STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: November 14, 2013

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:
Annual review of Board Policy No. 009, Investment Policy, in conformance with California Government Code, and approval of minor changes to Board Policy No. 014, Capitalization Policy for Capital Assets.

SUMMARY:
The TJPA Investment Policy requires an annual review by the TJPA Board. It was last reviewed in November 2012, and no changes are being proposed for the Investment Policy. The Board approved the TJPA Capitalization Policy for Capital Assets in 2008. Staff determined that a change in policy is needed for the treatment of costs associated with the future demolition of the Temporary Terminal.

INVESTMENT POLICY BACKGROUND:
The TJPA Board approved Board Policy No. 009 in 2006, and approved amendments to the Policy in 2008 and 2011. The California Debt & Investment Advisory Commission (CDIAC) published its Local Agency Investment Guidelines update for 2013 and TJPA staff has reviewed the update; while it provided some statutory changes to the California Government Code, none of the changes affect the TJPA policy. Thus no changes have been made to the policy since the last revision in November 2011.

The Government Finance Officers Association recommends that all governmental investors develop written investment policies, and the State of California also recommends that an investment policy be in place. The investment policy ensures that TJPA cash balances are safe, sufficiently liquid to meet cash flow needs, and maximize investment earnings. Board Policy No. 009 sets forth the scope of funds to be invested; establishes safety, liquidity and return on investment as primary objectives, in that priority order; and sets forth permitted investment instruments. The Policy delegates authority over the investment program to the TJPA Chief Financial Officer or his/her designee. Permitted investment instruments are those allowed by California State law.

The Policy does not describe actual investment practices, which may change over time and shall be summarized for the Board as part of the annual Policy review. In practice, TJPA currently adheres to the Policy by maintaining a cash balance in a U.S. Bank checking account sufficient to meet short-term obligations, and investing the balance with the City & County of San Francisco investment pool. TJPA also has trust accounts established with U.S. Bank for tax increment and land sales proceeds, and the Trustee is required to adhere to all elements of the Policy. The majority of the land sales proceeds are currently invested through the Trustee in a series of U.S. Treasury Notes and Bills that mature periodically through January 31, 2014, with the remainder invested in a money market fund through the Trustee in order to ensure access to cash as construction invoices funded by land sales need to be paid. As each investment matures, TJPA will review investment options and choose an investment vehicle with an appropriate maturity given the economic outlook for interest rates and forecasted cash flow needs.

CAPITALIZATION POLICY BACKGROUND:
For government agencies, the ways in which capital assets are defined and accounted for are set forth in "Generally Accepted Accounting Principles" (GAAP), which are promulgated by the Governmental Accounting Standards Board (GASB). TJPA's Capitalization Policy for Capital Assets ensures that the TJPA appropriately tracks the cost of its capital assets, and records those assets in its financial statements in compliance with GAAP, specifically GASB's guidance on capital asset reporting, known as GASB Statement Number 34, *Basic Financial Statements*.

The Capitalization Policy for Capital Assets was developed by staff in 2008, in consultation with the TJPA's external auditors at the time, and based upon a review of the requirements for capital cost financial reporting established by GASB 34 and by the Federal Transit Administration and federal Office of Management and Budget for federal grantees, as well as based on a review of the capitalization policies used by other public entities. Examples of capital assets are land and land improvements, buildings and improvements, vehicles, equipment, works of art, and various intangible assets. TJPA previously identified six capital asset categories in its policy for financial reporting purposes: Land, Easements and Right-of-Way, Intangibles, Transbay Transit Center, Downtown Extension, and Furniture and Equipment.

The adopted policy contains the following major principles:
- Capital assets should be capitalized when the asset has a useful life of greater than one year and is of significant value; that is, it has a unit cost of $5,000 or more.
- Capital assets are reported in the financial statements at historical cost, or fair value if donated.
- Depreciable capital assets are depreciated on a "straight line" basis over their expected useful lives. Non-depreciable capital assets, such as land and land improvements, and intangible assets such as easements and certain information technology, will not be depreciated.

