



## CITY COUNCIL DIRECTED POLICY

### Policy # 25-02ccd

**TO:** City Council

**FROM:** Jesus Merejo, City Manager

**EFFECTIVE DATE:** October 1, 2025

**INITIATED BY:** Finance Department

**POLICY TITLE:** Capital Asset Policy

#### PURPOSE STATEMENT

To provide effective guidelines, set responsibilities for the acquisition, Depreciation (as defined herein) and disposal of the City's Capital Assets including setting procedures to monitor and account for Small and Attractive Assets (as defined herein).

#### SCOPE

This policy applies to all City departments and funds, including governmental and proprietary activities, and governs all Capital Asset transactions regardless of funding source.

#### DEFINITIONS

**Capital Asset:** Real or personal property with an individual cost at or above the Capitalization Threshold established for its asset class, and an estimated Useful Life (as defined herein) of two years or more.

**Capitalization Threshold:** The dollar amount above which assets are capitalized and depreciated.

**Depreciation:** Systematic allocation of the cost of a Capital Asset over its Useful Life (as defined herein).

**Small and Attractive Assets:** Tangible, non-capital items below the City's Capitalization Threshold that are susceptible to theft, loss, or misuse due to their portability, marketability, or utility, and are tracked and safeguarded by departments through internal controls.

**Substantially Complete:** An asset is Substantially Complete when it is ready for its intended use, with all major work finished, required permits obtained, and the City having assumed beneficial use or control. Minor work that does not affect functionality may remain.

**Useful Life:** The estimated time an asset is expected to be used in operations.

#### ASSET CLASSES

##### ***Land and Land Improvements - \$100,000 Capitalization Threshold***

Land is the surface of the earth that supports structures or natural elements such as grass, shrubs, and trees. Land improvements include site preparation, betterments, and enhancements that make land ready for use. Their cost is capitalized as part of the land but neither land nor land improvements are depreciated.

##### ***Buildings and Building Improvements - \$100,000 Capitalization Threshold***

A building is a permanent structure affixed to land, featuring a roof and partially or fully enclosed by walls. It is not intended to be transportable or movable and is generally used to accommodate people, property, and permanently affixed fixtures.



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#### ***Water and Wastewater Plants - \$100,000 Capitalization Threshold***

Facilities and structures used for the treatment, storage, and distribution of potable water, and for the collection, treatment, and disposal of wastewater. This includes related equipment, tanks, basins, treatment units, pumping stations, and other integral components necessary for plant operations. Capitalization is performed once annually at year-end by Finance.

#### ***Improvements Other Than Buildings - \$100,000 Capitalization Threshold***

Permanent improvements to land or property that are not classified as buildings or building improvements. Examples include parking lots, fences, sunshades, retaining walls, athletic fields, boat ramps, docks, outdoor lighting systems, and other site amenities intended to enhance the use or function of the property.

#### ***Water and Wastewater Distribution Systems - \$100,000 Capitalization Threshold***

Network assets used to convey water from treatment facilities to customers and to transport wastewater from collection points to treatment facilities. Includes water mains, sewer mains, lift stations, hydrants, valves, manholes, meters, and related components. Capitalization is performed once annually at year-end by Finance.

#### ***Machinery and Equipment - \$10,000 Capitalization Threshold***

Tangible, movable assets used in operations that are not permanently affixed to a building or infrastructure. Examples include vehicles, front-end loaders, backhoes, large lawn equipment, office equipment, communications equipment, and other items that meet the Capitalization Threshold and have a Useful Life of more than two years.

#### ***Infrastructure and Infrastructure Improvements - \$100,000 Capitalization Threshold***

Infrastructure assets are long-lived Capital Assets that are typically stationary in nature and have a significantly longer Useful Life than most other Capital Assets. Examples include roads, bridges, drainage systems, and street lighting.

#### ***Traffic Signals Infrastructure - \$100,000 Capitalization Threshold***

Permanent traffic control systems and associated components installed at intersections or along roadways to manage vehicle, bicycle, and pedestrian traffic. Includes signal poles, mast arms, signal heads, switches, pedestrian crossing devices, control cabinets, detection systems, and related wiring or foundations.

#### ***Construction Work in Progress (CWIP) - \$100,000 Capitalization Threshold***

Represents the costs of capital projects that are under construction but not yet Substantially Complete or placed in service. CWIP includes labor, materials, professional services, additions, alterations, reconstruction, installation, and other costs directly attributable to the construction or acquisition of a Capital Asset. CWIP is capitalized only when the total project budget has been approved by City Council and exceeds \$100,000. Feasibility studies and other preliminary costs will not be capitalized if they are not part of a City Council approved, budgeted project that will exceed \$100,000. Such costs will not be retroactively capitalized if incurred prior to project approval. Once a project is Substantially Complete and ready for its intended use, all accumulated CWIP costs are transferred to the appropriate asset class.



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#### ***Intangible Assets - \$100,000 Capitalization Threshold***

Assets that lack physical substance but provide future economic benefit or service potential. Examples include water rights, software, patents, copyrights, trademarks, and licenses. Intangible assets must be identifiable, either through legal rights or separability from other assets.

#### ***Leases - \$100,000 Capitalization Threshold***

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. Leases are not recorded in the City's ERP Capital Asset module and are tracked separately by the Finance Department.

#### ***Subscription-Based Information Technology Arrangements (SBITA) - \$100,000 Capitalization Threshold***

Contracts that provide the City the right to use a vendor's IT software and associated assets for a specified period in exchange for consideration. Includes cloud-based software subscriptions, hosted applications, and other similar arrangements. SBITAs are not recorded in the City's ERP Capital Asset module and are tracked separately by the Finance Department.

