

 **Metro** | *Agenda*

Meeting: Natural Areas Program Performance Oversight Committee
Date: Thursday, September 19, 2013
Time: 9 to 11:30 a.m.
Location: Metro Regional Center, Room 401

8:45 **COFFEE AND PASTRIES**

9:00 **WELCOME** Drake Butsch

9:05 **PROGRAM UPDATES** Kathleen Brennan-Hunter
Acquisition, local share and capital grants
Financial report
Stabilization

9:45 **NATURAL AREAS IMPLEMENTATION WORK PLAN** Kathleen Brennan-Hunter

10:00 **CAPITAL EXPENDITURE POLICY** Brian Kennedy

10:30 **CHEHALEM RIDGE STABILIZATION UPDATE** Kate Holleran

11:00 **OPPORTUNITY ACQUISITIONS** Kathleen Brennan-Hunter

11:15 **ANNUAL REPORT** Drake Butsch

11:30 **ADJOURN**

2014 WORK PLAN

To be determined



Natural Areas Program Performance Oversight Committee

September 19, 2013

Committee members in attendance: Drake Butsch (committee chair), Bill Drew, Autumn Hickman, Peter Mohr, Shawn Narancich, Andrew Nordby, Kendra Smith

Committee members excused: Dean Alterman, Michelle Cairo, Christine Dupres, Walt McMonies, Rick Mishaga, Norman Penner, Cam Turner

Guest: Martha Bennett, Metro Chief Operating Officer

Metro: Councilor Craig Dirksen, Kathleen Brennan-Hunter, Jim Desmond, Kate Holleran, Brian Kennedy

Welcome

Committee chair Drake Butsch welcomed the committee and thanked them for attending. Kathleen introduced new acquisitions analyst Suzanne Piluso, who will be doing some of the analysis and reporting for the program.

Kathleen introduced Metro Chief Operating Officer Martha Bennett. Martha thanked the committee for the work they do; the way the committee reports on the bond is very thorough and improves the program. The program has been very successful, in part due to the committee's strong oversight. With the recent passage of the parks and natural areas levy, a companion piece to the Natural Areas Program, Metro now has the opportunity to decide where the program goes into the future and how it continues to protect the region's special lands.

Program updates

Acquisition

There have been no acquisitions since the June 2013 committee meeting, although there are several that are expected to close within the next few weeks.

Local Share

Metro reimbursed \$111,366 to three local jurisdictions since the June 2013 meeting (cities of Gresham, Portland and Wood Village). As noted in the local share program update, 84% of available funds have been expended to date.

Capital Grants

The Metro Council awarded a new round of capital grants in May 2013 and staff are working on administering those contracts. Steve Yarosh, who was the Oversight Committee's liaison to the Capital Grants Review Committee, has stepped down from both committees. Kathleen invited other committee members to step into this role. There is typically one review cycle per year, involving two 3-4 hour meetings to discuss the applications, and 4-8 site visits. Kendra Smith, who sat on the grants committee in the past, offered to be back up if no one else chooses to fill the opening.

Financial report

The attached financial report is through June 30, 2013. Brian reported that land acquisition expenditures for FY 2013 were the second lowest since the program began (second only to the program's first year). Stabilization costs were higher in FY 2013, but this can be attributed to the higher number of acquisitions acquired in previous years. Terramet development is included in the administrative costs. While administrative costs for FY

2013 were close to the 10 percent threshold, total administrative costs for the life of the program remain relatively low at 6.5 percent.

Stabilization report

Brian is still working on a viable process to download pertinent stabilization information. This quarter's report dates back only to 2010, but he noted that any properties acquired prior to that date should be out of stabilization anyway.

Natural Areas Implementation Work Plan

Kathleen noted that she often makes reference to the "work plan," usually in reference to unusual circumstances. That work plan was part of the 1995 Open Spaces bond program and provides due diligence policy guidance. Although a small portion of the work plan was updated prior to passage of the 2006 bond, staff now would like to review the entire plan and update guidelines as necessary, such as stabilization and landbanking. Kathleen asked for a small committee to collaborate with staff on this project. The subcommittee's changes will be reviewed by the full committee at the December 2013 meeting.

Subcommittee: Drake Butsch, Bill Drew, Autumn Hickman, Peter Mohr.

Capital expenditure policy

Metro is audited each year by an external auditor. Last year the auditor suggested Metro create a policy related to capital expenditures. Brian asked the committee to review and consider approving the attached Capital Outlay and Capital Cost Determination guidance document.

- Extensive discussion was held around the "but for the bond..." language on page three. The committee felt the concept was a major point of the guidance document and should be more strongly defined and moved toward the beginning of the document.
- "Intended natural state" should be more clearly defined. Brian suggested adding "...as described in the stabilization plan" and Kathleen agreed that referring to the stabilization plan should be sufficient to define this phrase.
- The stabilization period should not exceed *five* years (not three to five years as stated on Page 2).

Brian noted the guidance document was created to supplement and clarify the existing capital expenditure policy, which sets agency-wide direction on how capital funds are spent. Jim suggested that program attorney Hope Whitney review the document and revise it to meet the committee's concerns. The committee will review the revised document at the December 2013 meeting.

Chehalem Ridge stabilization update

Questions were raised at the June 2013 committee meeting about the amount of money spent on stabilization at Chehalem Ridge Natural Area. Kate Holleran compared stabilization costs per acre across a number of properties, and discussed some of the issues that may affect costs, such as survey expenses, structure removal, road repair and restoration challenges. It was noted that few committee members have visited Chehalem Ridge; Kate will schedule several site tours.