The proposed policy modifications would:
1) Appropriately change the policy for recording costs associated with the future demolition of the Temporary Terminal. Currently the policy states that Temporary Terminal demolition costs will be expensed; however, Temporary Terminal demolition costs should be capitalized as land improvements, as they are considered necessary for preparing the land for its intended use.
2) Slightly modify the capital asset categories to clarify that easements are an intangible asset, in accordance with GASB Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*. The capital asset categories following the policy modification would be: Land, Intangible Assets – Easements, Intangible Assets – Information Technology, Transbay Transit Center, Downtown Extension, and Furniture and Equipment.

RECOMMENDATION:
Staff recommends that the TJPA Board of Directors approve the revised Capitalization Policy for Capital Assets.

ENCLOSURES:
1. Resolution
2. Board Policy No. 009, Investment Policy
3. Board Policy No. 014, Capitalization Policy for Capital Assets (clean and redline)

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Government agencies must account for their capital assets in compliance with the requirements of Generally Accepted Accounting Principles (GAAP), which are promulgated by the Governmental Accounting Standards Board (GASB); and

WHEREAS, The TJPA adopted a Capitalization Policy for Capital Assets that complies with GAAP, in order to guide TJPA staff and external auditors in the development of TJPA's financial statements, on October 17, 2008; and

WHEREAS, A modification to that policy to change the treatment of future demolition costs of the Temporary Terminal is required to be in conformance with GAAP; and

WHEREAS, A modification to the policy to clarify that easements are an intangible asset is also required to be in conformance with GAAP and GASB Statement Number 51; now, therefore, be it

RESOLVED, That the TJPA Board of Directors approves the revised Capitalization Policy for Capital Assets identified as Board Policy No. 014 with minor changes to capitalize future demolition costs as land improvements and modify the capital asset categories tracked and reported by TJPA.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of November 14, 2013.

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Secretary, Transbay Joint Powers Authority

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

INVESTMENT POLICY

I. Introduction

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and reporting requirements for all investments made by the Transbay Joint Powers Authority (TJPA) and its Trustees. It is the policy of the TJPA to invest funds in a manner which will preserve capital, meet the daily cash flow demands of the TJPA, and provide investment return.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.).

III. Scope

This policy applies to the investment of all funds, excluding the investment of bond funds and employees' retirement funds, which are outside the scope of this policy. The investment of bond proceeds and retirement funds shall be governed by the relevant documents. All other investments will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

IV. Objectives

The primary objectives, in priority order, for the TJPA's investment activities are:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The safety of the portfolio is provided by investing in high quality securities and enhanced in three ways by maintaining a prudent mix (i.e., diversity) of investments:
   a. Spreading investments over different investment types minimizes the impact that any one industry/investment class can have on the portfolio;
   b. Spreading investments over multiple credits/issuers with an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and

c. Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the TJPA Chief Financial Officer or his/her designee, and the Executive Director, collectively.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. The TJPA will maintain a cash position anticipated to meet short-term obligations.

3. **Return on Investment**: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Person Standard" as stated in California Government Code 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Management's responsibility for the investment program is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or his or her designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or his/her designee
- Chief Financial Officer or his/her designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio.

VIII. Authorized Financial Institutions and Dealers

Banking and investment services will be procured competitively. No public deposits will be made except in a qualified public depository as established by state law. All broker/dealers must be Primary Government Securities Dealers or top-ten banking underwriters of U.S. Agencies (according to Bloomberg Underwriter Rankings, or a similar ratings service). All broker/dealers and custodial Trustees must annually review and abide by this Investment Policy.

Transbay Joint Powers Authority will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for those offices.

Transbay Joint Powers Authority may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

In accordance with and subject to the restrictions in California Government Code Section 53601, the TJPA may invest in the following type of investments as described fully in Exhibit A below:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. Bankers Acceptances
4. Commercial Paper (domestic)
5. Negotiable Certificates of Deposit
6. Repurchase Agreements
7. Medium-Term Notes
8. Money Market Mutual Funds
9. Collateralized Bank/Time Deposits
10. City & County of San Francisco Investment Pool

11. Local Agency Investment Fund (LAIF)

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, credit quality and the maximum maturities of investments shall conform to the restrictions in California Government Code Section 53601 and shall be domestic investments only.

