

RESOLUTION NO. 807

**A RESOLUTION OF THE BOARD OF COMMISSIONERS FOR THE APPROVAL AND ADOPTION OF AN ASSET MANAGEMENT POLICY**

**WHEREAS**, Kittitas County Public Utility District No. 1 finds that it will be beneficial to establish an Asset Management Policy; and

**WHEREAS**, An Asset Management Policy supports sound long-term planning, sustainable funding strategies and upkeep of assets; and

**WHEREAS**, The Asset Management Policy includes Depreciation rates; and

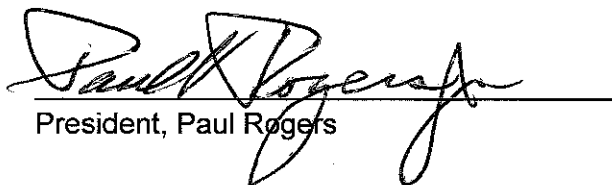
**WHEREAS**, Resolution No. 646, Setting Depreciation Rates, is rescinded; and

**WHEREAS**, The Asset Management Policy includes Surplus Property Disposal; and

**WHEREAS**, The Surplus Property Disposal Policy dated September 24, 2013 is rescinded.

**NOW, THEREFORE, BE IT RESOLVED** that the Commissioners of Kittitas County Public Utility District No. 1 approve and adopt the Asset Management Policy, as set forth in Exhibit A attached hereto.

**IN WITNESS WHEREOF**, the undersigned, being all the members of the Board of Commissioners of Kittitas County Public Utility District No. 1 have executed this Resolution of the Board of Commissioners on this 7<sup>th</sup> day of October, 2014.

  
\_\_\_\_\_  
President, Paul Rogers

ABSENT  
\_\_\_\_\_  
Vice President, Roger Sparks

  
\_\_\_\_\_  
Secretary, Shan Rowbotham

# Exhibit A

# ASSET MANAGEMENT POLICY

October 2014

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## **Policy Intent**

This Asset Management Policy is established to provide guidelines to ensure stewardship over Kittitas County Public Utility District No.1 ("District") resources through control and accountability of assets, and to collect and maintain complete and accurate asset information. This policy will support sound long-term planning, sustainable funding strategies, upkeep of assets, improve accountability, enhance operations effectiveness and promote citizen confidence.

The objectives of this policy include:

- Assure the financial integrity of the District
- Define District assets
- Define depreciation rates
- Define surplus procedures
- Define inventory procedures
- Safeguard District assets

The General Manager is responsible for the oversight and stewardship of resources and assets.

The Finance Manager is responsible for internal controls and financial procedures, legal and regulatory compliance regarding all financial functions for asset management.

## **Capital Asset Threshold**

All costs associated with placing an asset in service shall be included in the "cost" of the asset and capitalized. This includes, but not limited to, shipping, installation, taxes, attachments and any other cost related to the asset.

All assets, excluding infrastructure, with an accumulated value greater than \$5,000 shall be capitalized. Assets with values less than \$5,000 shall be identified in the appropriate Asset Class Identification, assigned an identification number and a PUD identification tag and tracked during the annual inventory process. Assets with a value of less than \$5,000 will be accounted for as an expense, not a capital outlay. The District shall budget annually for these asset purchases as expenses which will allow more accurate cash flow tracking.

## **Capital Projects**

The infrastructure is capitalized through the Work Order module in the District software program. When a work order is closed the value of the asset is included in the appropriate Continuing Property Records. The District shall close Work Orders when the infrastructure is placed in service.

Capital projects may be capitalized through line extensions or public works projects. Due to the substantial commitment of organization time and resources, capital projects can represent a significant risk for the District. To mitigate the financial risk, the Finance Manager shall work directly with the General Manager and Operations Manager during the planning and construction of capital projects to provide insight on budget and funding questions and to report financial

information during construction. Once a project has been completed, this working relationship will continue as the capital assets are likely to have substantial ongoing impact on operating budgets. Ongoing considerations include planning for the costs of ongoing asset management, optimizing maintenance and renewal expenditures, coordinate renovation projects, and sustaining long-term asset performance. Managing assets throughout their lifecycle from both a financial and operational perspective will help the District achieve the best return on the asset and reduce unnecessary service interruptions.

## **Asset Evaluation**

The District assets will be periodically assessed to mitigate risk and provide financial accountability and operational effectiveness. The District may use an outside consultant or District staff to complete a System Study to evaluate the condition of existing assets and propose recommendations.

