

THE CITY OF NEW YORK

OFFICE OF THE COMPTROLLER

INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES

DIRECTIVE 10 - CHARGES TO THE CAPITAL PROJECTS FUND

INTRODUCTION AND SUMMARY

The City of New York's (City's) capital spending policy is governed primarily by Chapter 9 of the New York City Charter and Sections 10 and 11 of the New York State Local Finance Law (LFL). These laws require, among other things, that only assets that meet the definition of Capital Assets in accordance with generally accepted accounting principles (GAAP) may be charged to the Capital Projects Fund to be financed with long-term debt.

The purpose of this Directive is to set forth the accounting policies for determining when an agency may use capital funds financed by long-term debt for the acquisition, construction, reconstruction, or installation of a Capital Asset. It identifies the broad categories of projects or purposes appropriate for capital funding and provides interpretive guidance for the most commonly encountered situations. The City's Capital Assets are mainly financed by long-term borrowings but may also be funded by federal, state, and private grants or the General Fund. Capital Projects, which are predominately financed by long-term borrowings, must meet legal eligibility requirements pursuant to the LFL and the New York City Charter and must further conform to any other legal requirements not specifically set forth in this Directive. Final determination of eligibility can be made only upon the review of specific proposed projects by the appropriate City officials and, if necessary, the City's outside Bond Counsel. Therefore, this Directive, including the examples below, should not be viewed as an all-inclusive statement of the requirements necessary for establishing capital eligibility.

The City's capital spending policy and the procedures and internal controls built into the capital budgeting, authorization and payment request processes have been developed to insure compliance with the following underlying principles and objectives:

Funds obtained through long-term borrowing must be used for long-lived assets rather than for current expenses or minor purchases;

When borrowed funds are used to purchase assets, the useful life of the assets must match or exceed the length of the associated debt incurred;

Capital Projects must be limited to the purposes set forth in the New York City Charter; and

The projects or purposes for which debt is issued must conform to all applicable federal, state, and local laws.

In addition to this Directive, the Comptroller's Internal Control and Accountability Directive No. 30, *Capital Assets*, provides accounting standards for the reporting of Capital Assets in the City's financial statements. Directive No. 30 also gives direction for agency handling of Capital Asset dispositions, impairments, write-offs and other related activities including the need for sound asset control procedures.

PART I

1.0 GENERAL INFORMATION

1.1 Organization

Part I

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1.2 Comptroller Authority

This Directive is issued pursuant the Comptroller's authority as established in Chapter 5, Section 93 of the *New York City Charter*. Capital spending and the classification and control of Capital Assets held by the City of New York are subject to periodic audit by the New York City Office of the Comptroller.

1.3 Effective Date

This Directive is effective immediately. It supersedes the previous version, issued June 3, 2005.

1.4 Assistance

Questions or comments concerning this Directive should be addressed to: The Office of the Comptroller, attention: Directives Unit Chief, Bureau of Accountancy, Municipal Building, One Centre Street, Room 827, New York, NY 10007, (212) 669-8216, E-mail directives@comptroller.nyc.gov.

1.5 Internet Availability

An inventory of existing Office of the Comptroller's Internal Control and Accountability Directives, most with download capability, is available on the Comptroller's website at <http://www.comptroller.nyc.gov>. Directives without download capability may be obtained by contacting the Directives Unit.

2.0 TERMINOLOGY AND PROCEDURES

2.1 Capital Projects Fund

The Capital Projects Fund is a set of accounts in the City's Financial Management System (FMS Accounting) that is used to record all revenues, expenditures, assets, and liabilities associated with Capital Projects.

2.2 Capital Budgets

FMS Accounting maintains Capital Expenditure and Capital Revenue budgets. The Capital Expenditure Budget (hereinafter, Capital Budget) helps the City manage capital spending by controlling and monitoring both the amount spent and the purposes for which capital funds are used. The Capital Revenue Budget records and tracks all revenues intended to finance capital spending.

