



**King County
Administrative Policies and Procedures**

**General Administrative
Policies & Procedures**

Title	Document Code No.
Equipment Rental and Revolving Funds Unrestricted Net Current Assets Policy	FES 11-1-1 (AEP)
Department/Issuing Agency	Effective Date.
Department of Transportation / Fleet Administration Division	MARCH 1, 2010
Approved	

1.0 SUBJECT TITLE: Equipment Rental and Revolving Funds Unrestricted Net Current Assets Policy

1.1 EFFECTIVE DATE: 10 days after Executive signature

1.2 TYPE OF ACTION: This policy superseded FES 11-1 (AEP) dated 3/12/1999

1.3 KEY WORDS: (1) Unrestricted Net Current Assets; (2) Assets Earmarked for Parts, Supplies and/or Materials Inventories; (3) Assets Earmarked for Equipment Replacement; (4) Assets Earmarked for Capital Replacement and Improvement; and (5) Rental Rates.

2.0 PURPOSE: To formalize a policy consistent with applicable statutes on the level and components of Unrestricted Net Current Assets and to outline the formula to be used in determining rental rates to assure compliance with the desired level of Unrestricted Net Current Assets.

2.1 To maintain user rental rate stability.

2.2 To assist King County in maintaining its credit rating.

2.3 To provide funds for timely and efficient replacement of materials, vehicles, and equipment; and systems and equipment used for maintaining vehicles and rental equipment.

3.0 ORGANIZATIONS AFFECTED: Applicable to the Public Works Equipment Rental and Revolving Fund (Fund 557); the Motor Pool Equipment Rental and Revolving Fund (Fund 558); the Wastewater Equipment Rental and Revolving Fund (Fund 5441); and other equipment rental and revolving funds that may be established and managed by Fleet Administration in the future.

4.0 REFERENCES:

4.1 Revised Code of Washington, Chapter 36.33A, "Equipment Rental and Revolving Fund"

4.2 Revised Code of Washington, Chapter 43.09 Section 210, Local Government Accounting

4.3 King County Financial Policy for Non-Current Expense Fund Balances, adopted by King County Council Motion No. 5888, January 3, 1984

4.4 Motor Pool Special Study, Report No. 97-9, Presented to the King County Council by the Office of the Auditor, dated November 17, 1997

4.5 Budgeting Accounting Reporting System (BARS) Manual, Office of State Auditor, Volume 1, Part 3, Chapter 7

4.6 Miller Comprehensive Governmental GAAP Guide, current edition.

4.7 Equipment Rental & Revolving Fund Guidance, Washington State Auditor's Office

4.8 GASB Codification of Governmental Accounting and Financial Reporting Standards. Section 1300.104.

5.0 DEFINITIONS:

5.1 "Unrestricted Net Current Assets" means the difference between the total current assets and total current liabilities of the fund. It represents the balance of all financial resources available for current appropriation and expenditure after all revenues and expenditures have been accounted for at the end of a given period. Unrestricted Net Current Assets shall contain three components:

5.1.1. "Assets Earmarked for Parts, Supplies and/or Materials Inventories" means the amount set aside and available for the replacement of parts, supplies and/or materials in the Supplies Inventory asset account.

5.1.2. "Assets Earmarked for Capital Replacement and Improvement" means the amount set aside and available for planned capital improvements and replacements of existing systems and equipment used in maintaining vehicles and equipment, such as automotive test equipment, shop hoists, car wash facility, steam cleaner facility, etc.

5.1.3. "Assets Earmarked for Equipment Replacement" means the amount set aside and available for the replacement of vehicles and equipment.

5.2 "Rental Rate" means the amount charged to the using agency for the use of Equipment Rental and Revolving Fund vehicles or equipment. The rentals may be charged to user agencies on an hourly, daily or monthly basis consistent with RCW 36.33A. Rental Rates include, but are not limited to, charges for maintenance and operating costs, overhead costs, equipment replacement, non-operating revenues, and other adjustments.

5.2.1 "Maintenance and Operating Costs" means the costs of keeping the vehicle or equipment in operation. It includes, but is not limited to, the costs of fuel, oil, tires and tubes, batteries, and all other parts and labor expended in order to maintain and operate the fleet.