## **Capital Assets - Infrastructure**

The District evaluation of assets should include but not be limited to the following criteria:

- Location by Substation and Feeder
- Installation date (if known)
- Condition of asset
  - Pole testing
  - Meter testing
  - Infrared Study
  - Visual review
- Outage Reports
- Voltage Drop
- Line Loss
- Number of services
- Type of services
  - Commercial
  - Residential
  - Public Facilities
  - Other
- Average annual revenue
- Annual maintenance cost
- Potential for expansion

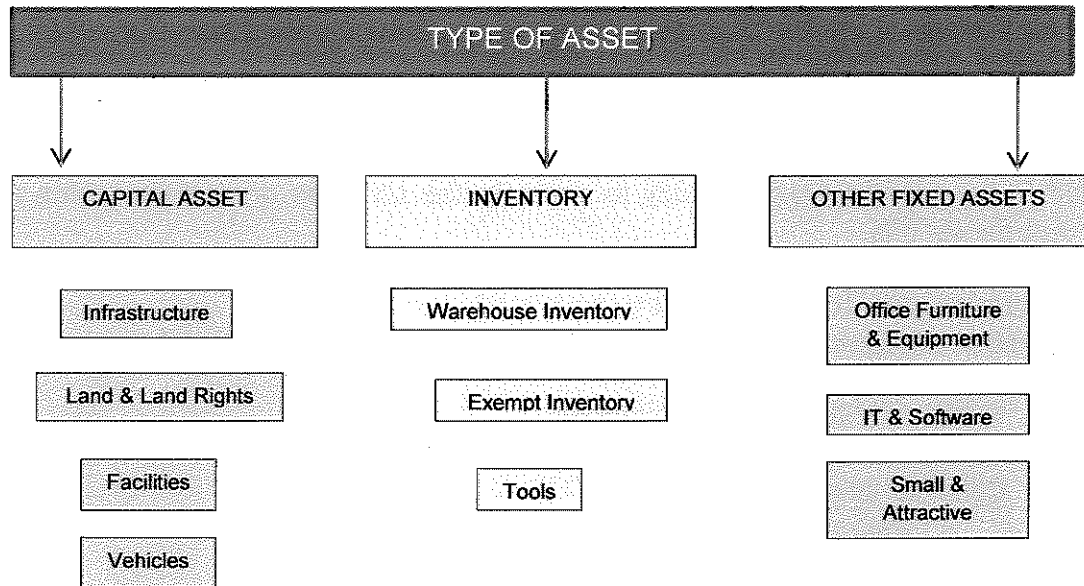
The General Manager may modify the format as additional data is available for accurate and consistent ranking and evaluation of the District assets.

## **Other Assets**

The other assets will be monitored based on the life expectancy and/or condition. During the annual inventory process, the condition shall be verified to confirm it does not provide any safety concerns for the District employees or the public.

Prior to replacing and/or disposing of any asset, a costs justification shall be completed comparing replacement costs with continuing maintenance costs.

## Asset Chart



### Capital Assets

#### Infrastructure

The District infrastructure includes, but not limited to, all substation and substation components, transmission lines, distribution lines and all related assembly units.

#### Land and Land Rights

All land and land rights acquired shall be recorded with the Kittitas County Auditor. Land includes land deeded to the District. Land rights includes any easement or other permitted uses of land by the District which is owned by another party.

#### Facilities

Facilities include all buildings and structures owned and/or leased by the District.

#### Vehicles

Vehicles include all equipment, including but not limited to, trucks and trailers owned by the District.

## **Inventory**

### **Warehouse Inventory**

Warehouse Inventory includes, but not limited to, all materials necessary to construct and maintain the District's infrastructure.

### **Exempt Inventory**

Exempt inventory includes, but not limited to, meters, transformers and other warehouse inventory items that are small in nature. The exempt warehouse inventory items will be charged to stores and assessed to all active work orders through the overhead process

### **Tools**

Tools include, but not limited to, all shop tools, testing equipment, hand tools and other items necessary for the construction, maintenance and operation of the District's infrastructure. All tools with a value greater than \$300 will be tracked as an inventory asset.

## **Other Fixed Assets**

### **Office Furniture and Equipment**

Office furniture and equipment will be included as a fixed asset for tracking.

### **IT & Software**

All computer equipment and specialized software will be included as a fixed asset.

### **Small and Attractive Assets**

Small and Attractive Assets include items with a value between \$300 and \$5,000. Items with values less than \$300, such as cell phones, calculators and others, may be included as Small and Attractive Assets as they may have a high risk for loss or theft.

## **Depreciation Method and Expected Useful Life of Assets**

The District's and other governmental assets are depreciated using the straight line method of depreciation. The District shall use the IRS Publication 946 Table of Class Lives and Recovery Periods as a starting point for reasonable estimates of the useful lives of all depreciated capital assets. Past experience with similar assets shall be used to make adjustments to ensure that estimates are appropriate.

Quality, application, environment and maintenance can significantly vary the useful life. The Finance Manager will annually assess the services lives of the assets and adjust the depreciation by correcting the remaining depreciable life of the asset.

