



CITY COUNCIL DIRECTED POLICY

Policy # 25-01ccd

TO: Jesus Merejo, City Manager

FROM: Caroline Sturgis, Director of OMB

EFFECTIVE DATE: April 28, 2025

INITIATED BY: Office of Management and Budget

POLICY TITLE: Capital Asset Renewal and Replacement Reserve Policy

PURPOSE STATEMENT

This policy is intended to ensure adequate funds are available for the timely maintenance and replacement of infrastructure, facilities, and capital assets; in furtherance of maintaining the City's operational integrity and service delivery standards. This policy facilitates a proactive approach to asset management, where assets identified for future replacement are financially accounted for through budget strategies. By strategically allocating and reserving funds, the City aims to prevent operational disruptions, minimize the financial burden of large one-time capital expenditures, and ensure the smooth continuity of municipal services.

DEFINITIONS

Departments – all distinct organizational units within the City, as defined by the City's Charter and Code of Ordinances, including departmental divisions.

Capital Asset – Any asset classified as machinery and equipment, with a replacement value exceeding \$100,000.00, that meets the criteria outlined in the City's Capital Asset Policy. Examples include generators, backhoes, and recreation facilities and equipment, and other movable tangible assets.

Capital Asset Renewal and Replacement Worksheet – an annually updated worksheet that lists and projects the replacement requirements of Capital Assets.

Capital Asset Annual Required Contribution – annual amount determined to ensure adequate reserve funds for asset replacement.

Governmental Fund – any funds with fund numbers between 001 – 399.

Operating Budget - financial plan that outlines the expected revenues and expenditures for the City's day-to-day operations over a specific fiscal year.

Assigned Funds - spendable resources which are assigned by the City Council to specific uses.

SCOPE and IMPLEMENTATION

This policy applies to all Governmental Fund Departments within the City that manage Capital Assets, and the City Manager shall be responsible for ensuring the administration of this policy.

ASSET INVENTORY & FORECASTING

Capital Asset Renewal and Replacement Worksheet: Annually, each Department will receive an updated list of Capital Assets detailing the division, asset ID, asset description, acquisition year, and acquisition cost.

Forecasting: Departments are required to complete the Capital Asset Renewal and Replacement Worksheet by specifying which Capital Assets are projected for replacement and in which year they are expected to be replaced.



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FUNDING STRATEGY

Accumulating Reserves. Each year, the Office of Management and Budget calculates the Capital Asset Annual Required Contribution based on a pro-rata method that uses the anticipated replacement costs and timelines in the Capital Asset Renewal and Replacement Worksheet. The reserves may be funded by various sources, including ad valorem revenue, local option gas tax, half-cent sales tax, mobility fees, stormwater fees, utility fees, etc.

Once that calculation is complete, the Office of Management and Budget will allocate up to 50% of the Capital Asset Annual Required Contribution to the Operating Budget. This allocation aims to ensure that sufficient surplus funds are reserved and available for future Capital Asset needs.

Thereafter, the Finance Department will record a journal entry reclassifying the amount allocated by the Office of Management and Budget from unreserved funds to Assigned Funds. This reclassification ensures that the designated amount is appropriately earmarked for future use.

Expending Reserves: Based on the anticipated replacement costs for the upcoming budget year, as detailed in the Capital Asset Renewal and Replacement Worksheet, the Office of Management and Budget will reallocate Assigned Funds to each Department's Operating Budget. This allocation is subject to change based on the availability of reserve funds, directives from the City Manager, and other relevant factors.

Thereafter, the Finance Department will record a journal entry to reclassify the reserve funds used from Assigned Funds, ensuring the available amount of reserve funds remains accurate.

Minimum Reserve Balance: The City's annual goal is to maintain a reserve balance equivalent to at least 50% of the total ten-year Capital Asset Annual Required Contribution by Fiscal Year 2030. Each year the balance is below the minimum, a plan with timing to replenish the reserve will be brought forth for Council approval by motion and will be integrated into the adopted budget. The plan may take up to 5 years to replenish the reserve.

Maximum Reserve Balance: The City may forego additions to the reserve if the balance exceeds 5% of the net investment in capital assets as per the most recently published audited financial statements.

DEPARTMENTAL RESPONSIBILITIES

Departments shall:

- Continually monitor the condition and performance of their Capital Assets; and
- Annually update and submit their Capital Asset Renewal and Replacement Worksheet by the deadlines set by the Office of Management and Budget.

Office of Management and Budget shall:

- Distribute and manage the collective Capital Asset Renewal and Replacement Worksheet; and
- Calculate the Capital Asset Annual Required Contribution.

Finance shall:

- Maintain the Capital Asset database within the City's enterprise resource planning software; and
- Record the Capital Asset Annual Required Contribution and Expenditure journal entry.