X. Ineligible Investments

The TJPA shall not invest funds in instruments not specified in Section IX, Permitted Investment Instruments, above.

XI. Internal Controls

TJPA shall maintain a system of internal controls, which shall be documented in writing. The internal controls shall be provided to and reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA.

XII. Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment transactions and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation.

In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

XIII. Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses.

XIV. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

EXHIBIT A

Permitted Investments

Per State Government Code (As of January 1, 2011)[i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers Acceptances	180 days	40% [ii]	None
Commercial Paper	270 days	40% [iii]	"A-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers[iv]
Negotiable Certificates of Deposit	5 years	30% [v]	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes[vi]	5 years	30%	"A" rating
Money Market Mutual Funds	n/a	20% [vii]	Multiple[viii]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Equity in Pool (County Pooled Investment Funds) [ix]	n/a	None	None
Local Agency Investment Fund (LAIF) [x]	n/a	None	None

Prohibited investments include securities not listed above, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual if held to maturity.[xi]

See endnotes next page.

[i] Sources: Government Code Sections 16429.1, 53601, 53601.8, 53635, 53635.2 and 53638.
[ii] No more than 30 percent of the agency's money may be in Bankers Acceptances of any one commercial bank.
[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.
[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(i).
[vi] "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating with the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
[vii] No more than 10 percent invested in any one mutual fund.
[viii] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or not less than five years experience investing in money market instruments.
[ix] Not a permitted investment for Trustee Accounts.
[x] Not a permitted investment for Trustee Accounts.
[xi] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

U.S. Agencies: Federal agency securities and/or Government-sponsored enterprises.

Annual Financial Report: The official annual, audited financial report for the TJPA.

Bankers Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

State and Local Government Investment Pools: The aggregate of all funds from political subdivisions that are placed in the custody of the local or State Treasurer for investment and reinvestment.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 014 Category: Financial Matters

CAPITALIZATION POLICY FOR CAPITAL ASSETS

The Transbay Joint Powers Authority ("TJPA") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. This Capitalization Policy will be a comprehensive policy which will address the capitalization of assets and infrastructure; the established threshold for reporting a capital asset; the determination of the useful life and depreciation of a capital asset; and all other ancillary costs necessary to place the capital assets into service.

I. BACKGROUND

For government agencies, the ways in which capital assets are defined and accounted for are set forth in "Generally Accepted Accounting Principles" (GAAP), which are promulgated by the Governmental Accounting Standards Board (GASB). Within the parameters established by GASB, there are alternative approaches that agencies may choose from. This Policy will establish how the TJPA will account for its capital assets within those parameters. Specifically, this Policy will: (1) Establish the level of detail that will be used for capital asset reporting (individual assets versus networks of assets); (2) Determine whether to treat some capital assets as infrastructure assets; and, (3) Determine whether to depreciate infrastructure assets, or to treat those assets under a modified approach, and not depreciate them. Also, this Policy will establish how demolition costs will be reported and identify other costs that will be capitalized as "Land." Assets that are categorized as land are not depreciated. Typically, capital assets are recorded in an agency's financial records at their historical cost, and are depreciated over their estimated useful lives. Contributed assets will be valued at "fair value."

II. LEVEL OF DETAIL OF CAPITAL ASSET FINANCIAL REPORTING

GASB Statement Number 34 (GASB 34) defines "capital assets" as including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. GASB 34 provides public agencies with the option of reporting their capital assets at the "network, subsystem, or individual asset level". GASB defines "network" as a group of assets where the individual members either provide similar services or work together to provide one service. A network can range from one asset that is made up of many components to a collection of assets that are roughly the same.

The TJPA cannot identify a business need to classify each component individually for financial reporting purposes, although the TJPA will maintain subsidiary records which provide additional detail. As a result, the following six capital asset categories will be delineated in the Authority's financial statements:

- Land;
- Intangible Assets - Easements~~ and Right-of-Ways~~;
- Intangible~~s~~ Assets – Information Technology;
- Transbay Transit Center;
- Downtown Extension; and
- Furniture and Equipment.

