

TOWN OF PROSPER ADMINISTRATIVE REGULATIONS

CHAPTER 12: VEHICLE/EQUIPMENT REPLACEMENT FUND PROGRAM

The Town's Vehicle/Equipment Replacement Fund (VERF) Program is to provide a predictable (level) budget requirement from year to year and to allow replacement of vital vehicles, equipment, and technology infrastructure, without the need to incur debt. Also, to provide for such replacements and purchases, and administer the disposition of the replaced vehicles, equipment, and technology infrastructure. VERF Financial Position will not be included in the calculation of required Fund Balances for the General Fund. Fund Balance requirements are described in Chapter 13. However, the VERF is created by Town Council and may also be discontinued by Town Council with residual Fund Balances being returned to the related funds.

SECTION 12.01: POLICY

A. Policy Overview

1. All fleet vehicles, equipment, and technology infrastructure will be owned and recorded in the VERF, and assigned to the user departments.
2. All user departments will be charged a monthly replacement fee for each item allocated for their use from the VERF. Such fee will provide funds to purchase future replacement vehicles, equipment, and technology infrastructure.
3. All items replaced will be surrendered simultaneously with the acquisition of the replacement. Exceptions to disposal of the used equipment will be made only by approval of the Town Manager and may result in additional monthly rent being charged to the benefitting department.
4. Proceeds for replaced items sold as surplus property will be credited to the VERF.
5. The VERF is for the purchase and replacement of vehicles, equipment, and technology infrastructure only. New items, additions and/or upgrades, may be requested by departments during the budget process. If approved, items will be added to the VERF after acquisition, and the monthly replacement fee for units will be assessed accordingly.

SECTION 12.02 ORGANIZATIONAL RESPONSIBILITIES

Throughout the process, it is critical that Town staff works together to ensure that requirements are met, and that the Town of Prosper achieves the identified goal that created the need for the supplemental funding.

A. Town Departments

Departments operating vehicles and equipment (including computers) are responsible for:

1. contributing monthly to the VERF according to this policy;
2. requesting replacement units during the annual budget process; and
3. appointing members to the internal vehicle and equipment review committee.

The internal review committee for vehicles and equipment is comprised of the Purchasing Manager, the Finance Director, and one representative from each user department. The user department representatives are appointed by their respective department heads. Committee duties include:

- a. reviewing the Vehicle and Equipment Procurement Request Forms submitted annually for both scheduled and unscheduled replacements, identifying the items warranting replacement per this policy, and prioritizing these items for budgetary consideration;
- b. making recommendations regarding departmental requests to purchase used vehicles or equipment from the VERF; and
- c. recommending revisions to the replacement criteria.

B. Town Council Subcommittees

The Town Council Subcommittees are responsible for reviewing staff recommendations on behalf of the Town Council. The purpose and scope of each subcommittee is defined below.

1. Council Technology/VERF Subcommittee

The Council Technology/VERF Subcommittee for technology infrastructure is comprised of Councilmembers appointed by Town Council, and staff support to include the Town Manager, the Director of Information Technology, the Finance Director, and the Purchasing Manager. Subcommittee duties include:

- a. periodically reviewing the Town's existing technological capabilities, and making recommendation for improvements;
- b. periodically reviewing and making recommendations on the Town's VERF as it relates to the acquisition, implementation, maintenance and upgrading of the Town's technology, software, and computer equipment; and
- c. making recommendations to promote the use of technology to increase efficiency of operations within the Town.

2. Council Finance Subcommittee

The Council Finance Subcommittee is comprised of Councilmembers appointed by the Town Council, and staff support to include the Town Manager and the Finance Director. Subcommittee duties include:

- a. periodically reviewing and making recommendations to the Town's VERF as it relates to the acquisition, replacement and upgrading of the Town's vehicles and equipment.

C. Purchasing Manager

The Purchasing Manager is responsible for maintaining the VERF Policy, maintaining updated replacement schedules for vehicles and equipment, and for overseeing the activities of the VERF Committee for vehicles and equipment. The Purchasing Manager also coordinates with user departments to facilitate individual replacements.

D. Finance Director

The Finance Director is responsible for managing the VERF, setting the annual budget for vehicle, equipment, and technology infrastructure replacements, and reviewing and proposing modifications and/or replacement lists based on budgetary constraints.