Opportunity acquisitions

At least once or twice a year a landowner calls hoping to sell Metro "a great property," but it may not be located within a target area nor specified in the refinement plan. However, sometimes the property is very compelling, meets the goals of the bond measure and often has strong partner support. The Metro Council has asked staff to establish criteria and guidelines specific to this type of opportunity. Kathleen asked for a subcommittee to work with staff to create a new policy. **Subcommittee: Kendra Smith, Shawn Narancich, Bill Drew, Peter Mohr.**

Annual report

The Oversight Committee's annual report will be presented to the Metro Council on Thursday, Oct. 24 at 2 p.m. Drake Butsch and Peter Mohr will present.

Next meeting

The next meeting will be in December 2013. The agenda will include committee review of the Natural Areas Implementation Work Plan, the Capital Outlay and Capital Cost guidance document, and the draft opportunity acquisitions guidelines. The work plan for the upcoming year will also be confirmed.

Adjournment

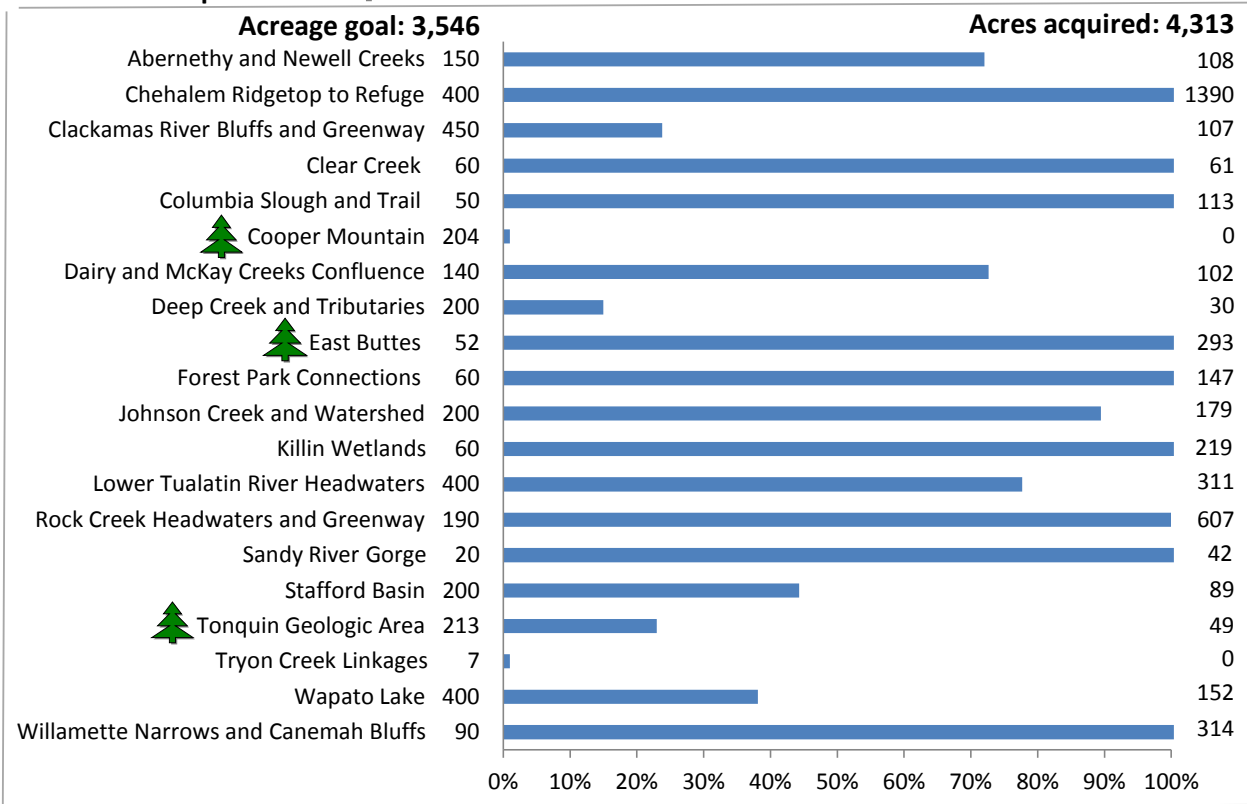
The meeting adjourned at 10:55 a.m.

Minutes recorded by Marybeth Haliski.

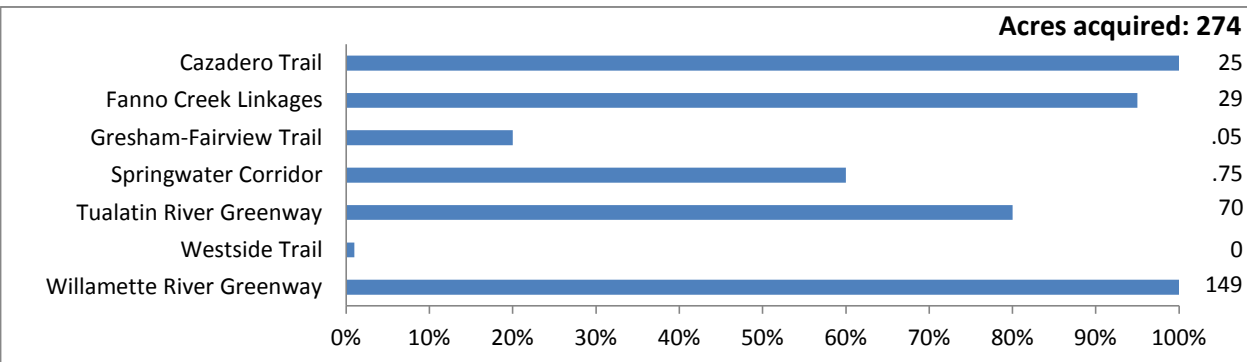
Natural Areas Program

September 19, 2013

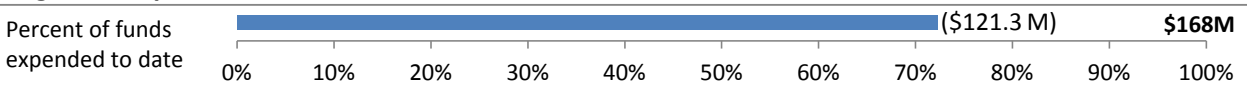
Natural area acquisition  **park built**  **percent of 2006 refinement plan acreage goals met or exceeded**



