

To: James L. App, City Manager
From: Mike Compton, Director of Administrative Services
Subject: Infrastructure Valuation and Useful Life
DATE: February 18, 2003

Needs:

For the City Council to consider adoption of resolution modifying “capitalization” thresholds for certain fixed assets and establishing the “useful life” for public infrastructure.

Facts:

1. Governmental Accounting Standards Board Statement Number 34 (GASB 34) changed the structure and content of local government financial reporting.
2. One of the more significant changes is related to infrastructure reporting; the requirement for local governments to capitalize and depreciate general infrastructure assets (e.g. roads, bridges and sidewalks, etc.).
3. The City did not previously track or value infrastructure assets in a manner that lends itself to the new accounting and reporting requirements of GASB 34.
4. The Council allocated \$40,000 in the current budget for GASB 34 compliance assistance of which \$10,000 was approved for the purchase of financial reporting software. The remaining funds were earmarked for infrastructure inventory and valuation services.
5. In an effort to reduce costs, the City participated in a joint effort with the cities of Santa Maria, Pismo Beach & Arroyo Grande to request proposals from qualified professionals to perform infrastructure inventory and valuation services.
6. The Council awarded a contract to CBIZ of Orange County at their May 21, 2002 meeting to undertake an inventory and valuation of the City’s non-utility infrastructure; i.e. streets, traffic signals, storm drains and sidewalks, etc.
7. CBIZ has completed the inventory and valuation study and will be issuing a final report in the near term. It will not differ from the draft report issued December 18, 2002.
8. By separate agenda staff report, the full impact of GASB 34 financial reporting requirements will be provided.

Analysis &
Conclusion:

The current Fiscal Policy calls for capitalization if the useful life is two years or more and a purchase cost \$3,000 for equipment (including tax and freight, if applicable). The Fiscal Policy calls for a threshold of \$25,000 for non-equipment improvements.

The capitalization thresholds were originally developed in the context of utility operations since there was no requirement for non-utility capitalization at the time. Now that it is requirement, it is desirable to formally establish capitalization thresholds for non-utility infrastructure.

The consultant, CBIZ, prepared the infrastructure and valuation study based upon input from public works staff relative to how long things endure in our city. Staff recommends for consistency purposes that the City formally adopt these useful life thresholds. They are identified as follows:

Right-of-way	n/a*
Pavement	25 years
Curbs and gutters	50 years
Sidewalks	50 years
Medians	25 years
Bridges	75 years
Traffic signals	20 years
Street lights	50 years
Storm drain systems	50 years
Off-road trails	20 years

*n/a = not applicable. Asset is not subject to depreciation

To this list, staff would recommend adding the following infrastructure capitalization thresholds:

Playground equipment	15 years
Governmental buildings	50 years

Regarding equipment, staff recommends increasing the capitalization threshold from \$3,000 to \$5,000 in order to mitigate the impact of depreciation expense on General Fund operations. No change is proposed in the dollar threshold for infrastructure (\$25,000) because it is widely used by similarly sized cities and is deemed adequate.

Fiscal

Impact:

Establishing the capitalization thresholds recommended above will not by itself have a fiscal impact. The fact that the City is now required to include “general fixed assets”, non-utility infrastructure, in its’ reporting requirements is what generates the impact. Staff is still analyzing the full fiscal impact. Just those infrastructure improvements covered by the Study indicates a “reportable” new, reoccurring expense of \$2,083,700 annually. This amount will increase with the inclusion of General Fund operating equipment and facilities that were not part of the Study because the City already had an inventory record and cost for them.

Options:

- a. Adopt Resolution No. 03-xx establishing new capitalization thresholds for infrastructure and modifying the existing threshold for non-infrastructure; or
- b. Amend, modify, or reject the above option.

RESOLUTION NO. 03-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
ESTABLISHING CAPITALIZATION REQUIREMENTS
FOR VARIOUS NON-UTILILTY INFRASTRUCTURE AND EQUIPMENT

WHEREAS, the Governmental Accounting Standards Board in June 1999 issued Statement No. 34; and

WHEREAS, Statement No. 34 requires local governments to capitalize and depreciate general infrastructure assets (e.g. roads, bridges and sidewalks, etc.); and

WHEREAS, the City's retained the services of an outside expert to develop an inventory and valuation of City non-utility assets in a manner that will lend itself to proper accounting and reporting in accordance with Statement No. 34; and

WHEREAS, the inventory and valuation report identified the useful life of certain infrastructure based upon discussions with Public Works staff and current engineering standards; and

WHEREAS, the current dollar threshold for internal capitalization of operating equipment is set at \$3,000; and

WHEREAS, it is desirable to increase the operating equipment threshold to \$5,000 and formalize capitalization requirements for non-utility infrastructure as identified by the consultant.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles does establish the capitalization thresholds identified in attached Exhibit "A".

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 18th day of February 2003 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

EXHIBIT "A"

**Infrastructure Capitalization Thresholds
For
Non-Utility Fixed Assets**

Right-of-way	N/A*
Pavement	25 years
Curbs and gutters	50 years
Sidewalks	50 years
Medians	25 years
Bridges	75 years
Traffic signals	20 years
Streetlights	50 years
Storm drain systems	50 years
Off-road trails	20 years
Playground equipment	15 years
Governmental buildings	50 years

*N/A = Not applicable. Asset is not subject to depreciation

The dollar threshold for equipment capitalization shall be increased from \$3,000 to \$5,000.