The Transbay Transit Center Underground Station, the Temporary Terminal, the Bus Storage facility, Ramps, and the roof top Park and Art, will be considered components of the Transbay Transit Center and thus part of the "network" of assets.

Policy: **TJPA will categorize its capital assets at the network level, as such, all components of the Transit Center will be considered a single asset for financial reporting purposes. Furniture, Fixtures and Equipment will be depreciated as a separate asset category using a composite rate.**

III. DEPRECIATION AND COMPOSITE USEFUL LIFE

Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. Inexhaustible capital assets, such as land and land improvements, ~~easements and right-of-ways~~, and intangibles, such as ~~goodwill~~easements, will not be depreciated. Depreciation expense will be measured by allocating the historical cost over their estimated weighted average useful lives in a systematic and rational manner. TJPA assigns useful life of the asset based on the engineering design estimation of the useful life of the core assets and uses the weighted average as the composite useful life. Depreciation will be calculated for the network of assets at the completion of the Construction in Progress phase and the value of the capital asset will be depreciated annually using the straight-line method.

Composite depreciation refers to calculating depreciation for a collection of dissimilar assets, such as all assets composing a transportation network as long as they do not cross over asset classifications, e.g. buildings, buildings improvements, or equipment. A composite weighted average useful life will be used for the Transit Center "network" of assets, which work together to provide one service. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recorded when the assets are removed or replaced.

The composite of the network of assets for the Transit Center will include the following types of assets:

Non-Infrastructure

- Temporary Terminal
- Transit Center Building
- Park Landscaping
- Concrete Pavement/Ramps
- Underground Station
- Bus Storage
- Foundation
- Art integrated as building components
- HVAC Systems
- Elevator and Escalator
- Engineering and costs for Utility Relocation

Policy: **Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. For the Transit Center asset, which is comprised of several components, a composite weighted average useful life will be developed at the time the asset is placed into services. Equipment and Furniture will be depreciated based on a composite rate for the classification.**

IV. INFRASTRUCTURE ASSETS AND DEPRECIATION

Infrastructure assets, as a subset of capital assets, are long-lived capital assets that normally are stationary in nature, and can normally be preserved for a significantly greater number of years than most capital assets. The Downtown Extension can be considered an infrastructure asset because it has rails and tunnels, and will utilize easements that are inexhaustible.

The traditional accounting approach for a capital asset, including infrastructure assets, is to depreciate the asset over its useful life, based on an asset's historical cost, thereby decreasing the book value of the asset as shown on the TJPA's financial statements by a given amount each year. An alternative is known as the "Modified Approach", under which an infrastructure asset is not depreciated, but continues to be reported at its original historical cost indefinitely. Using this financial reporting approach requires public agencies to meet several assessment, maintenance, investment and annual disclosure reporting requirements, which demonstrate the preservation and renewing of the asset as an annual budgeted operating expense.

TJPA cannot identify a compelling business reason for using the Modified Approach for infrastructure reporting, which would tie the TJPA's maintenance and preservation plans to the preparation of its financial statements. As a result, TJPA will depreciate its infrastructure assets.

Policy: **The Downtown Extension (DTX), which consists of the rails and tunnels, electric train power source, safety and cooling electrical systems will be recorded as capital asset/infrastructure and will be considered a single asset subsystem that will be assigned a weighted average useful life at the date the asset is placed into service.**

V. TREATMENT OF DEMOLITION COSTS

GASB 34 gives no specific guidance concerning how to treat demolition costs for financial reporting purposes, but based on the approaches utilized by several other public agencies, demolition expenses incurred to prepare an acquired property for its intended use are categorized as improvement to land. TJPA will use this approach. However, demolition costs have been and will continue to be categorized as a construction expense for budget development purposes. It is entirely acceptable to treat demolition costs differently for budget versus financial reporting purposes. Once the project's construction-in-progress has been capitalized, if the TJPA should tear down any structures related to the Transit Center project (e.g. the demolition of the Temporary Terminal), those demolition costs would be ~~expensed~~ capitalized as ~~direct expenses, e.g. the demolition of the Temporary Terminal~~land improvements, as these costs will prepare the land for its intended use.