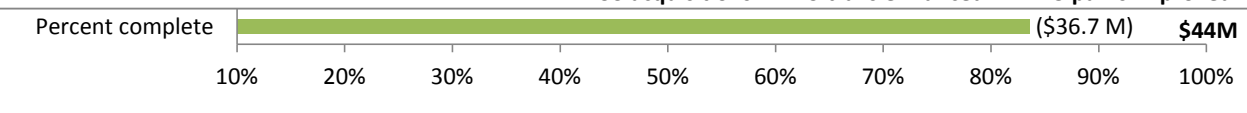
Trail/greenway corridors  **percent of 2006 refinement plan goals met**



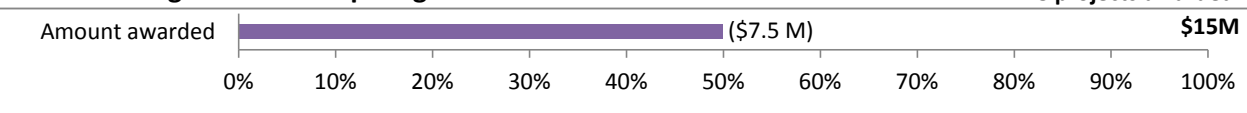
Regional acquisition  **regional acquisition funds spent to date**



Local share **93 acquisitions** **9 trails enhanced** **45 parks improved**



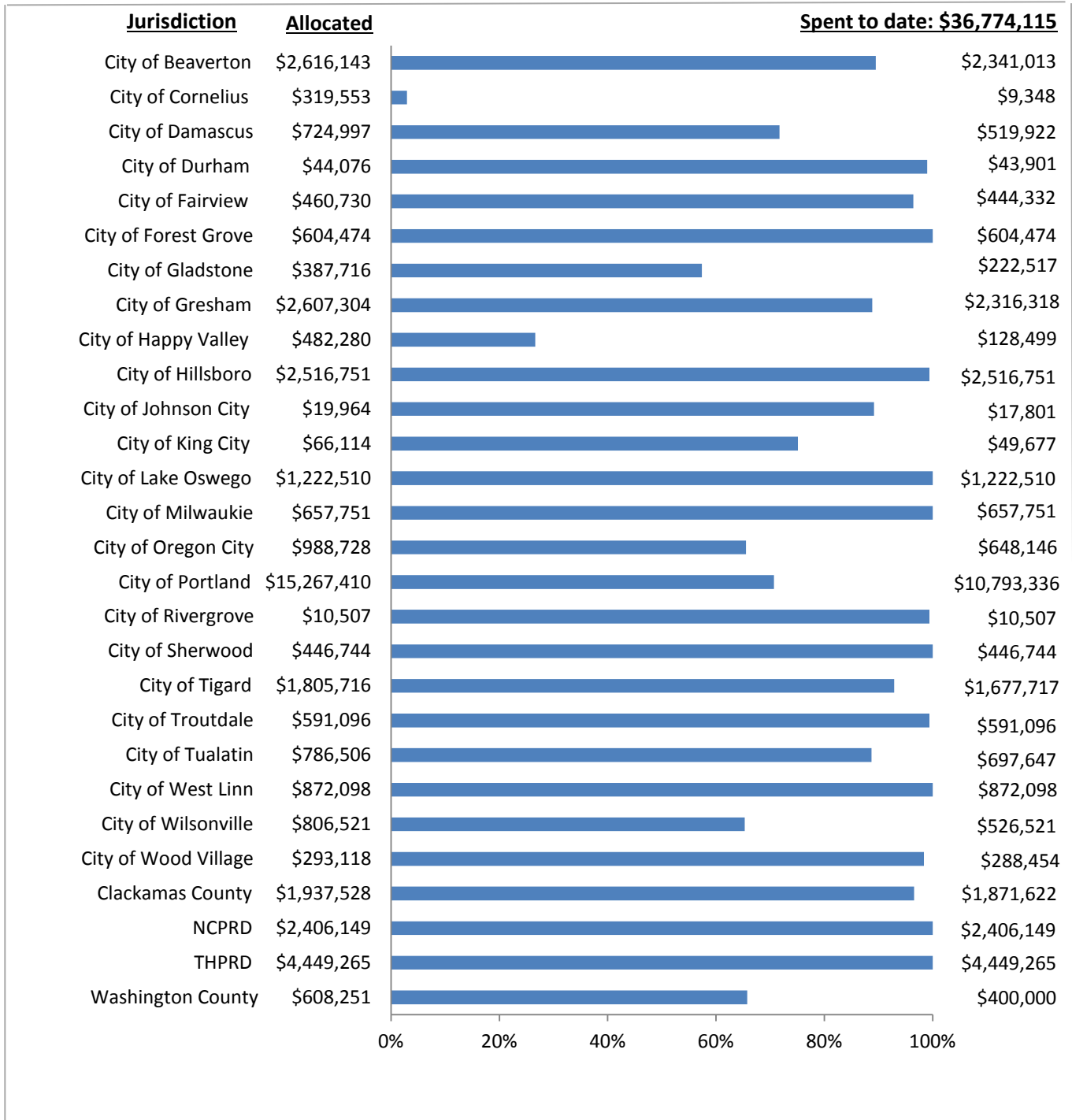
Nature in Neighborhoods capital grants **28 projects awarded**