2.3 Capital Projects

Capital Projects vary widely in nature and purpose. Examples include, but are not limited to: major construction or betterment projects such as the construction or rehabilitation of a school; stand-alone purchases of major equipment such as a fire truck, mainframe computer, or major kitchen appliances; the purchase or upgrade of equipment systems (a grouping of related components that, in combination, constitute a system or other logical assemblage) such as a neighborhood's street lights or an agency computer system; and a building in a statutory housing loan or grant program. This Directive provides criteria for evaluating the appropriateness of agency projects for capital financing and their eligibility for inclusion in the Capital Budget.

2.4 Capital Assets

Generally a Capital Asset may be a tangible property or an intangible asset that meets the minimum cost, minimum useful life, and other criteria for capital funding described in this Directive. When used in the text, references to Capital Assets may refer either to the object of a planned capital construction or purchase, or to an existing asset obtained or controlled as a result of past transactions, events or circumstances.

2.5 Capital Processing Procedures

Agency planning, authorization, vouchering, and recordkeeping for capital

expenditures must be performed in accordance with the City's accounting and budgeting procedures. Accounting procedures are described in FMS Accounting's *Accounting Policies and Procedures*. This guide describes the appropriate authorizations, and entry procedures that agencies must follow to insure that transactions are properly accounted for in FMS Accounting.

Agency requests for capital funding must be reviewed and approved by the Office of Management and Budget's (OMB) Task Force and Counsel's Office and the City's Bond Counsel. The Office of the Comptroller reviews authorized Capital Projects for conformity with applicable accounting standards and directives.

Charges to the Capital Budget must be encumbered by the agencies on capital agreement documents such as contracts or purchase orders prior to the issuance of any payments. The Comptroller will encumber capital funds only on the basis of an approved capital contract, open market purchase order, or Interfund Agreement (IFA). The policies and procedures related to processing capital items in FMS Accounting and the use of capital contracts and purchase orders are described in detail in the above referenced FMS Accounting procedures.

Prior to the initiation of design or advancement of any Capital Project, an agency must request, from OMB, a Certificate to Proceed (CP). The CP approves a cost limitation and scope of work for the Capital Project.

3.0 BASELINE ELIGIBILITY CRITERIA

In accordance with relevant law and accounting policies, the City has established baseline standards of purpose, cost, useful life, and replacement that must be met in order for an agency project to be eligible for capital financing. The baseline eligibility criteria are presented below in this section. Part II of the Directive provides more specific guidelines, procedures, and examples to help agencies determine capital eligibility for individual projects. Expenditures that do not meet the Directive's Baseline Eligibility Criteria may not be financed through the capital budget with long-term debt.

3.1 Purpose

City Charter, Chapter 9, Section 210 permits the use of bond proceeds for projects that provide for the "construction, reconstruction, acquisition, or installation of a physical public betterment or improvement which would be classified as a Capital Asset under generally accepted accounting principles for municipalities or any preliminary studies and surveys relative thereto or any underwriting or other costs incurred in connection with the financing thereof."

In general, Capital Projects must be tangible property or intangible assets with a multi-year life. Projects with the following purposes are typically considered capital eligible subject to the legal reviews described above:

- (a) The purchase, construction, reconstruction and/or betterment of buildings, structures, facilities, or any element of infrastructure, including housing loan and, under certain circumstances, building demolition costs (section 4.5 of this Directive). Infrastructure refers to immovable assets in the public domain including: roads, bridges and tunnels; streets, curbs and sidewalks; parks and playgrounds; drainage and sewer systems; water distribution systems; and piers, docks and wharves.
- (b) Pollution remediation that meets the provisions of Section 4.4.1 of this Directive.
- (c) The purchase of furnishings, machinery, and equipment for the initial outfitting of a building, structure, facility, or element of infrastructure.
- (d) The purchase of land and real property easements.
- (e) The purchase, construction, or upgrade of items of major equipment such as elevators, construction equipment, and power generators.
- (f) The purchase, upgrading, and installation of equipment systems such as: street lighting, telecommunications systems, emergency response systems, security systems, fire prevention systems, and traffic control systems.
- (g) The purchase of computer systems and computer networks including upgrading computers and computer software.
- (h) Internally generated computer software projects that meet the provisions of Section 7.2(4) of this Directive.
- (i) The purchase of motor vehicles (excluding passenger vehicles unless such vehicles have a capacity of at least ten passengers), rapid transit cars, aircraft, and water craft.
- (j) The reconstruction, upgrade, betterment or initial outfitting of real property, structures, facilities, equipment or other Capital Assets the City controls under long term lease.
- (k) The payment of judgments and claims associated with Capital Projects.
- (l) Funding certain statutorily authorized housing loan programs for work that otherwise meets the requirements of the Directive.