### **CAPITALIZATION THRESHOLDS**

<b><u>Asset Class</u></b>	<b><u>Capitalization Threshold</u></b>
Land and Land Improvements	\$100,000
Buildings and Building Improvements	\$100,000
Water and Wastewater Plants	\$100,000
Improvements Other Than Buildings	\$100,000
Water and Wastewater Distribution Systems	\$100,000
Machinery and Equipment	\$10,000
Infrastructure and Infrastructure Improvements	\$100,000
Traffic Signals Infrastructure	\$100,000
Construction Work in Progress	\$100,000
Intangible Assets	\$100,000
Leases	\$100,000
Subscription-Based Information Technology Arrangements	\$100,000

### **REPORTING**

#### **System of Record**

All Capital Assets shall be recorded in the City's Enterprise Resource Planning (ERP) system, which serves as the official system of record for asset management. The Finance Department is responsible for:

- Maintaining asset records to ensure accuracy, completeness, and compliance with this policy
- Recording assets in the correct general ledger account numbers
- Coordinating with departments to ensure proper documentation for asset acquisitions, transfers, and disposals

Note: Leases and SBITAs are not recorded in the ERP Capital Asset module. These are tracked separately by the Finance Department outside the system, in accordance with the Capitalization Thresholds above.



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State and Federally Funded Equipment Tracking: The City shall track all equipment purchased with state or federal funds that meets the applicable funding threshold, which is currently the same as the City's

Capitalization Threshold (\$10,000). This ensures compliance with grant requirements even if thresholds differ in the future. If the state/federal and City thresholds differ, the lower threshold shall apply.

#### **Asset Valuation**

Capital Assets shall be recorded at their purchase price plus all ancillary costs necessary to prepare the asset for its intended location and use.

Ancillary costs may include, but are not limited to:

- Freight and transportation
- Site preparation
- Installation
- Professional fees directly related to acquisition

Donated assets shall be recorded at their estimated fair market value on the acquisition date, plus any applicable ancillary costs. If the historical cost of a Capital Asset cannot be practicably determined, the City will estimate it using appropriate, documented methods. Such estimates must be clearly identified as estimates in the City's asset records. For City-constructed assets, the valuation shall include the cost of materials, direct labor, and attributable overhead directly related to the construction project.

#### **Construction Work in Progress Review**

The Finance Department shall perform an annual review of all Construction Work in Progress to verify project status, ensure costs are accurately recorded, and confirm timely transfer of completed projects to the appropriate asset class when Substantially Complete.

#### **Capitalization Rules**

##### Initial Acquisition or Construction

When acquiring or constructing a new Capital Asset, all costs necessary to place the asset into service shall be capitalized as part of its total value. This includes:

- Major systems
- Components
- Accessories integral to the asset's intended function

These items shall be capitalized regardless of individual cost if purchased as part of the same acquisition or construction project.

##### Subsequent Replacements, Repairs, or Upgrades

Subsequent work on an asset shall be capitalized only if it:

- Extends the asset's Useful Life, or
- Significantly enhances its value or capacity

Meeting or exceeding the asset class Capitalization Threshold is not required for subsequent replacements, repairs, or upgrades, provided one of the above conditions is met. Items that do not qualify for capitalization under these criteria shall be expensed within the department's operating account. Non-



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qualifying examples include laptop stands, gun racks, light bars, radios, and other similar low-cost accessories.

#### Final Determination of Capitalization

The Finance Department has the sole authority to interpret this policy and make final determination on whether an expenditure meets the criteria for capitalization.

#### **Small and Attractive Assets**

Certain property items, while not meeting the Capitalization Threshold and not recorded in the City's ERP Capital Asset database, are considered Small and Attractive Assets due to their susceptibility to theft, misuse, or loss. Examples include: tablets, cell phones, cameras, computer equipment, tools, firearms, radios, etc.

- **Department Responsibility:** Each department is solely responsible for safeguarding, controlling, and maintaining an annual inventory of all Small and Attractive Assets in its possession.
- **Internal Control:** Departments must establish procedures to ensure these assets are secured, tracked, and used only for authorized purposes.

#### **DEPRECIATION & USEFUL LIVES**

Depreciation is calculated using the straight-line method over the asset's assigned Useful Life. Depreciation begins in the month the asset is placed in service, meaning it is Substantially Complete and ready for its intended use.

Land, Construction Work in Progress, and Intangible assets with indefinite lives are not depreciated.

The Finance Department will establish useful lives for Capital Assets based on GAAP, GASB guidance, and industry best practices. These useful lives represent the estimated period the asset will be used in operations and may be adjusted to reflect the asset's specific characteristics, manufacturer recommendations, or the City's historical experience.

#### **PHYSICAL INVENTORY**

A biennial physical inventory of Capital Assets shall be conducted and reviewed by the assigned custodian in each department. The inventory will be performed using a system-generated Capital Asset register, and any discrepancies between the register and the physical count shall be reconciled as follows:

1. **Additions or Transfers In** – Identify assets that were purchased or transferred into the department but not recorded or updated in the Capital Asset records.
2. **Disposals or Transfers Out** – Investigate assets not located during the inventory to determine whether they were disposed of or transferred out, and ensure appropriate documentation is completed.

#### **DISPOSAL**

Disposal of Capital Assets, including surplus and scrap, shall be conducted in accordance with the City's Surplus Property Policies. The Finance Department shall ensure that all disposals are documented and promptly updated in the City's ERP asset database.