Local Share program

September 19, 2013

■ percent of local share allocation spent



2006 Natural Areas Program

LOCAL SHARE PROGRAM UPDATE

SEPTEMBER 2013

Total local share allocation: **\$44,000,000**

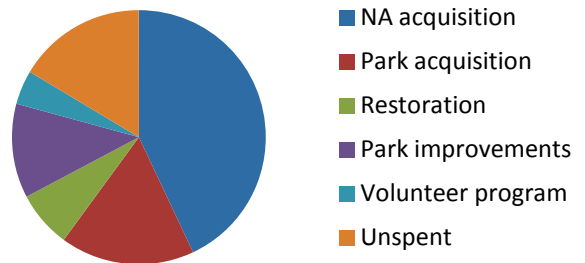
Expended as of June 25, 2013: **\$36,662,749** (83%)

Expended as of Sept. 19, 2013: **\$36,774,115** (84%)

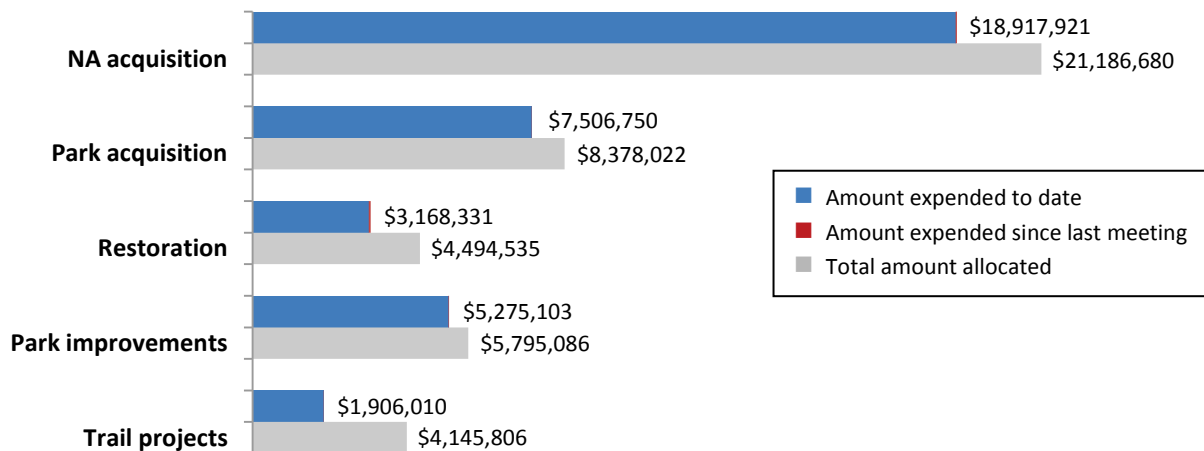
- **93** acquisitions; **685** acres
- **9** trail projects
- **45** parks and natural areas improved (includes restoration activities)

EXPENDITURES BY PROJECT TYPE

Project type	Amount allocated	Expended to date
NA acquisition (605 acres)	\$21,186,680	\$18,917,921
Park acquisition (60 acres)	\$8,378,022	\$7,506,750
Restoration	\$4,494,535	\$3,168,331
Park improvements	\$5,795,086	\$5,275,103
Trail projects	\$4,145,806	\$1,906,010



EXPENDITURE SUMMARY



NATURAL AREA ACQUISITION

Jurisdictions are using their local share funds to secure inholdings, expand existing natural areas or secure land for new nature parks.

Natural area acquisition

- \$21,186,680 allocated
- \$18,917,921 expended to date
- 78 sites acquired in 14 jurisdictions
- 624 acres acquired to date

PARK ACQUISITION

Fifteen sites throughout the region have been acquired for more traditional park use. These parks will range from small pocket parks in already developed neighborhoods to a large sports complex in a rapidly developing area. Five of the sites expand existing park land.

Park acquisition

- \$8,378,022 allocated
- \$7,506,750 expended to date
- 15 sites acquired in 8 jurisdictions
- 61 acres acquired to date

RESTORATION PROJECTS

Jurisdictions are using their funds to address a variety of restoration needs that include addressing human impact (Troutdale, Wood Village, Portland, Cornelius) and enhancing water quality (Beaverton, Gresham, Portland).

Restoration projects

- \$4,494,535 allocated
- \$3,168,331 expended to date
- 16 projects in 7 jurisdictions

PARK IMPROVEMENT PROJECTS

Park improvements continue to be an important aspect of the local share program.

- The City of Damascus released their remaining \$205,075 to the North Clackamas Parks & Recreation District who used the funds to construct improvements to Trillium Creek Park in Damascus. A groundbreaking ceremony was held on Sept. 18.

Park improvement projects

- \$5,795,086 allocated
- \$5,275,103 expended to date
- 29 projects in 15 jurisdictions

TRAIL ACQUISITION AND IMPROVEMENTS

Local share funds are being used to address regional trail priorities along Beaver Creek, the Trolley Trail, Springwater Corridor, the Gresham-Fairview Trail, Red Electric and Fanno Creek. In addition, five local trail priorities are being addressed.

- On Sept. 7, the City of Lake Oswego celebrated the completion of the Rosemont Trail, which connects West Linn to Lake Oswego.

Trails

- \$4,145,806 allocated
- 1,906,010 expended to date
- 9 projects in 8 jurisdictions

LEVERAGE INFORMATION

To date, local partners have reported nearly \$36 million in leveraged funding.