3.2 Minimum Cost

The cost of a Capital Project must be \$35,000 or more. The \$35,000 minimum refers to the total cost of the project, excluding the cost of initial outfitting and surface treatments (such as painting and carpeting), if any. If the Capital Project involves improvements to real property and the work within different areas of a building, facility or element of infrastructure is comprehensive, as defined in section 4.1, the improvements combined must cost at least \$35,000. If the project is not comprehensive, as defined in section 4.1, the improvements to the different areas of the building, facility or element of

infrastructure must each meet the \$35,000 minimum cost. If the Capital Project involves equipment, each unit of equipment must have a unit cost of \$35,000, unless the equipment is part of an initial outfitting, as defined in Section 5.0.

3.3 Minimum Useful Life

A project's expected useful life, for City purposes, must be at least five years for the expenditure to be classified as a Capital Project. Agencies must document expected useful life estimates for Capital Projects.

Agency estimates of useful life must be in writing and be provided by a qualified engineer or architect with specific knowledge of the project. In the case of computer equipment, software and other systems and equipment that are heavily dependent on newly emerging and evolving technologies, the estimate must be provided by the agency's Chief Information Officer, Information Systems Director, or similar highly qualified official with specific knowledge of the project. Past usage patterns may be used as evidence of estimated future useful lives.

3.4 Capital Project Charges

Once a budget code is established for a Capital Project, in accordance with the requirements of this Directive, agencies must ensure that only capital eligible expenditures are charged to this budget code.

3.4.1 Eligible Expenditures.

Whether paid to vendors or incurred by City employees, agencies may charge the following expenditures to the Capital Budget if they are identified with a specific Capital Project or are necessary and incidental thereto, provided that these costs are for Capital Projects that will be completed. If it is subsequently determined that a project will not proceed, the unfinanced preliminary and other soft costs incurred on the project must be transferred to the expense budget.

- (1) Costs for preliminary surveys, maps, plans and estimates.
- (2) Incidental costs, including legal fees, printing and engraving, and publication of notices.
- (3) Site selection costs.
- (4) The costs of conducting New York State Environmental Quality Review Act (SEQRA) or other legally required reviews, once the related Capital Project has been approved by OMB.
- (5) Costs for planning, design, and architectural services.
- (6) The cost of supervising the work of outside vendors.

- (7) Direct costs paid to contractors, vendors, consultants and others that provide materials, labor, and services.
- (8) Certain overhead expenses, including City employee salaries and Other Than Personal Service (OTPS) costs, incurred: (a) by the office(s) or organizational unit(s) in the agency that contributes direct employee salary costs (salaries that vary directly with changes to the Capital Project), and (b) by the agency's executive offices, and (c) IFA program overhead may be charged to Capital Projects using IFAs, in accordance with the guidelines set forth in Section 9.0 of this Directive. General and administrative costs and/or profit associated with recipients of City capital grants are never capital eligible.
- (9) Payment of judgments and claims associated with Capital Projects.
- (10) Acquisition, construction, reconstruction, and installation of projects on privately-owned property is eligible if it meets the requirements of this Directive and additional legal requirements not described herein.
- (11) Payment of costs of operating a construction site during the construction period, including but not limited to: site security, temporary power and heating and all costs of utilizing construction equipment, machinery and elevators and other project elements necessary for construction. For this purpose, the construction period is deemed to end when the asset is substantially complete and ready for its intended use. If an asset is completed and placed in service in phases, only the incremental costs attributed solely to the on-going construction are eligible.

