

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF APPROVING) RESOLUTION NO. 01-3113
METRO CAPITAL ASSET MANAGEMENT)
POLICIES) INTRODUCED BY COUNCILOR
BILL ATHERTON

WHEREAS, Metro facilities include capital assets with a total value of over \$375 million,
and

WHEREAS, the Council Presiding Officer established the System Performance Task Force
for the purpose of examining current practices related to the management of Metro's
capital assets,

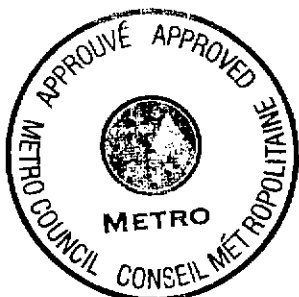
WHEREAS, the task force determined that there is a need to establish a framework of
consistent policies to guide the planning and management of Metro's capital assets, and

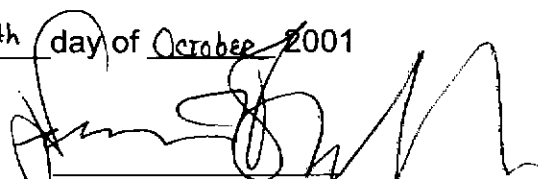
WHEREAS, the adoption of capital asset management policies will demonstrate Metro's
commitment to sound fiscal and financial management, therefore

BE IT RESOLVED,

The Metro Council approves Exhibit A of this resolution, entitled "Capital Asset
Management Policies".

ADOPTED by the Metro Council this 18th day of October 2001




David Bragdon, Presiding Officer

Approved as to Form


Daniel B. Cooper, General Council

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 be 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.

Capital Asset Management Policies

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.

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

Capital Asset Management Policies

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.

BUDGET COMMITTEE REPORT

CONSIDERATION OF RESOLUTION NO. 01-3113, FOR THE PURPOSE OF APPROVING METRO CAPITAL ASSET MANAGEMENT POLICIES

Date: October 18, 2001

Presented by: Councilor Atherton

Committee Recommendation: At its October 10, 2001, meeting, the Budget Committee voted 6-0 to recommend Council adoption of Resolution No. 01-3113. Voting in favor: Councilors Atherton, Bragdon, Burkholder, McLain, Monroe, Park. Voting against: None. Absent: Councilor Hosticka.

Background: John Houser, Metro Council Analyst, presented the staff report. He described the formation of the Systems Performance Task Force in early 2001, and noted that its charge was to evaluate approaches to capital asset management within Metro and return to Council with recommendations for necessary changes or improvements to the existing system.

He stated the Task Force, which began work in July, conducted comprehensive reviews of both departmental and other jurisdictional asset management programs, and determined that practices varied widely both internally and externally. The Task Force determined that the establishment of a set of capital asset management policies applicable agency-wide would be desirable to provide minimum standards and requirements for all Metro departments, and a basis against which Council could evaluate or review programs both agency-wide, and within individual departments.

The proposed policies draw upon existing practice, and also require that capital asset management needs be tied in fiscally with the agency's capital improvement plan. In addition, the policies require that all Metro facilities be assessed every five years, which could result in fiscal impact as potential asset renewal and replacement needs are identified.

Committee Issues/Discussion: There was none.

Key Public Testimony: There was none.

STAFF REPORT

CONSIDERATION OF RESOLUTION NO. 01-3113, FOR THE PURPOSE OF APPROVING METRO CAPITAL ASSET MANAGEMENT POLICIES

Date: October 2, 2001

Presented by: Councilor Atherton

Description

The proposed resolution would establish capital asset management policies. The proposed policies would address issues related to asset maintenance, planning and funding for asset renewal and replacement, the role and content of the Capital Improvement Plan in asset management, and the incorporation of capital needs into the five-year revenue and expenditures forecast.

Existing Law

Metro currently has no Code provisions or written policies related to the management of the agency's capital assets. During the Council's budget review process for the past two years concern has been raised related to the lack of comprehensive agency asset management policies. This discussion has focused the need for policies related to asset maintenance and renewal and replacement of assets. In response to this discussion, the Presiding Officer established a Systems Performance Task Force to review the differing departmental approaches to capital asset management and make recommendations to the Council.

Background and Discussion

The task force began its work in late July. The task force invited representatives from each Metro department to respond to a series of questions and present background information concerning how they manage their capital assets. Task force staff followed up these presentations with meetings with department staffs to gather additional more in-depth information on their asset management programs. The staff also reviewed asset management programs used by other jurisdictions. The task force found that the management systems used by the various Metro departments and by other jurisdictions vary greatly.

As a result of this review, the task force staff submitted a series of draft capital asset management policies. These policies will have three principal effects. First, they provide a general framework for capital asset management. In some cases, they simply place existing practice in writing. For example, one of the policies requires the preparation of a capital improvement plan. In other cases, they establish new policy, such as a requirement that each facility establish Renewal and Replacement Reserves.

Second, they provide minimum standards and requirements related to capital asset management that must be followed by all Metro departments. An example of such a requirement will be that all departments have an annual capital asset maintenance plan.

Third, by establishing these policies, the Council will establish written policies against which it can review the capital asset management programs of individual departments. The policies also

require additional fiscal information be included in the capital improvement plan and the budget that will give the Council a clearer picture of the total capital needs of the agency.

Fiscal Impact

There are several potential fiscal impacts associated with the proposed resolution. The preparation of additional information for the capital improvement plan and proposed budget and the preparation of annual asset maintenance plan may have a small fiscal impact on each department. This effect may vary among the departments depending on the nature of their current asset management programs.

The policies also require that an assessment of all Metro facilities be conducted every five years. Departments would have the flexibility to establish their own written procedures for conducting such assessments. If a department chooses or is required by bond covenants to use an outside vendor, the cost of such an outside review would need to be appropriated through the annual budget process. Departments also could choose a lower cost alternative such as a peer review process.

The assessment process should result in estimates of potential asset renewal and replacement needs for each department. This will give the Council the opportunity to better assess and prioritize the capital and operational needs. Such a prioritization process may result in a shift in the appropriation of funds within individual departments.