Installation or upgrade of phone or closed-circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building).

Examples of items to be considered maintenance and repairs and not capitalized as buildings are:

1. Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
2. Improvement projects of minimal or no added life expectancy and/or value to the building
3. Plumbing or electrical repairs

4. Cleaning, pest extermination, or other periodic maintenance
5. Interior decorations such as draperies, blinds, curtain rods and wallpaper
6. Exterior decoration such as detachable awnings, uncovered porches and decorative fences
7. Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing
8. Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry

The list of examples provided above is not intended to be all-inclusive.

C. *Infrastructure and Infrastructure Improvements*

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, drainage systems, water and sewer systems, and street lighting systems. Infrastructure assets shall be capitalized and depreciated.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, beyond one year should be capitalized.

D. *Leases*

Leased assets shall be capitalized if the lease agreement meets the capitalization thresholds noted in Section I of this policy or is not a short-term lease.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

The lease term is the period during which the lease has a noncancelable right to use an underlying asset. Plus, periods covered by the lessee's or lessor's option to extend or terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee or lessor will exercise that option.

A short-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend. A short-term lease or a lease that does not meet the capitalization thresholds noted shall be expensed as the costs are incurred.

E. *Construction Work in Progress*

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete. The cost of construction work in progress should not be depreciated. Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the assets are placed into service. It is the Financial Management Department's responsibility to track all costs related to construction work in progress so that the final value of the constructed asset is correctly captured. Departments should not use multiyear appropriations for a project to circumvent the capitalization threshold for the project.

F. *Machinery and Equipment*

Machinery and Equipment include capital or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt. Examples of machinery and equipment are front end loaders, large lawn mowing equipment, backhoes, and vehicles.

G. *Computer Software*

Computer software that is either purchased or internally developed shall be capitalized as capital assets if the cost of the computer software exceeds $100,000. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units served (terminals) exceeds the threshold.

For internally developed software, only costs associated with the application development phase shall be capitalized. Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development shall not be capitalized.

H. *Subscription-Based Information Technology Arrangements*

Subscription-based information technology arrangements (SBITAs) shall be capitalized if the SBITA agreement meets the capitalization thresholds noted in Section I of this policy or is not a short-term SBITA.

A SBITA is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in the contract, for a period of time in an exchange or exchange-like transaction.

VI. Surplus and Scrap Disposal

The City Manager or designee shall have the authority to require reports from all City departments indicating all commodities or capital items, which are no longer used, or which have become obsolete or worn out. The City Manager or designee shall have the authority to transfer these items from one department to another, or to exchange or trade for new supplies or capital items. In addition, material that is not on the asset register, with no resale value and/or a scrap value of less than $2,500, may be scrapped as the need arises. A list of such items shall be provided to the City Manager or designee for permanent record.

In the interest of conserving space and eliminating storage problems and hazardous conditions, the City Manager or designee shall have the authority to periodically sell City property which has become unsuitable for City use on online auctions under the terms and general conditions as detailed in the contract competitively obtained. All such sales will be to the highest responsible bidder.

Items of an unusual nature which would not normally be sold at an auction will be abstracted from the list and submitted to council with a recommended means of sale or disposal.

Whenever the city determines to remove or replace capital equipment items that no longer serve a productive or useful public purpose, within 60 days of the receipt, field testing and acceptance of the newly purchased item (whichever tasks are applicable), the city will initiate a process to dispose of those replaced items in a manner which best serves the economic and operational needs of the city. Such items would include but are not limited to: cars, trucks, other vehicles and vehicle accessories, power equipment, computer and other communications equipment and office furnishings. The Financial Management Department and/or the Facilities Maintenance Department will determine the best, most cost-effective method of removal/disposal of said items. Disposal shall be in a commercially reasonable manner that may be by public sale, auction, trade-in or other documented verifiable means. All transactions of public property as defined herein will be fully documented and said records retained in accordance with applicable local and state guidelines.

The City Manager or designee shall be authorized to approve all sales where the net revenue to the City does not exceed $15,000. All sales exceeding $15,000 in net revenue to the City will be approved by City Council, prior to completing the sale or conducting the sales event.

Relinquishing City real property (land) is governed by Policy #18-01ccd and is not regulated by this policy.

VII. Small Attractive Assets

Property that is highly prone to theft must be safeguarded and controlled. An annual inventory of such items shall be maintained by the individual departments. Inventory sheets shall be turned in to the Financial Management Department for asset list verification.

Sensitive items include but are not limited to:

1. Computer equipment,
2. Laptop and desktop computers,
3. iPads,
4. Weed Eaters,
5. Generators,
6. Power and hand tools,
7. Chain saws,
8. Televisions,
9. Two-way radios,
10. Cell phones,
11. Guns,
12. Lawnmowers (under the capitalization amount of $5,000),
13. Video and Digital Cameras,
14. Drones.