3.4.2 Ineligible Expenditures.

Certain indirect and overhead expenditures, even though they may be related to eligible Capital Projects, must not be charged to the Capital Budget. These items include:

- (1) Agency general and administrative costs, including general planning, human resources voucher processing and auditing, budgeting, and accounting costs. (Under specific conditions certain general and administrative costs may be charged to Capital Projects using IFA. These are described in Section 9.0 of this Directive.)
- (2) General and administrative overhead related to the activities in (1) above;
- (3) Feasibility studies and other work undertaken to determine whether or not a project can or should take place;
- (4) Rental payments, except for payments for temporary space and, in such case,

only to the extent necessitated by the betterment of an existing space;

- (5) Reviews associated with determining whether or not a project will proceed;
- (6) Pre-SEQRA costs where it is determined that the underlying project is not to proceed. The unfinanced preliminary costs would have to be transferred to the expense budget;
- (7) Preventive maintenance costs;¹
- (8) Training costs, except for the development of training programs that independently meet the capital eligibility requirements outlined in this directive, including a minimum cost of \$35,000 and a minimum useful life of 5 years;
- (9) Extended warranties or maintenance agreements that have a cost beyond the base price of the equipment; and
- (10) Acquisition or improvement of an asset intended to be sold or otherwise disposed of by the City in less than 5 years, except for certain housing and economic development programs and projects that would, after sale, meet the requirements for Capital Projects on privately-owned property.
- (11) Construction interest and the payment of various City taxes and other charges, including City real estate taxes, City mortgage recording taxes, water and sewer fees, etc.

3.4.3 Encumbering Capital Commitments

Agencies should encumber capital dollars using capital agreement documents when it is expected that the purchase will result in a Capital Asset. However, when an agency chooses a vendor whose bid results in the asset's unit cost not meeting the minimum Baseline Eligibility Criteria discussed in this Directive for capital funding, the asset does not qualify as a Capital Project.

¹ The term Preventive Maintenance costs excludes betterments and upgrades as defined in Part II, Section 4 of this Directive

PART II

Part II provides additional procedures, criteria, and more specific guidance to help evaluate capital eligibility for the broad classes of projects listed in Part I, Section 3.1. Unless otherwise specified, baseline eligibility criteria described in Part I, Section 3.0 must be met for all Capital Projects.

4.0 BETTERMENTS AND UPGRADES TO CAPITAL ASSETS

Improvements to Capital Assets that meet the baseline eligibility criteria outlined in Section 3.0 of this Directive are eligible Capital Projects if they qualify as a betterment or upgrade as described below. For convenience, this Directive uses the term betterment when referring to buildings, facilities or any element of infrastructure, while upgrade refers to equipment.

4.1 Eligibility Determination for Betterments and Upgrades

Eligibility determination applies to both betterments and upgrades as mentioned above. To be eligible for capital funding, a betterment or upgrade must accomplish at least one of the following for the Capital Asset as a whole or a component thereof:

- (1) Extends the useful life by at least five years;
- (2) Substantially expands the size or capacity;
- (3) Substantially increases the functionality (either by adding new functions or improving its fitness for its existing uses); or
- (4) Adapts it to a completely different use.