2006 Natural Areas Program

CAPITAL GRANT PROGRAM UPDATE

SEPTEMBER 2013

Total capital grant allocation: **\$15,000,000**

Number of projects awarded: **28**

Number of funding cycles: **6**

Amount awarded to date: **\$7,602,995**

Committed funds as of Sept. 19, 2013: **\$7,483,288***

**Excludes two projects that became infeasible and several projects that did not use their entire grant award.*

Amount expended to date: **\$3,938,194**

Available for future funding: **\$7,516,712**

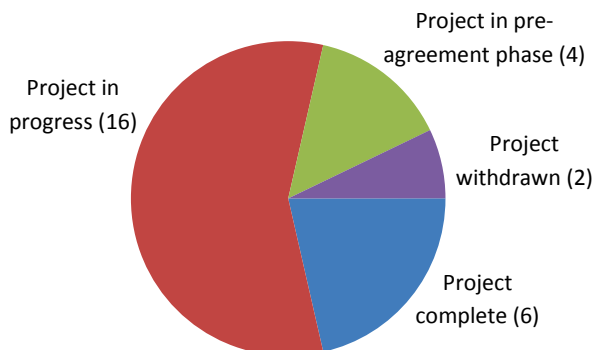
ALLOCATIONS BY PROJECT TYPE

Project type	Number of projects	Amount currently expended or committed
Acquisition	7	\$2,932,957
Urban transformation	4	\$1,435,811
Restoration	9	\$1,734,304
Neighborhood livability	8	\$1,380,216
Total	28	\$7,483,288

EXPENDITURE SUMMARY



PROJECT STATUS



2006 Natural Areas Bond Fund

Summary of Resources, Requirements and Changes in Fund Balance
(Unaudited)

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>		<u>Program</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Through</u>	<u>Total</u>	<u>Amount</u>
							<u>FTE</u>	<u>Amount</u>	<u>Amount</u>
Beginning Fund Balance	0	122,299,840	93,979,814	77,117,027	56,800,428	36,436,243		98,462,227	0
Resources									
Bond Proceeds	130,678,369	0	0	0	0	90,015,894		0	220,694,263
Interest Earnings	1,301,230	5,600,503	2,538,906	940,859	322,830	139,417		180,451	11,024,195
Other Resources	10,000	27,380	5,322,056	385,730	414,009	950,828		271,539	7,381,541
Subtotal Resources	131,989,599	5,627,883	7,860,962	1,326,589	736,839	91,106,138		451,989	239,099,999
Requirements									
Land Acquisition									
Staff Costs	117,956	206,692	425,072	465,329	512,240	658,515	6.3	514,455	2,900,259
Materials & Services	6,786	2,599	334,980	328,153	8,506	3,907		31,450	716,381
Land Costs	7,596,372	25,224,753	14,517,160	10,274,472	8,457,543	14,944,534		7,802,975	88,817,808
Due Diligence									
Staff Costs	0	412,029	492,589	455,774	430,237	464,571	5.0	455,086	2,710,286
Materials & Services	96,539	199,756	183,474	299,244	315,358	412,112		699,814	2,206,298
Stabilization									
Staff Costs	19,578	116,534	190,606	290,234	388,887	430,992	4.7	441,095	1,877,926
Materials & Services	294	177,441	345,330	284,874	643,569	681,557		1,250,663	3,383,729
Local Share									
Staff Costs	0	36,269	43,872	47,458	49,759	56,434	0.5	57,341	291,135
Materials & Services	0	25	188	3,500	0	35,934		1,488	41,135
Payments to Jurisdictions	400,000	4,798,366	4,316,165	5,399,109	6,312,927	8,527,542		6,119,838	35,873,947
Capital Grants									
Staff Costs	0	63,831	89,352	125,466	91,744	111,876	0.8	94,896	577,167
Materials & Services	0	1,400	1,363	811	75,621	44,562		25	123,782
Grant Payments	0	0	49,750	534,899	1,211,418	150,901		1,510,360	3,457,328
Capital Construction									
Staff Costs	0	84,071	113,921	115,064	100,643	115,884	0.9	142,649	672,232
Capital	455,072	1,513,347	2,503,147	1,841,075	917,019	(9,098)		301,099	7,521,661
Administration									
Bond Issuance Costs Refinement	295,889	0	0	43	0	325,046		43	621,021
Staff Costs	1,477	5,426	0	0	0	0		0	6,903
Materials & Services	382,030	85,882	0	0	0	0		0	467,912
Direct Admin Costs									
Staff Costs	230,815	527,644	490,722	750,704	868,127	680,107	3.7	694,589	4,242,707
Materials & Services	25,980	152,422	51,490	56,082	263,857	890,303		533,379	1,973,513
Indirect Admin Costs*	60,971	339,422	574,569	370,939	453,567	554,475		835,195	3,189,137
Other Requirements	0	0	0	0	0	0		0	0
Subtotal Requirements	9,689,759	33,947,909	24,723,748	21,643,231	21,101,023	29,080,155		21,486,443	161,672,268
Ending Fund Balance	122,299,840	93,979,814	77,117,027	56,800,385	36,436,243	98,462,227		77,427,774	77,427,774
	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>		<u>FY13 YTD</u>	<u>Total</u>
Administration as % of Total Expenditures	10.29%	3.27%	4.52%	5.44%	7.51%	8.42%		9.60%	6.50%

* Indirect Administrative Expenses are those charged through internal allocation, and include services such as Human Resources, risk management, payroll, building rents, etc. * Indirect Administrative Expenses are those charged through internal allocation, and include services such as Human Resources, risk management, payroll, building rents, etc. Note: Due Diligence staff costs have been removed from "Indirect Admin Costs" and the FTE for these positions is shown as a direct expense.