E. Director of Information Technology (IT)

The Director of IT is responsible for maintaining updated replacement schedules for technology infrastructure, and for overseeing the activities of the VERF Technology Sub-Committee. The Director of IT also coordinates with user departments to facilitate individual replacements.

F. Town Manager

The Town Manager is responsible for approving the VERF policy and revisions thereto, and for reviewing and deciding departmental requests to purchase retired items from the VERF.

G. Town Council

The Town Council reviews and approves the list of proposed replacements, and the amount of annual contributions into the VERF during the budget process each year.

SECTION 12.03: REPLACEMENT REQUEST PROCESS

Departments will complete a Vehicle and Equipment Procurement Request Form to initiate the replacement process. Requests must be submitted annually during the budget process. If the requested unit is not scheduled for replacement, the user department will provide additional justification and support for the request. The VERF Committee will meet to review all requested replacements.

SECTION 12.04: REPLACEMENT CRITERIA

The Vehicle/Equipment Replacement Criteria (Exhibit A) identifies the estimated life expectancy of the Town's vehicles and equipment. Age and mileage or hours are the primary criteria for replacement. The replacement criteria for technology infrastructure will be set by the Director of IT, in compliance with direction from the VERF Technology Sub-Committee. The criterion are only intended as a guide for the replacement decision; items meeting or exceeding the criteria are not automatically approved for replacement. Meeting the criteria makes a unit eligible for replacement, but still subject to additional scrutiny, considering items such as physical condition, resale value, etc. Also, items that do not meet the criteria may still be eligible for early replacement for reasons like excessive maintenance costs, or a total loss declaration by the Town's insurer.

SECTION 12.05: REPLACEMENT FUNDING

The VERF is an internal service fund used to account for the replacement of Town vehicles, equipment, and technology infrastructure. Contributions are made to the VERF based on a replacement schedule for each item. Departments using vehicle(s), equipment, or technology infrastructure will contribute funds from their operational budget into the VERF; these contributions are then used to replace the items, which mitigates the impact on the operating budget. All items in the VERF shall be funded at a ratio of eighty percent (80%). While the individual item funding percentage may vary, the overall goal is eighty percent (80%) funding in total by fund (General, Water/Sewer, and Stormwater Drainage). The amount of the annual contribution for each item is determined as follows:

CONTRIBUTION = ITEM ACQUISITION PRICE / EXPECTED USEFUL LIFE

Example: Chevrolet Tahoe purchased for Police Department: \$60,000*
Expected useful life: 4 years
Contribution = (\$60,000 x .80/4) = \$12,000/year

*Acquisition price is inclusive of all after-market installs required to place the unit into operations.

The annual contribution amount is divided by twelve (12) for monthly transfers from the department's budget to the VERF via journal entry. Proposed VERF transactions are reviewed and approved as part of the Town's annual operating budget process.

1. Proceeds from sold vehicles will be credited to the VERF, as will income earned from investment of VERF balances and all claims paid on VERF items.
2. If a department's item reaches its expected useful life but continues in service, the department will not be required to make additional contributions for that unit.
3. In the event that Town Manager approval is received to purchase a retired or replaced item from the VERF, the purchase price shall be ten percent (10%) of the original cost of the item. This amount is intended to compensate for the loss of sale proceeds that would otherwise be deposited in the VERF. The retained item will be removed from the VERF, and will not be funded for future replacement.

4. Replacement contributions will be discontinued for units sold or retired before the expiration of their useful life.
5. The acquisition price for VERF items will be reviewed on an annual basis during the budget process, and adjusted accordingly to reflect current market prices. This may result in an adjustment to the annual contributions in order to accommodate future replacement costs.

SECTION 12.06: FINANCIAL POSITION AND CASH BALANCES

Financial Position is not a useful indicator of financial management for the VERF as the nature of the operation will always result in strong financial position that will grow as the Town grows and new equipment is contributed to the fund for eventual replacement. Therefore, a target cash balance approximately equal (defined as +/- 10%) to the accumulated depreciation in the fund. Staff should also be sensitive to trends in which either cash or accumulated depreciation are growing at a faster rate than the other as an indication that monthly rents may need to be adjusted.