A comprehensive betterment usually involves a complete renovation to different areas of a building, facility or element of infrastructure. The work must be extensive, connected and usually involves all four trades including 1) heating, 2) electrical, ventilation and air conditioning, 3) plumbing and 4) general construction. Comprehensive betterments usually involve complete redesigns of space including new floor plans. For comprehensive betterments, for purposes of meeting the \$35,000 minimum cost identified in Section 3.2 (subject to the limitations therein concerning initial outfitting and surface treatments):

- a) The cost of renovations to different areas of a building, facility or element of infrastructure may be combined if such areas are physically near and functionally related to each other. Functionally related areas are those that are dependent upon each other and necessary for the asset to function for its primary purpose.
- b) The cost of upgrades to different parts of equipment or elements of an equipment system may be combined if such parts or elements are physically near and functionally related to each other

If the project does not meet the definition of a comprehensive betterment, the cost of renovations to different areas of a building, facility or element of infrastructure must each meet the \$35,000 minimum cost identified in Section 3.2; for example, a \$15,000 roof replacement, a \$10,000 kitchen renovation and a \$10,000 boiler replacement must each meet the \$35,000 minimum cost.

For statutory housing loan or grant programs, for all projects, the cost of any work in an individual building may be combined for purposes of meeting the \$35,000 minimum cost identified in Section 3.2.

4.2 Eligible Betterments and Upgrades- Examples

Eligible betterments include but are not limited to the following, provided that they meet the requirements described in Section 4.1 above:

- (1) Expanding or adding to the size of a building, structure, or other Capital Asset.
- (2) Installing mechanical systems, such as plumbing, heating, ventilation, and air-conditioning, and other systems.
- (3) Installing comprehensive streetscape improvements to contiguous streets in a defined geographic area, whether or not in conjunction with street reconstruction. Such improvements may include landscaping, the reconstruction of sidewalks and the installation of benches, sprinkler systems, immovable or fixed refuse receptacles, fountains, the construction of biking or jogging paths and street lighting. (The installation or reconstruction of any single element, however, does not itself constitute streetscape improvements).
- (4) Funding certain statutorily authorized housing loan programs for work that constitutes a betterment as described above.
- (5) Retrofitting a building, structure, facility or other Capital Asset or a component thereof for a wholly new or significantly changed use.

Eligible upgrades include, but are not limited to the following, provided that they meet the requirements described in Section 4.1 above:

- (1) Updating the essential equipment or technology at a facility.
- (2) Equipping a fleet, or portion thereof, of motor vehicles with communications or other technological equipment.
- (3) Extending the coverage, reach, range, or power of an equipment system.

4.3 Ineligible Costs

The following are not eligible capital projects:

- (1) Maintenance programs such as painting and carpet cleaning or replacement.
- (2) Additional consumable supplies and inventory (e.g., toner cartridges, utensils, or mouse pads).
- (3) Any item representing a replacement of an existing item that itself does not meet baseline eligibility criteria, such as utensils, kitchen counters, other related kitchen items, chairs, desks and office equipment such as typewriters, time clocks, microwaves and refrigerators that are not part of an initial outfitting.
- (4) Renovations of office space, facilities or other Capital Assets involving only (i) surface treatments such as carpeting or painting and/or (ii) minor carpentry.
- (5) Relatively small adjustments or changes that do not constitute a betterment or upgrade as defined in Section 4.1 above.

4.4 Recent Issues

Guidance for a number of specific instances that have arisen in recent years is provided as follows.

4.4.1 Pollution Remediation

Environmental remediation that is necessary for the completion of a capital project is capital eligible. However, capital funding for stand-alone environmental remediation (with the exception of lead paint and asbestos abatement programs) is not eligible. [See Directive 30, *Capital Assets*, Section 8.0, "Pollution Remediation Assets," for a discussion of when pollution remediation outlays result in capital assets.]

City agencies must reflect Pollution Remediation expenditures, by type, i.e. Land Acquisition and Construction Buildings, in FMS Accounting, in the Capital Projects Fund. See Directive 30, Section 8.6, "Recording of Pollution Remediation," which lists the object codes that must be used to record Pollution Remediation expenditures.

4.4.2 Bridge Coating and Bridge Painting

- (1) The cost of bridge coating and painting is an eligible Capital Project when it involves a treatment process that incorporates extensive surface preparation and the application of a protective coating that has a life

expectancy of at least 10 years, and the coating is applied to a bridge that has a useful life of at least 10 years and an original or replacement cost of at least \$10 million

- (2) The cost of bridge painting that does not meet the requirements of section 4.4.2(1) above, is an eligible Capital Project only when the painting is one aspect of a construction or rehabilitation project that increases the utility of the bridge as defined in Section 4.1 of this Directive.