The District uses the group method to depreciate infrastructure. Under this method, assets with similar lives and characteristics are grouped and depreciated as one asset.

The following is the current depreciation schedule, which may be modified from time to time:

Class ID (Group)	Description	Life in Months	Life in Years
352000	Structures & Improvement-Transmission	436	36
355000	Poles & Fixtures-Transmission	436	36
356000	OH Conductor & Devices-Transmission	436	36
361000	Structures & Improvements-Distribution	456	38
362000	Station Equipment-Distribution Plant	444	37
364000	Poles & Fixtures-Distribution	396	33
365000	OH Conductor & Devices-Distribution	456	38
367000	Underground Con & Devices-Distribution	456	38
368000	Line Transformers-Distribution	456	38
369000	Service Distribution	384	32
370000	Meters-Distribution	120	10
371000	Security Lights-Distribution	300	25
390000	Structures & Improvements-General Plant	400	33
391000	Office Equipment-General Plant	172	14
391100	Computer Equipment-General Plant	60	5
392000	Transportation Equipment-General Plant	96	8
392001	Transportation Equipment-Misc	96	8
393000	Stores Equipment-General Plant	192	16
394000	Shop Equipment & Tools	72	6
395000	Lab Equipment-General Plant	192	16
396000	Large Transportation Equipment	108	9
397000	Communications Equipment-General Plant	150	12
391100	Computer Software	36	3

Note: Life in years is rounded to the nearest year

At the time of retirement of property and/or plant, the District charges accumulated depreciation and amortization for the original cost of the assets in addition to the cost to remove, sell, or dispose of the asset, less their salvage value. The District does not recognize a gain or loss unless the entire operating unit is sold.

### Annual Asset Inventory

Tangible assets with the exception of Infrastructure and Land and Land Rights, will have an annual physical inventory. The inventory will include:

- Physical verification of each inventory item
- Verification of PUD Tag identification (if applicable)
- Verification of the condition of each inventory item
- Report any missing items
- Prepare a proposed surplus/junk list of inventory items
  - Justification for surplus/junk
- Identification of obsolete warehouse inventory (items no longer used)
  - Justification why it is obsolete
  - Identify preferred disposal method
    - Surplus
    - Disposal (garbage)

Land and land rights will be reviewed annually by the General Manager confirming the following:

- Parcels of land owned by the District



- Verify term for easements and/or leases
- Confirm all new easements and/or leases have been recorded

Infrastructure shall be physically reviewed periodically by substation and feeder line, providing the General Manager with a condition report.

### **Warehouse Inventory Standards**

Warehouse inventory items will all have established minimum and maximum quantity levels. These levels are intended to guarantee adequate inventory for the normal maintenance and operation of the infrastructure. Minimum and maximum levels will be tracked through the District's utility software. Occasionally, approved capital projects may cause inventory to exceed maximum levels.

Inventory items to be stocked shall be standardized to support efficiency and consistency for maintenance and installation. Standardized inventory includes, but not limited to, installation methods, size and weight of items. Standardized inventory is not intended to regulate supply sources.

### **Surplus Property Disposal**

The surplus of assets with value will be disposed of in a cost effective and efficient manner that achieves the highest net proceeds for the District.

The surplus of assets with little or no value of the disposal and sales efforts and are judged more costly than estimated net proceeds, may be donated to non-profits organizations.

Items that are broken or unusable and have no value may be declared as "junk" and efficiently and safely disposed of.

The Board of Commissioner shall approve by resolution a list of all assets for surplus or junk. The list shall include:

- Inventory ID number (if applicable) and description
- Condition of each item
- Estimated current value of each item
- Reason(s) why such items are no longer useful to the District

To achieve the highest net proceeds for surplus assets, Management will propose the method for surplus to the Board of Commissioners:

- Silent Auction
- Sealed Bids
- Public Auction
- Web based public auction, such as [publicsurplus.com](http://publicsurplus.com)

The Commissioners may choose to hold a Public Hearing regarding the surplus assets.

Surplus of items with a value greater than net cost \$5,000 shall have a minimum bid price established based on current market value. If no bids are received, an alternate method will be selected to surplus the asset.

All assets that are surplus or junk, will be removed as active from the fixed asset inventory located in the District's accounting software program.

Scrap wire and metal, including but not limited to hardware such as bolts, clamps and brackets are recycled and will not be declared surplus. These items will need to be documented and removed from inventory if applicable.

Used infrastructure components, such as poles and cross arms may be sold on a first come first serve basis in accordance with the current fees established. The components will not be considered surplus and will be removed from the infrastructure inventory through the Work Order Retirement process.

