

City of Beaumont

Vehicle/Facility/Equipment/IT Internal Service Funds Policy



Purpose:

The purpose of this policy is to provide the City with a process to control unpredictable budgetary variations from year to year by determining where vehicles, equipment, facility and IT infrastructure are in their lifecycle and applying consistent budgetary allocations to a replacement fund to strategically address aging assets.

Committee

A committee shall be established with responsibility of reviewing aging schedules of such assets and determining the retirement of aging assets and replacement of vehicles, equipment or IT infrastructure as needed. The Committee will follow the Fixed Asset Policy set forth by the City Council on useful life of such assets which is presented below:

Asset:	Nominal Service Life
Police Patrol	__ 5 years/ 80,000 miles
Heavy Duty Work Truck	__ 6 years/ 100,000 miles
Standard Vehicle	__ 8 years/ 120,000 miles
Motorcycle	__ 5 years/ 80,000 miles
Hybrid Electric	__ 10 years/ 120,000 miles
Field Equipment	__ 4-6 years
Handheld Landscaping Equipment	__ 2-4 years
Heavy Equipment	__ 8-10 years
Trailers	__ 15 years
Personal Computers	__ 4-5 years
Cell Phones	__ 2-3 years
Tablets and I pads	__ 3-5 years
Copiers/Printers	__ 5-7 years
Servers	__ 5 years
Networking Infrastructure	__ 5-7 years
AV Equipment	__ 5-7 years

<u>Asset:</u>	<u>Nominal Service Life</u>
Fire Squad	15 years
Fire Engineer	10 years
Fire Truck	12 years

IT Infrastructure has a shorter useful life and is always changing as technology improves. The need for an internal service fund for these expenditures is that IT infrastructure can be costly even though the useful life might be less than 5 years. Keeping up with technology advances helps to preserve and secure the City's assets.

It is the responsibility of the departments to inform the Committee of analytical information and usage/condition of the assets/fleet just before the budget development process and the annual vehicle/equipment purchasing cycle. The Committee shall be comprised of representatives from various departments or as approved by the City Manager.

Required Committee Member:

Deputy City Manager

Administrative Services Director

Chief of Police

Finance Director

Vehicle Maintenance Supervisor

IT Manager

Budget Specialist or Purchasing Officer

Various Applicable Dept Representatives

Summary of Review Committee Responsibilities

Evaluate usage reports

Review and/or develop new standards

Evaluate equipment technology

Evaluate the need for required additions (not including replacements)

Evaluate requested replacements that do not meet replacement criteria (age or mileage)

Review the use of equipment or vehicles that have already been replaced and kept as reserve or special use vehicles

Evaluate/review all recommended replacement equipment, vehicles and planned building/facility maintenance projects

Committee Meeting

The committee will meet annually sometime in November/December which is prior to budget season to allow time for budget planning

Fund Replenishment

The City obtains funds for the future replacement of vehicles, equipment and IT infrastructure through annual charges to the using departments over the nominal life cycle of each unit. The amount of the allocation will be evaluated annually with changes recommended based upon needs vs resources. The Finance Director invests the funds and credits interest or dividend earnings into the fund. The Finance Director will also return residual (disposal) value of the assets back into the fund after the sale is finalized. This system assures availability of funds when it becomes necessary to purchase these assets. The Vehicle, Equipment, facility and IT Infrastructure Internal Service Funds are self-supporting and is the main vehicle for budgeting and providing adequate funding for all vehicles, equipment, building maintenance and IT infrastructure for the City (not including Enterprise Funds).

Replacements

The Committee establishes useful nominal (life cycles) for all types of vehicles, equipment, facilities and IT infrastructure, which comply with the Fixed Asset Policy, that are incorporated into a technical amortization schedule. This amortization schedule guides departments in their annual cost for purchase/ownership and replacement costs for vehicles, equipment, facility and IT infrastructure at the termination of the life cycle. This also becomes the fiscal budget for all City assets.

The Finance Department will communicate on an annual basis (or more frequently) with all City Departments those assets that are eligible for replacement. This is based on the termination of life cycles, which then enable those vehicles and equipment to become replacement candidates. Nominal life cycle analysis is the benchmark for replacing equipment. Each year during budget preparation, the Committee evaluates the assets that are eligible, or requested to be replaced. During this period, departments are required to submit their requests to replace or change their vehicles/equipment, facilities or needed IT infrastructure to the Finance Department. Once technical evaluations have been completed, the Committee will then assemble a recommendation for replacement.

Because a particular piece of equipment is eligible for replacement (based on its useful life and amortization cycles), does not automatically guarantee the replacement. Many other factors go into the evaluation process to make certain the asset is no longer feasible to retain or is otherwise unusable in its originally designed capacity relative to the departments mission. Age, mileage, repair history, current condition, forecasted repair costs, depreciation and market value are included in the evaluation process. After the evaluations have been completed, the Finance Department meets and discusses the eligible asset with the affected departments to:

- Review the list of asset candidates
- Decide further whether to replace or retain the recommended asset
- Aid the department with a budget forecast
- Discuss necessary operational equipment needs

IT Infrastructure is different by nature as some items may be enhancements rather than replacement. The IT department will be responsible for submitting an annual report to the committee of current infrastructure, the condition of that infrastructure and the potential lapse in quality of the infrastructure. The IT department will also be responsible to justify and detail any requests for new infrastructure with explanation to how the new expenditure will assist to preserve and protect City assets or its viability in protecting against fraud and manipulation. They will also need to provide ongoing costs or long-term savings that would be associated with any new purchase.