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Natural Areas Bond Program

Stabilization Report

Through 8/30/2013 12:00:00 AM

			2010	2011	2012	2013	2014	Total
Target Area	Acquis.		Annual Total	Annual Total	Annual Total	Annual Total	Annual Total	
Administration	52001		347,244	570,766	420,509	428,290	104,043	1,870,853
		Target Area Total	347,244	570,766	420,509	428,290	104,043	1,870,853
Canemah Bluffs	53210	Canemah Bluffs				10,386		10,386
	G21006	Lewis			301	56,907	5,430	62,639
	G21007	Davis - File #21.07	6,629	3,338				9,967
	G21015	Reeder			57,255	137,380		194,635
	G21019	Benson			14,338	30,063	6,112	50,513
	G21020	Brar				14,300	29,848	44,147
		Target Area Total	6,629	3,338	71,894	249,037	41,390	372,287
Cazadero Trail	G52001	OSU Foundation	6,459	24,616	6,734	10,789		48,598
		Target Area Total	6,459	24,616	6,734	10,789		48,598
Chehalem Ridgetop-Refuge	54800	Chehalem Ridgetop-Refuge Area	6,317					6,317
		Target Area Total	6,317					6,317
Chehalem Ridgetop-Refuge Area	G48001	Hamacher/Ponzi	1,048					1,048
	G48002	Chehalem Ridge/TPL/Iowa Hill	24,748	171,608	246,873	185,117	18,562	646,907
	G48003	Withycombe				13,091		13,091
	G48004	McKenzie/Chehalem Ridge			19,421	13,664		33,085
	G48005					12,930	5,343	18,273
		Target Area Total	25,796	171,608	266,294	224,801	23,905	712,404
Clackamas River Greenway	G18039	Pratt Timberlands	5,381	1,274	1,270	1,255		9,180
	G18041	ODOT (Carver Curves)	-					-
		Target Area Total	5,381	1,274	1,270	1,255		9,180

Natural Areas Bond Program

Stabilization Report

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Clear Creek Canyon	G12016	Stark				46,443	6,525	52,968
	Target Area Total					46,443	6,525	52,968
Columbia Slough Target Area	G28009	Roughton/Columbia Slough		17,483	20,707			38,190
	Target Area Total			17,483	20,707			38,190
Dairy McKay Target Area	G07026	Seus			230			230
	G07042	Saxton	12,189	1,769		216		14,174
	Target Area Total		12,189	1,769	230	216		14,404
Deep Creek Target Area	G46002	Mabel Johnson Trust	116	23,046		19,506	3,834	46,502
	G46008	Winters/Homes New to You Inc.		5,103	3,278	852		9,233
	G46012	Schafer Trust			15,654	21,562		37,215
	Target Area Total		116	28,149	18,932	41,919	3,834	92,951
East Buttes and Boring Lava	G02038	Happy Valley Homes			1,142	2,452		3,594
	G02068	Surgeon - File #2.68	(545)					(545)
	G02097	Miller	5,961	253				6,214
	G02103	Cox		125				125
	G02110	Cascade Pacific Council		5,912	19,773	15,560	2,324	43,570
	G02125	Darby Ridge				10,205		10,205
	G02132	Sunnyside Brook, LLC/BASILLI		19,226				19,226
	G02137	Persimmon Development TL600	951		2,412			3,363
	G02138	Parker/Scouter Mountain	(546)					(546)
	G02140	Rogers		9,550	10,630	77,319	6,687	104,187
	Target Area Total		5,821	35,065	33,958	105,536	9,011	189,391
Fanno Creek Greenway	G16009	Fields				40,525	1,763	42,287
	Target Area Total					40,525	1,763	42,287

Natural Areas Bond Program

Stabilization Report

Through 8/30/2013 12:00:00 AM

Forest Park Expansion	G06065	Oregon Parks Foundation	21,572	6,099	4,950			32,621
	Target Area Total		21,572	6,099	4,950			32,621
Gales Creek	G09019	Lovejoy Center Inc TL#500				1,223		1,223
	Target Area Total					1,223		1,223
Johnson Creek Target Area	G29002	Spani Seely	440	200				640
	G29004	Telford Estates	9,760	21,384		4,179		35,323
	G29006	Hedges	33					33
	G29007	Clatsop Buttes I (Hedge Creek)	1,206					1,206
	G29012	Stickney	11,491					11,491
	G29013	Parson	1,828	19,977	8,774	783		31,362
	G29015	Jones	2,329			17,806		20,135
	G29019	Peden			18,985	28,149	1,023	48,158
	G29020	Marston		5,685	18,511	25,659	877	50,732
	G29022	Wildt				44,736		44,736
Target Area Total		27,087	47,246	46,270	121,312	1,901	243,816	
Killin Wetland Target Area	G56002	Moore Family Farm				336	26,257	26,594
	Target Area Total					336	26,257	26,594
Lower Tualatin Headwaters	G54002	Arvin/Pohl	-					-
	G54003	Holmes Trust	42,702	35				42,737
	G54004	Cole	1,742	660				2,402
	G54005	Streeter	23,783	8,541	12,917	2,243		47,485
	G54012	Massoni			33			33
	G54013	Ralston/Consani			39,094	8,151	2,264	49,509
	G54014	Schmeltzer, file 54.014			35	44,980		45,015
	G54016					9,429	1,674	11,103
Target Area Total		68,227	9,237	52,079	64,803	3,938	198,283	

Natural Areas Bond Program

Stabilization Report

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Newell & Abernathy Creeks	G03065	Gabriel					212		212		
			Target Area Total				212		212		
Rock Creek	G13040	Steinberg			7,912		7,853		15,766		
Greenway&Headwaters	G13043	Keystone Construction & Dev		2,953		9,685			12,638		
	G13044	Chang	-	3,746		477			4,222		
	G13046	Cho		48,599		20,388	3,538		72,526		
	G13048	Fernald		8,877		23,016	6,210		38,103		
	G13049	Hampton / Rock Creek				9,575	17,857	983	28,415		
	G13050	Multnomah County Tax Title					9,974		9,974		
	G13051	Mid Valley Resources				790	22,971	2,671	26,432		
	G13052	Orenco Woods/Hillsboro/TPL					16,340		16,340		
			Target Area Total			-	64,175	71,843	84,744	3,655	224,417
Sandy River Gorge	G04024	Friberg - File 4.024			55				55		
			Target Area Total				55		55		
Scouter Mountain	53406	Scouter's Mountain					139		139		
			Target Area Total				139		139		
Stafford Basin	G55002	Stevens Family Enterprises LLC		9,948					9,948		
	G55003	Landover Properties		20,150	42,447	32,702	3,694		98,993		
			Target Area Total			30,098	42,447	32,702	3,694	108,941	
Tonquin Geologic Ares	G08024	State of Oregon DAS - Dammasch		7,624	1,692				9,316		
	G08029	Weedman/Tonquin				455	25,286		25,741		
			Target Area Total			7,624	1,692	455	25,286	35,057	
Tualatin River Greenway	G11003	Stahlke - File #11.03							-		
	G11011	Nelson/Vanghn Trust					21,607	2,200	23,807		
	G11020	Schmidt - File #11.02					4,844		4,844		