4.4.3 Tree Pruning and Planting

The cost of pruning trees may be an eligible Capital Project when done in connection with a Capital Project that otherwise meets the baseline eligibility requirements outlined in Section 3.0 of this Directive; for example, when the pruning is done in connection with betterment to an existing park or playground. In the absence of a betterment, pruning alone is not eligible as a Capital Project. The cost of planting new and replacement trees is eligible only when part of a Capital Project that otherwise meets the requirements of this Directive; such as when the planting is done in connection with a betterment to an existing park or playground, a comprehensive streetscape improvement program or if part of a comprehensive tree planting and replacement program.

4.4.4 Stand Alone Air Conditioners

The cost of stand-alone air conditioners is not eligible as a Capital Project except as part of initial outfitting.

4.4.5 Charter Schools

Improvements to charter schools on privately-owned property, like improvements to any privately-owned property, must meet the criteria identified in Section 10 of this Directive.

4.4.6 Production or Purchase of Media Content

The cost of producing or purchasing media content such as electronic media, television programming, website development, or electronic exhibits or displays is an eligible capital project if it meets the capitalization criteria contained in Directive 30, Section 2 and Section 9 and the baseline eligibility criteria defined in Section 3 of this Directive.

4.5 Demolitions

Demolishing an existing building or structure is an eligible Capital Project when:

- (1) The demolition and removal of the building or structure is necessitated by, or is in

anticipation of, the preparation of the site for the construction of a new City-owned building, structure, facility or other element of infrastructure (or such elements owned by a City component unit as reported in the City's Comprehensive Annual Financial Report (CAFR)); or

- (2) The demolition is undertaken for the purpose of removing a hazardous or potentially hazardous condition, provided that the building or structure is City owned or owned by a City component unit as reported in the CAFR.

4.6 Landfill Closure

Landfill remediation costs, including closure and postclosure costs, are not capital eligible expenditures. However, the incremental costs of methane collection and similar systems with future revenue generating potential are eligible.

4.7 Fencing

The fencing of a City owned lot, for public health and safety purposes, is a capital eligible expenditure provided it meets the baseline eligibility criteria outlined in Section 3.0 of this Directive. The cost of the fencing of lots throughout the City cannot be taken in the aggregate in order to meet the minimum cost criteria. Fencing on privately-owned lots is not an eligible Capital Project.

5.0 INITIAL OUTFITTING

The initial outfitting of a building or other Capital Asset at the time of acquisition, lease, construction, reconstruction, upgrade, or betterment that meet the baseline eligibility criteria described in Section 3.0 of this Directive, except for the minimum cost requirement of \$35,000, is an eligible Capital Project as described below.

5.1 Definition

Initial outfitting is the outfitting of a defined area that (i) has been newly acquired, leased or constructed or (ii) is the subject of a comprehensive upgrade or betterment.

5.2 Timing of Purchases

Orders for initial outfitting must be placed within six months of the date that the building, structure, facility or other Capital Asset is placed into service. If a facility is opened in stages, the initial outfitting for each stage must be ordered within six months of the first use of that stage. Any equipment or furniture ordered after six months is not considered part of the initial outfitting. Such equipment or furniture would not be an eligible Capital Project unless it otherwise meets the criteria established by this Directive for Capital Projects, in which case it may be processed as a separate Capital Project.