5.2.2 "Overhead Costs" means the costs expended for providing general management, administrative activities, insurance, rent, utilities, support services in managing the fleet and County wide central service charges.

5.2.3 "Replacement Charge" means the amount charged in order to accumulate the anticipated cost of replacing vehicles and equipment at the end of their economic life.

5.2.4 "Non-operating Revenues" means the amount credited against the rental rate to reflect other revenues earned by the fund. The primary sources of non-operating revenues are interest income and proceeds from the sale of surplus vehicles and equipment.

5.2.5 "Other Adjustments" are amounts added to or credited to the rental rate to cover deficiencies or surpluses in the prior year's operations.

6.0 POLICIES:

6.1 Assets Earmarked for Equipment Replacement should be no less than 10% and not more than 20% of the estimated replacement costs of all equipment in the fund in any given year during the fleet replacement cycle. A balance of Unrestricted Net Current Assets at the end of any year that is less than 10% or more than 20% of total estimated replacement costs shall be adjusted in the following year by adjusting the rental rates.

6.1.1 Should conditions such as replacement of unusually expensive vehicles or equipment require a balance of Unrestricted Net Current Assets above the 20% threshold, or cause the balance of Unrestricted Net Assets to fall below the 10% threshold, Fleet Administration shall request approval for an exception through the financial plan submitted during the annual budget process, as described in section 7.

6.2 Assets Earmarked for Parts, Supplies and/or Materials Inventories shall equal the amount in the asset account, Supplies Inventories.

6.3 Assets Earmarked for Capital Replacement and Improvement shall be three percent of estimated annual revenues. Such amounts may be designated for planned capital improvements and purchase or replacement of systems or fixed assets not rented out by the fund.

6.4 If revenues cause the balance of Unrestricted Net Current Assets Earmarked for Equipment Replacement to exceed 20% of total replacement costs, rates shall be adjusted consistent with sections 5.2.5, 6.1., and 6.1.1.

6.5 Rental rates shall cover all costs of maintenance and repair, material and supplies consumed in operating and maintaining equipment, administrative and central services overhead and future replacement.

7.0 PROCEDURES:

7.1 Fleet Administration Division of the Department of Transportation shall develop rental rates as a part of the Executive budget process.

7.1.1 Operating and maintenance costs shall be determined by using the most recent cost information available for the preceding twelve months. For vehicles or equipment with no cost history, Fleet Administration shall develop an estimate using whatever indices or comparable data are available.

7.1.2 Initial periodic replacement charges for vehicles and equipment shall be computed by dividing actual equipment cost by the projected number of periods in the life of the asset. Asset replacement cost shall be updated to current actual cost annually, and periodic replacement charges adjusted accordingly.

7.1.3 The other component of the rental rate computation shall be determined by estimating the anticipated proceeds from all sources of income other than rental revenues. Factors to be used in estimating other income include, but are not limited to, economic climate and historical experience.

7.2 Fleet Administration Division shall develop an annual financial plan covering the fleet replacement of the fund. The plan shall ensure that the appropriate level for each component of Unrestricted Net Current Assets is met.

7.2.1 Unrestricted Net Current Assets Earmarked for Parts, Supplies and/or Materials Inventories, shall be computed to equal the amount in the asset account Inventory of Supplies, and shall be estimated in the financial plan to equal the level of supplies inventory on hand at the end of the previous year, plus or minus adjustments for known changes in the operation affecting the level of supplies inventory.

7.2.2 Unrestricted Net Current Assets Earmarked for Capital Replacement and Improvement shall be computed to be three percent of estimated annual revenues on the financial plan.

7.2.3 Fleet Administration shall earmark the balance remaining after implementing item 7.2.1 and item 7.2.2 as the Unrestricted Net Current Assets Earmarked for Equipment Replacement. If this amount is less than 10% or more than 20% of the total estimated replacement cost of all equipment in the fund, rates shall be adjusted to bring the fund balance to the appropriate level.

8. **RESPONSIBILITIES:**

8.1 Fleet Administration is responsible for ensuring compliance with this policy.

9. **APPENDICES:** None