

Purpose for Policy: To establish a policy to insure that the full service life of each City vehicle or item of equipment is achieved and that uniform guidelines are implemented among all departments.

Setting aside equipment reserves from current funds promotes prudent financial management by:

- Increasing awareness of the ongoing need for equipment replacement
- Segregating dollars reserved for future equipment purchases from current funds' carry forward balances
- Preventing inadvertent use of equipment reserves for non-equipment expenditures
- Encouraging departments to do more long-term planning and decrease the cyclical tendencies inherent when budgeting and funding for the equipment only in the year of the intended purchase

The Equipment Replacement Plan (ERP) is a twenty-year forecast and a five-year plan of equipment needs within the City. It is intended to inform the Council and citizens of the major equipment needs on the horizon. The first year of the plan becomes an adopted equipment budget and relates to the operating budget of the equipment replacement fund, which is approved on an annual basis. The remaining nineteen years represent an estimate of equipment needs and funding capabilities of the City.

Funding requirements vary from year to year. Equipment needs are evaluated each year and the schedule modified to account for changes in the condition of the equipment. Some items may need replacement sooner than expected due to high maintenance costs and other items lives may be extended thus delaying their replacement. Each piece of equipment is evaluated each year, the maintenance records and condition of the equipment reviewed so as to maximize the life of each piece of equipment.

Revenues for the ERP are derived from charges to the departments that use the equipment and are based on the equipment needs of the various departments over the twenty-year period

Develop a policy with appropriate guidelines for the establishment of a capital repair/replacement fund.

The first step is to develop a policy which can be adopted by the Council and which commits the City to the concept of establishing a regular budgetary method to provide for the costs of capital replacement and repair.

The purpose of such a fund is to provide reserves for the systematic replacement or renovation of capital assets of the district having a useful life of more than five years and a repair or replacement cost of more than \$5,000. The useful life and cost minimum can be varied at the discretion of the Committee.

3 Major Guidelines:

Maintain Minimum Cash Surpluses - Use a method which will avoid excessive "cash reserve" surpluses being accumulated to be spent in future years.

Maintain Level Income Sources -Develop a method which would provide for even annual contributions and income sources to be more readily budgeted.

Base Income Sources on the Twenty-Year Expenditures by Fund - Annual contributions toward the level funding income from various departments were based on the percentage of use.

The following methodology should be used to establish a capital repair/replacement fund:

- Determine specific asset categories which will be funded.
- Inventory all assets into these categories.
- Determine guidelines for the useful life of each asset.
- Determine current replacement or repair costs for each asset category.
- Apply the useful life and unit costs to each asset to develop a series of annual costs.
- Place the cost of each asset into a 20-year schedule by category and facility.
- Summarize the use of funds by category and facility to determine annual requirements.
- Determine options available for funding sources and methods.
- Balance income with annual cost requirements.
- "Smooth out" the schedule over 20 years.
- Review, rearrange, and upgrade costs on an annual basis.

Advantages: There are several long-term advantages of following this step-by-step procedure:

- A very complete inventory of the major assets in the district;
- Cost guidelines which can be used from year to year in the budget development process;
- An educated assessment of *when* future major repairs will be required;
- The ability to schedule new capital equipment or additions into years in which repair or replacement costs are lowest; and
- The ability to determine long-range income requirements from fees and taxes.