Policy: **TJPA will capitalize demolition costs incurred for newly acquired property as improvement to land. TJPA will ~~expense~~ capitalize demolition of the Temporary Terminal costs incurred on existing property.**

VI. CAPITALIZATION OF LAND IMPROVEMENTS

Policy: **TJPA will capitalize the following costs as Land Improvements:**

- Title and Closing Costs
- Relocation Services, Consultation and Assistance
- Appraisal Services
- Environmental Consulting – Soil Hazardous Materials
- American Land Title Association Design Surveys
- Cost to remove or demolish a building or structure existing at the time of acquisition
- Site Preparation - Betterment that Prepares Land for its Intended Use
- Reconstruction of Property of Others: Rails, Utilities, Parking Lots, Fencing and Landscaping

There may be similar costs that will be categorized by the Chief Financial Officer as "land improvements" in the future. Utility relocation will not be classified as land improvements, but rather as "Transit Center" costs, because the relocation of utilities takes place on property not owned by TJPA and is being performed for the purpose of the building of the Transit Center.

VII. CAPITALIZATION OF "OTHER" ANCILLARY COSTS

Only construction costs for betterment and improvements will be capitalized. The cost of repairs and maintenance will be expensed. As experience is generated with the assets, the useful life estimate will be evaluated and adjusted if necessary.

Policy: **The following ancillary costs will be capitalized as part of the "network of assets" of either the Transit Center or the Downtown Extension as costs necessary to place the asset in service.**

- Interest costs related to debt issuance
- Freight costs
- Installation costs to put asset into service
- Internal costs such as salaries, benefits, administrative

VII. CAPITALIZATION THRESHOLD

- Equipment and Other Capital Expenditures not part of the network or subsystem of assets

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the capitalization threshold level established at $5,000.

IX. CAPITALIZATION OF STATE CONVEYED LAND – ASSIGNING VALUE

Donated capital assets should be reported at their estimated fair value at the time of acquisition. Fair value is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. GASB does not require a formal appraisal of the donated property to obtain the fair value. There is no prescribed guidance by GASB in determining the fair value for reporting of donated land and other real estate. GASB notes that there are many factors that can be considered when estimating the fair value of land, making the estimation of fair value dependent on the unique facts and circumstances of the specific land, such as the future cash flow from its intended use or assessed values of surrounding properties. TJPA will assign a fair value at the time of conveyance based on a rational and systematic method.

X. CAPITALIZATION OF INTANGIBLE ASSETS

GASB 51 requires the financial reporting of intangible assets, such as right-of-way easements, other types of easements, land use rights, licenses and permits, and certain types of information technology to be classified as capital assets. TJPA will acquire easements and certain types of information technology for the Transbay Transit Center and Downtown Extension projects, which will be valued based on the ~~easement agreements and right-of-way~~ acquisition agreements and costs and reported on the financial statements as non-depreciable capital assets.

Date Approved: ________________

Resolution No.: ________________

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 014 Category: Financial Matters

CAPITALIZATION POLICY FOR CAPITAL ASSETS

The Transbay Joint Powers Authority ("TJPA") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. This Capitalization Policy will be a comprehensive policy which will address the capitalization of assets and infrastructure; the established threshold for reporting a capital asset; the determination of the useful life and depreciation of a capital asset; and all other ancillary costs necessary to place the capital assets into service.