The overall decision for replacement will lie with the City Manager and Finance Director based on economic conditions and available funds.

Component Cost

Each component cost has its own value and needs to be analyzed individually. The components are defined as follow:

Purchase Price	Future cost asset at anticipated time of purchase including inflation
Resale Value	Value of the asset at time of replacement
M&O Costs	Yearly operation and maintenance costs over the life of the asset
Age	The age of the asset. Age may be misleading if replacement parts are not readily available
Mileage	The number of miles on a vehicle. Mileage is a good historical indicator on the condition of equipment as to when costly repairs may occur
Mechanical Condition	Relative condition of the asset in respect to anticipated major repairs. Do maintenance costs exceed replacement costs?
Usability	Does the asset allow the operator to perform the function in an efficient and effective manner?

Life cycles and utilization must be evaluated using age, miles, fuel consumption, or other factors such as maintenance costs, etc. The Vehicle Maintenance

Supervisor will run a report out of Dossier that provides usage updates to ensure accurate information. This information can then be used by the Committee in November or December.

Multi-Functional Units

It should be a priority to identify locations or tasks that are conducive to converting existing single task units into units with multiple capabilities. For example, a low-usage, single application pickup may have multiple applications if a van was substituted in its place.

A more versatile unit may be acquired during the normal replacement cycle. Funding for the upgraded or more versatile unit may come from the equipment/vehicle replacement fund and supplemented by capital funds from the departments that will benefit from the upgrade. Should the fund reserve have sufficient funds, the decision to fund an upgrade shall be based on a recommendation made by the department(s) to the committee.

If it is practical to acquire a multi-functional unit outside the normal replacement cycle, the unit or units that shall be replaced and can be used in trade for the upgraded unit. These units may also be sold at auction, combining the sales revenue with accumulated replacement funds in order to acquire the more appropriate vehicle (if appropriate). Capital asset policy of disposal authority still apply.

The guidelines used by the committee are intentionally kept general so that a maximum amount of creativity and inter-departmental cooperation may be applied to a wide variety of tasks, applications, and programs and that will enhance department operations and save the City money.

Enhancements

Any new assets (enhancements) that are not of a replacement nature will need to be approved through the budgetary process and authorized by the City Manager as an enhancement to their department budget. The using department needs to justify and budget for the initial procurement of all capital assets. When the City receives the asset the Finance Department adds the asset into the main inventory system, establishes an estimated useful life, calculates the future replacement costs that includes adjustment for CPI and inflation, and then establishes the

amortization schedule for the new asset. The Finance Department will communicate on an annual basis (or more frequently) with all City Departments those assets that are eligible for replacement.

Economic Analysis and Revenues

The Vehicle, Equipment, Facility and IT Infrastructure Replacement Funds must continue to maintain an appropriate fund balance that is sustainable and available for replacements. The oversight of this fund is administered through the Finance Department.

The revenue projections for this fund are increased using a 3.5% inflation rate growth factor for forecasting purposes. Once the actual replacement costs of an asset are determined, the amount is entered into an amortization schedule. Until this time, an estimated budget amount is used for calculation purposes.

Yearly contribution amounts are based on initial acquisition cost (with all make-ready costs) then calculated based on this estimated future year (end of life cycle) replacement cost. Often times, vehicle and equipment costs are less than the budgeted amount, thus enabling the funds to cover unanticipated or emergency replacements when authorized. This is an important mechanism as emergency vehicle and equipment replacements do in fact occur. Each asset is entered into the amortization document with the actual cost of the asset and the estimated useful life. A formula is then calculated that gives the estimated replacement cost based in part on a current year inflation growth rate per year. The formula is: year acquired, useful life, estimated replacement year, inflation rate, interest earnings and the estimated replacement cost equal the annual contribution. Once a vehicle has reached its useful life and is not recommended for replacement, only the 3.5% inflation rate is charged to the using department. The amount of reserves to be held in the reserve fund will be determined by adoption of the annual budget upon recommendation of the City Manager. Generally, the reserve will not be less than two and one-half times the total annual depreciation for the budget year.

Process

Annually the Finance Department will provide departments a list of inventory from the fixed assets system. It is the department heads responsibility to ensure the inventory is updated with accurate information which will then be given to

the Committee. The aging schedules will be updated with the information provided by the departments. The departments may request more information from the Finance Department and, if not represented on the committee, send a representative to the meeting to clarify their vehicle/equipment information and provide additional detail as well.

Results of the meetings shall be documented and summarized for review by the City Manager. This information may also become a part of the City's budget program review process to evaluate departmental program needs and effectiveness.