### **Asset Maintenance and Replacement**

As a steward of public property, the District has an obligation to safeguard assets from loss and ensure they are not neglected or wasted. The District will monitor the following:

- Property and equipment owned by the District
- Location of property and equipment
- Condition of property and equipment
- Adequately protected from loss, damage and unauthorized use

The District will routinely inspect infrastructure to insure its condition maintains reliability for District customers. Annual maintenance will occur to reduce potential infrastructure damage. Specific infrastructure inspection will occur on an annual basis, at the direction of the General Manager. These inspections include, but not limited to, pole testing, meter testing, infrared survey and visual surveys.

The District will maintain equipment on a routine basis to ensure life expediency and safety for employees. Documented maintenance history, usage, warranties and maintenance costs will be tracked for assessing the asset annually. During the annual budget process, appropriate funds shall be allocated for the maintenance of all equipment.

Ultimately, deferring essential maintenance or asset replacement could reduce the organization's ability to provide services and could threaten public health, safety and overall quality of life. In addition, as the physical condition of the asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities. The District shall include the appropriate budgeting for capital planning and maintenance activities to reduce future liabilities.

## **Bond Requirements**

The District issues bonds to finance capital improvements. The Bond Covenants will be strictly followed throughout the life of the Bond. The District shall maintain the system infrastructure in good repair at a reasonable cost, in accordance with the Bond Covenants.

The District will not sell, lease, mortgage or in any manner encumber or dispose of all, or substantially all, of the property of the System unless provisions are made for the payment into the Bond fund. Condemnation awards will be applied as payment on the Bond. Proceeds of an insurance policy in connection with any loss of or damage to any property of the System will be applied to the cost of replacing or repairing, in accordance with Bond Covenants.

## **Risk Management**

Risk is the probability of suffering harm or loss. It refers to an action, event or a natural occurrence that could cause an undesirable outcome, resulting in a negative impact or consequence.

Risk Assessment is the process of identifying threats, determining the likelihood of occurrence and identifying vulnerabilities that could be exploited by the threat.

Risk Management is the process of taking actions to assess risks and avoid or reduce risk to acceptable levels. It encompasses three processes:

1. Risk Identification
  - a. Physical environment (natural or man-made disasters)
  - b. Legal environment (laws and legal precedents)
  - c. Operational environment (day-to-day activities)
  - d. Political environment (legislative activity, elections)
  - e. Social environment (socio-economic composition of the community)
  - f. Economic environment (market trends, interest rates)
  - g. Internal environment (attitude of individuals towards risk)
2. Risk Evaluation
3. Risk Treatment
  - a. Accept the risk
    - i. Self-insure
    - ii. Training
    - iii. Inspections
  - b. Transfer the risk
    - i. Property insurance
    - ii. Liability insurance
    - iii. Worker's compensation
  - c. Limit the risk
    - i. Higher insurance deductible
  - d. Avoid risk
    - i. Do not provide services if risk management costs are excessive

Any known risk or threat to the District shall be reported to the General Manager. The General Manager will complete an assessment and mitigation or engage the services of a third party. The General Manager will review the evaluation and make the appropriate recommendations to minimize or avoid the risk.

### **Contract Risk**

A legally enforceable contract is an agreement in writing between two or more parties in which a court can impose penalties in the event one party attempts to negate on their promise as set forth in the document. The two essential components of a contract include an agreement and consideration. An assortment of provisions that add to the legality of a contract include, but not limited to, performance, terms, conditions, obligations, payment terms, liability, an default or breach.

To minimize the District's risk when entering into contracts, legal review will be required on contracts with an annual value greater than \$25,000. Contracts with a value less than \$25,000 may be reviewed and signed by the General Manager if the contract has limited risk exposure to the District. The Procurement Policy specifies the purchasing authority and limitations.

The District may establish "templates" for commonly used contracts. The "template" will have legal review and approval. The General Manager has authority to review and approve "template" contracts within his approved spending authority. "Template" contracts may include but not limited to, public works projects, construction, material purchase and services. Contracts that require modifications to the "template" shall have legal review and approval before the District executes the document.

### **Information Technology**

Due to the complexity and rapidly changing technology, the District may hire a consultant for outsourcing the core IT infrastructure and application management. The General Manager will monitor and work closely with the consultant on all aspects of their services.

In additional to the core IT infrastructure, the District requires industry specific software. The General Manager will approve any software purchases and updates, within his approved spending authority. The Finance Manager will ensure the District maintains software that provides financial integrity and reporting capabilities to meet state and federal regulations.

### **Insurance**

The District shall maintain adequate liability and property insurance to protect the District from unknown threats or risk.

The Finance Manager shall maintain adequate accounting records to substantiate losses. Location, inventory and maintenance records will confirm that a lost or damaged asset has recently been in use, which will support the validity and timeliness of a theft or damage insurance claim.