I. BACKGROUND

For government agencies, the ways in which capital assets are defined and accounted for are set forth in "Generally Accepted Accounting Principles" (GAAP), which are promulgated by the Governmental Accounting Standards Board (GASB). Within the parameters established by GASB, there are alternative approaches that agencies may choose from. This Policy will establish how the TJPA will account for its capital assets within those parameters. Specifically, this Policy will: (1) Establish the level of detail that will be used for capital asset reporting (individual assets versus networks of assets); (2) Determine whether to treat some capital assets as infrastructure assets; and, (3) Determine whether to depreciate infrastructure assets, or to treat those assets under a modified approach, and not depreciate them. Also, this Policy will establish how demolition costs will be reported and identify other costs that will be capitalized as "Land." Assets that are categorized as land are not depreciated. Typically, capital assets are recorded in an agency's financial records at their historical cost, and are depreciated over their estimated useful lives. Contributed assets will be valued at "fair value."

II. LEVEL OF DETAIL OF CAPITAL ASSET FINANCIAL REPORTING

GASB Statement Number 34 (GASB 34) defines "capital assets" as including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. GASB 34 provides public agencies with the option of reporting their capital assets at the "network, subsystem, or individual asset level". GASB defines "network" as a group of assets where the individual members either provide similar services or work together to provide one service. A network can range from one asset that is made up of many components to a collection of assets that are roughly the same.

The TJPA cannot identify a business need to classify each component individually for financial reporting purposes, although the TJPA will maintain subsidiary records which provide additional detail. As a result, the following six capital asset categories will be delineated in the Authority's financial statements:

- Land;
- Intangible Assets - Easements;
- Intangible Assets – Information Technology;
- Transbay Transit Center;
- Downtown Extension; and
- Furniture and Equipment.

The Transbay Transit Center Underground Station, the Temporary Terminal, the Bus Storage facility, Ramps, and the roof top Park and Art, will be considered components of the Transbay Transit Center and thus part of the "network" of assets.

Policy: **TJPA will categorize its capital assets at the network level, as such, all components of the Transit Center will be considered a single asset for financial reporting purposes. Furniture, Fixtures and Equipment will be depreciated as a separate asset category using a composite rate.**

III. DEPRECIATION AND COMPOSITE USEFUL LIFE

Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. Inexhaustible capital assets, such as land and land improvements, , and intangibles, such as easements, will not be depreciated. Depreciation expense will be measured by allocating the historical cost over their estimated weighted average useful lives in a systematic and rational manner. TJPA assigns useful life of the asset based on the engineering design estimation of the useful life of the core assets and uses the weighted average as the composite useful life. Depreciation will be calculated for the network of assets at the completion of the Construction in Progress phase and the value of the capital asset will be depreciated annually using the straight-line method.

Composite depreciation refers to calculating depreciation for a collection of dissimilar assets, such as all assets composing a transportation network as long as they do not cross over asset classifications, e.g. buildings, buildings improvements, or equipment. A composite weighted average useful life will be used for the Transit Center "network" of assets, which work together to provide one service. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recorded when the assets are removed or replaced.

The composite of the network of assets for the Transit Center will include the following types of assets:

Non-Infrastructure

- Temporary Terminal
- Transit Center Building
- Park Landscaping
- Concrete Pavement/Ramps
- Underground Station
- Bus Storage
- Foundation
- Art integrated as building components
- HVAC Systems
- Elevator and Escalator
- Engineering and costs for Utility Relocation

Policy: **Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. For the Transit Center asset, which is comprised of several components, a composite weighted average useful life will be developed at the time the asset is placed into services. Equipment and Furniture will be depreciated based on a composite rate for the classification.**

IV. INFRASTRUCTURE ASSETS AND DEPRECIATION

Infrastructure assets, as a subset of capital assets, are long-lived capital assets that normally are stationary in nature, and can normally be preserved for a significantly greater number of years than most capital assets. The Downtown Extension can be considered an infrastructure asset because it has rails and tunnels, and will utilize easements that are inexhaustible.

The traditional accounting approach for a capital asset, including infrastructure assets, is to depreciate the asset over its useful life, based on an asset's historical cost, thereby decreasing the book value of the asset as shown on the TJPA's financial statements by a given amount each year. An alternative is known as the "Modified Approach", under which an infrastructure asset is not depreciated, but continues to be reported at its original historical cost indefinitely. Using this financial reporting approach requires public agencies to meet several assessment, maintenance, investment and annual disclosure reporting requirements, which demonstrate the preservation and renewing of the asset as an annual budgeted operating expense.