Natural Areas Bond Program

Stabilization Report

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Tualatin River Greenway	G11033	ICON Construction	3,785			3,785		
	G11034				37	37		
	G11036				704	704		
	Target Area Total		3,785		27,191	2,200	33,176	
Wapato Lake Target Area	G50006	Lynscot Management			37,185	109,435	1,838	148,458
	Target Area Total				37,185	109,435	1,838	148,458
Willamette Narrows	G22006	Witt/Anderson - File #22.06				-	-	
	G22009	Schierholz - File #22.09	(4,825)				(4,825)	
	G22010	Vlahos			2,870	77,838	80,707	
	G22025	Kahre	5,173	4,166			9,339	
	G22027					1,314	1,314	
Target Area Total		348	4,166	2,870	79,152		86,535	



Metro | Memo

Date: September 17, 2013
To: Natural Areas Bond Oversight Committee
From: Brian Kennedy, Finance Manager
Subject: Bond Program Capitalization Policy

During the audit for fiscal year 2011-12, Metro's external auditors raised concerns over the lack of a clearly documented policy for determining if Natural Areas Program expenditures were appropriately classified as capital expenditures. Under Oregon law, general obligation bond proceeds may only be expended on the acquisition and/or construction of capital assets.

The Natural Areas Program has had longstanding policies and procedures for use of bond proceeds, but they were inadequately documented. The attached policy guidance document, "Capital Outlay and Capital Cost Determination", codifies those existing policies and procedures and clarifies other questions about the use of bond proceeds on program expenses.

The attached guidance document does not represent any substantive changes to the operations of the Natural Areas Program. However, there are some important clarifications in the document:

- The document recognizes the changes to the stabilization period previously approved by the Oversight Committee.
- The guidance also incorporates the stabilization plan for each acquisition as a critical tool in documenting and justifying stabilization expenses.
- Ancillary costs necessary to complete an acquisition or implement the stabilization plan are allowable expenses.

Staff requests that the Oversight Committee review and consider approving the Capital Outlay and Capital Cost Determination guidance document.

Finance & Regulatory Services Transaction Guidance

Capital Outlay and Capital Cost Determination

As of: April 30, 2013

Purpose: Questions have arisen in Metro bonded capital projects funds regarding various expenditures charged to them and whether they are directly or indirectly sufficiently capital in nature to be appropriately classified as capital under generally accepted accounting principles (GAAP). This guidance is provided to further assist staff in properly classifying (coding) expenditures, not only in the bond capital fund programs but in all Metro programs.

Summary:

Metro's adopted Capital Asset Policy, *as amended 12/24/2009*, (CAP) provides a thorough and detailed discussion of Metro's capitalization thresholds and those items to be capitalized – that is, having costs added as a cost of a capital asset - (and therefore coded to Capital Outlay or otherwise charged to a *capital projects fund*.) Metro's adopted CAP remains the primary authoritative source for Metro policy.

As stated in Metro's policy, each department's staff have responsibility to be familiar with and follow all capital asset and administrative policy and procedure when acquiring capital assets and for the proper inclusion and classification of capital assets in Metro's financial system (i.e., coding of transactions).

Detailed Guidance:

The appropriate Account chartfields to use for each capital asset category are contained in the detailed policy and procedure document (and can also be found in the *Glossary* section of the budget document).

Basic rule. By GAAP definition and policy, a **Capital Asset** is an item permanent in nature with future service capacity and used in operations, having an initial useful life of over one year, tangible or intangible, and held for purposes other than investment or resale with a cost (or fair market value if donated) equal to or greater than the *capitalization threshold* established for the asset category. The capitalization threshold is the *minimum* dollar amount required to be considered for capitalization (i.e., even though a cost may be higher than a threshold, it must meet all other tests of being a capital cost for the transaction to be recorded as capital outlay and capitalized - *a large dollar amount is not a determinant of a capital character.*)

Preconditions for Capitalization. A cost should be capitalized only if it is *directly* identifiable with a *specific* asset. Also, a cost should be capitalized only if incurred *after acquisition of the related asset has come to be considered probable* (i.e., likely to occur").¹

Internal costs that are clearly related to the acquisition [or improvement] of capital assets, but not to specific projects, should still be capitalized through an allocation methodology. Indirect project costs may be defined as: "costs incurred after the acquisition of the property, such as construction administration...legal fees, and various office costs, that *clearly relate* to projects under development or construction."² [*added the words in bracket to the FASB quote*] See later discussion on "but for the bond" related costs.

Program specific considerations. In a program such as Metro's Natural Areas bond program, the "used in operations" definition is interpreted to mean the asset (e.g., land) has been placed into its *initial intended* natural state upon acquisition by Metro as prescribed by the bond program (to safeguard water quality, protect fish and wildlife habitat, and ensure access to nature).

