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Town Falling Behind on Asset Replacement

By Sophie Braccini

A subgroup of Moraga's Audit and Finance Committee recently presented the results of its study of the town's asset replacement plan. The two volunteers assessed the value of town-owned properties - leaving out roads, drains and building frames. They calculated the annual amount the town should set aside to replace these assets and how much should have been saved by now, and presented their stark findings to the Town Council. According to the two financiers, the town should be saving more than $600,000 a year; since that hasn't happened, they estimate the current unfunded depreciation balance to be more than $5 million.

"We used the same rules homeowner associations employ," explained Tom Kennedy, who formed the subcommittee along with Tim Freeman. "HOAs have the legal obligation to save for asset replacement, but cities do not."

The methodology was simple: they listed all the town's assets that will have to be replaced in the foreseeable future, excluding roads and drains that are part of the Measure K plan, and building frames because, if properly maintained, those can last for a very long time. Included are building components that will have to be replaced such as roofs, lighting, carpeting, windows, landscaping; park components such as irrigation, lighting, restrooms; parking lots; traffic signals; police and public works vehicles; and information technology equipment.

Freeman and Kennedy worked with Moraga's Engineering Department to determine when the assets were purchased, when they should be replaced and how much that would cost. "We looked at data indicating what the useful life of an asset is supposed to be, and added a few years to it since we know Moraga's frugal practices," said Freeman.

Their calculations indicated a need to save $627,000 per year to compensate for the depreciation of the town's assets. As of now, the asset replacement fund that was established in 1989 has a balance of $114,000, while the unfunded accumulated depreciation is just over $5.1 million according to Freeman and Kennedy. Their recommendations are to modify the town's reserve policy so when the General Fund balance exceeds 50 percent of the expenditures, the excess is placed in the asset replacement fund; to immediately transfer $1 million of the Palos Colorados Development Fund to asset replacement; and to move forward with transferring 50 percent of future development fees coming from that project to asset replacement.

Councilmember Phil Arth agreed. "Depreciation is a silent killer, like high pressure for humans," he said.

Councilmember Mike Metcalf challenged the subcommittee to present the list of all of the assets and their valuation, and suggested that many of them were probably associated with the Hacienda de las Flores; if the plans changed for that property, he noted, all figures would have to be re-evaluated. Councilmember Dave Trotter indicated that the Palos developer fees had been forecast for recreation use, and that he could not agree to diverting so much of the money to an asset replacement fund unless a comprehensive discussion about the spending priorities for those funds is conducted.

Mayor Ken Chew, whose term ends this month, insisted on prudent management of future revenue. "I don't know why people would have a problem with saving money," he said.

The council agreed to continue the discussion and consider questions related to finding the means for asset replacement and spending priorities for the Palos Colorados developer fees.

Reach the reporter at: sophie@lamorindaweekly.com

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