TJPA cannot identify a compelling business reason for using the Modified Approach for infrastructure reporting, which would tie the TJPA's maintenance and preservation plans to the preparation of its financial statements. As a result, TJPA will depreciate its infrastructure assets.

Policy: **The Downtown Extension (DTX), which consists of the rails and tunnels, electric train power source, safety and cooling electrical systems will be recorded as capital asset/infrastructure and will be considered a single asset subsystem that will be assigned a weighted average useful life at the date the asset is placed into service.**

V. TREATMENT OF DEMOLITION COSTS

GASB 34 gives no specific guidance concerning how to treat demolition costs for financial reporting purposes, but based on the approaches utilized by several other public agencies, demolition expenses incurred to prepare an acquired property for its intended use are categorized as improvement to land. TJPA will use this approach. However, demolition costs have been and will continue to be categorized as a construction expense for budget development purposes. It is entirely acceptable to treat demolition costs differently for budget versus financial reporting purposes. Once the project's construction-in-progress has been capitalized, if the TJPA should tear down any structures related to the Transit Center project (e.g. the demolition of the Temporary Terminal), those demolition costs would be capitalized as land improvements, as these costs will prepare the land for its intended use.

Policy: **TJPA will capitalize demolition costs incurred for newly acquired property as improvement to land. TJPA will capitalize demolition of the Temporary Terminal costs incurred on existing property.**

VI. CAPITALIZATION OF LAND IMPROVEMENTS

Policy: **TJPA will capitalize the following costs as Land Improvements:**

- Title and Closing Costs
- Relocation Services, Consultation and Assistance
- Appraisal Services
- Environmental Consulting – Soil Hazardous Materials
- American Land Title Association Design Surveys
- Cost to remove or demolish a building or structure existing at the time of acquisition
- Site Preparation - Betterment that Prepares Land for its Intended Use
- Reconstruction of Property of Others: Rails, Utilities, Parking Lots, Fencing and Landscaping

There may be similar costs that will be categorized by the Chief Financial Officer as "land improvements" in the future. Utility relocation will not be classified as land improvements, but rather as "Transit Center" costs, because the relocation of utilities takes place on property not owned by TJPA and is being performed for the purpose of the building of the Transit Center.

VII. CAPITALIZATION OF "OTHER" ANCILLARY COSTS

Only construction costs for betterment and improvements will be capitalized. The cost of repairs and maintenance will be expensed. As experience is generated with the assets, the useful life estimate will be evaluated and adjusted if necessary.

Policy: **The following ancillary costs will be capitalized as part of the "network of assets" of either the Transit Center or the Downtown Extension as costs necessary to place the asset in service.**

- Interest costs related to debt issuance
- Freight costs
- Installation costs to put asset into service
- Internal costs such as salaries, benefits, administrative

VII. CAPITALIZATION THRESHOLD

- Equipment and Other Capital Expenditures not part of the network or subsystem of assets

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the capitalization threshold level established at $5,000.

IX. CAPITALIZATION OF STATE CONVEYED LAND – ASSIGNING VALUE

Donated capital assets should be reported at their estimated fair value at the time of acquisition. Fair value is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. GASB does not require a formal appraisal of the donated property to obtain the fair value. There is no prescribed guidance by GASB in determining the fair value for reporting of donated land and other real estate. GASB notes that there are many factors that can be considered when estimating the fair value of land, making the estimation of fair value dependent on the unique facts and circumstances of the specific land, such as the future cash flow from its intended use or assessed values of surrounding properties. TJPA will assign a fair value at the time of conveyance based on a rational and systematic method.

X. CAPITALIZATION OF INTANGIBLE ASSETS

GASB 51 requires the financial reporting of intangible assets, such as right-of-way easements, other types of easements, land use rights, licenses and permits, and certain types of information technology to be classified as capital assets. TJPA will acquire easements and certain types of information technology for the Transbay Transit Center and Downtown Extension projects, which will be valued based on the acquisition agreements and costs and reported on the financial statements as non-depreciable capital assets.

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