Stabilization. In the Natural Areas program, land is acquired and then work is performed to return the parcel to its natural state (for wildlife preservation/enhancement) during a period termed *stabilization*. Certain costs that would normally be viewed as maintenance, such as mowing and weeding, are permissible as capital costs as long as they are necessary to place the asset into its initial intended natural state and the activities occur within the “stabilization period,” **not to exceed three to five years from land acquisition date**. This period is selected with the understanding that the unique nature of these cost items during a stabilization period take into account vegetation management and to place the asset into its initial intended use – a status termed “*free to grow*.”

A stabilization period and capitalization of costs may end *significantly earlier* than three to five years and it is the responsibility of program staff to correctly identify when the asset has reached the development point to have the asset considered to be in the *initial state for intended use (as natural area, park or other capital classification)*.

Natural Areas Specific Procedures

Property Acquisition and Stabilization Plan: Due to the unique nature of the Natural Areas program and the types of costs and projects experienced, program staff prepare a stabilization plan for each property. This plan will provide the estimated type of costs (not necessarily dollar amounts) for stabilization and the estimated stabilization period (zero to five years from initial acquisition date). This plan is identified to the specific property and is housed in Metro’s TerraMet database. Natural Areas and Accounting staff will rely on this data to support stabilization related accounting capitalization decisions.

Notification of Completed Status. Metro program staff, upon determination that stabilization or construction is considered completed will note in the property file in the TerraMet database, the date of completion. This date will be communicated to Accounting services either through automated means from this database or manually by Natural Areas staff. Any costs incurred after that point for certain items previously considered “stabilization” as described above (e.g., mowing, planting, weeding, etc.) are to be classified as maintenance costs from that date forward and charged to operations in the General Fund, or other non-capital project operating fund.

Ancillary Costs. Ancillary charges to place an asset in service may be capitalized and included in the cost of capital assets. Ancillary costs in a program such as zoo capital projects and Natural Areas would include staffing and other (i.e. “materials and services” type) costs that can be *directly* attributable to the acquisition or construction of the assets and placing them into service. (See also “Preconditions for Capitalization” paragraph above). Examples include personal services of Metro attorney’s and negotiators and other labor, materials and supplies consumed in the *direct efforts to acquire, construct or stabilize* the asset.

Costs deemed maintenance and repair costs shall not be capitalized and will be charged to operations (i.e., General Fund or other non-capital project operating fund). Such costs are relatively minor alterations, ordinary and routine repair or effort necessary to preserve, repair or maintain an asset due to normal wear and tear. Costs to remodel or convert a building to a different use, where the remodeling does not extend the useful life of the structure itself or increase its efficiency, capacity or function, are not capitalized.

Mowing, painting, annual planting and weeding, vehicle and equipment maintenance including oil, gas and other items, re-carpeting are examples of maintenance and *not* capital costs regardless of the cost (unless performed within the stabilization period defined earlier).

Other Cost Considerations. The Natural Areas program incurs costs for outreach as part of the effort to identify lands to acquire. Costs that would be considered similar to “feasibility studies” under GAAP, are usually not capitalized. Therefore, for such costs to be allocated as capitalized costs to properties acquired they must meet the tests noted above in the “Preconditions for Capitalization” section or a “but for the bond” test. Under a “but for the bond” concept, Metro’s capitalization policy extends to and includes capitalization of costs that are incurred solely due to the fact that the cost would not have been incurred if the bond project was not present.^{3,4} Caution should be exercised to weigh the “but for the bond” concept against standard GAAP requirements in making coding and capitalization decisions.

The aforementioned outreach and other costs will be included as allocable capitalized costs upon the Finance Manager’s (or program staff designee’s) review and certification of their appropriateness to the bond program.

Sources:

¹ *Accounting For Capital Assets, A Guide for State and Local Governments*, p. 28, Stephen J. Gauthier, Government Finance Officers Association.

² Financial Accounting Standards Board Statement No. 67, Glossary; emphasis added in *Accounting For Capital Assets, A Guide for State and Local Governments*, pp. 28-29, Stephen J. Gauthier, Government Finance Officers Association.

³ The Natural Areas program is designed to acquire natural areas within various previously identified “target areas.” The unique nature of the program results in costs being incurred to identify more specific property acquisitions within each target area and are part of the program’s costs. These more general costs are allocated to the properties acquired within each fiscal year. The Natural Areas Oversight Committee provides monitoring of program overhead costs to help keep them within reasonable bounds. The Finance and Regulatory Services Director, in consultation with the Finance Manager of the Parks and Environmental Services Department and in consideration of the objectives of the bonded projects, has determined that any costs incurred “but for the bond” should be capitalized as standard industry practice.

⁴ Language included in Measure No. 26-80 provides as follows: “This measure directs Metro to *buy and restore* natural areas for the benefit and enjoyment of current and future generations...bond measure would provide...for Metro to *purchase*...regionally significant river and stream corridors, headwaters, wildlife areas, other natural areas and trail corridors to hold in public trust for their protection, enhancement and restoration of habitat for fish, wildlife and water quality.” (*emphasis added*)

Natural Areas Program

Examples of stabilization costs per acre

September 2013

Property	Acres	Total stabilization costs	Cost per acre	Comments
Lynscot	152	\$146,118	\$961	Structure removal, home repair, road repair
Telford	20	\$105,880	\$5,294	Structure removal, home repair, survey
Lewis	30	\$55,708	\$1,857	Multiple structure removal, survey
Reeder	181	\$190,442	\$1,052	Road repair
OSU Foundation	25	\$48,598	\$1,944	Significant reforestation challenges
Saxton	6.7	\$22,034	\$3,289	Significant reforestation challenges
Happy Valley Homes	14.7	\$2,871	\$195	Home repair
Winters/Homes New to You	5	\$9,233	\$1,847	Home repair, survey
Chehalem Ridge Natural Area	1,143	\$600,045	\$525	Landslide mitigation, road repair/multiple culvert replacements, thinning