5.3 Initial Outfitting - Eligible Costs

- (1) Non-moveable equipment that is a fixture of the building, structure, facility, or other Capital Asset, regardless of cost.
- (2) Individual pieces of moveable equipment or furniture, or equipment or furniture units must meet a minimum eligibility cost requirement of \$110 or more. An eligible *unit* consists of a functional group where some constituent elements may cost less than \$110, but combined cost is at least \$110. A functional group includes the furniture and equipment required to bring a space to use but excludes accessories as set forth in 5.4.(3). Examples include, but are not limited to: (1) for an office- a desk, accompanying visitor and desk chairs, printer stand and book cases; (2) for a conference room- a conference table, accompanying chairs, side table and book cases; and (3) for a reception area- chairs, tables and book cases. In the case of modular equipment and furniture, a functional group in each modular cubicle may include permanently attached overhead shelves, cabinets and built-in lights, the work surface and permanent attachments to the work surface such as a keyboard tray and/or drawer and standing furniture and equipment required to bring the cubicle to use such as pedestal file cabinets, desk and visitor chairs.
- (3) In the case of a library, the initial inventory of library books and other educational materials such as CDs and DVDs, regardless of individual costs, upon the acquisition or construction of collection space or upon a betterment that converts space to use for collections.
- (4) In the case of a fire truck, ambulance, or other capital eligible vehicle, the initial inventory of ladders, hoses or other equipment necessary to the purpose of the vehicle, regardless of individual equipment costs.

5.4 Initial Outfitting - Ineligible Costs

- (1) Moveable or modular equipment or furniture with an individual or unit cost of less than \$110 or a functional group with a cost of less than \$110 are not eligible as a capital expenditure under any circumstance.
- (2) Consumable supplies of any kind, regardless of grouping or unit cost or whether they are required for first use. Examples of consumable supplies include, but are not limited to: toner, paper, CDs, DVDs, badges/IDs, utensils, and mouse pads.
- (3) Accessories with an individual or unit cost of less than \$110 and whose use is purely incidental to the functional group to which they relate are not eligible as capital expenditures. Examples include, but are not limited to, individual office or modular office trash cans, file trays, staplers and similar items and modular cubicle accessories that are not permanently attached to the cubicle structure such as removable hooks, pencil holders and shelves.

- (4) Building maintenance equipment and grounds maintenance equipment, including but not limited to floor buffers, vacuum cleaners, snow and leaf blowing machines, regardless of unit cost, unless such equipment meets the baseline eligibility criteria outlined in Section 3.0 of this Directive.

6.0 EQUIPMENT SYSTEMS

Generally, equipment systems that meet the baseline eligibility criteria outlined in Section 3.0 of this Directive and the additional criteria established in this section are eligible Capital Projects. Equipment systems may be acquired independently, at the time of an initial outfitting, or as part of an upgrade.

6.1 Eligibility Criteria

To be capital eligible, equipment systems must be composed of a group of related elements. The elements are considered related if they are mutually dependent upon each other, and physically connected or connected through a wireless network. All elements of an equipment system that satisfy these criteria, regardless of individual cost, are capital eligible.

Typical equipment system elements include:

- (1) Machinery or equipment components and subcomponents, including initial parts;
- (2) Operating and application software;
- (3) Initial setup requirements including wire, cabling, interconnecting hardware, software, and transmission devices; and
- (4) Any labor, service, or incidental parts (excluding consumable supplies) necessary to assemble the elements and prepare the system for its intended operational use.

6.2 Equipment Systems - Examples

Examples of interdependent equipment systems that could qualify as capital eligible include, but are not limited to:

- (1) Communications systems, such as telephone systems or police radio networks;
- (2) Electrical systems, such as power supply, fire protection, or traffic control systems;
- (3) Computer networks and security systems (Section 7.0 of this Directive); and
- (4) Combination systems such as electro-mechanical and other systems that are computer controlled.

6.3 Ineligible Expenditures

The purchase of multiples of the same item that do not meet the requirements for mutual dependence and service of a defined geographic area or facility as described in paragraph 6.1 above, are not equipment systems and are ineligible for capital funding unless each item alone meets the minimum baseline eligibility criteria contained in Section 3.0 of this Directive. For example:

- (1) The purchase of multiple bookcases, desk calculators, single space parking meters, moveable refuse receptacles or similar low value items for distribution throughout an agency, regardless of the total cost of the expenditure, does not meet the criteria for an equipment system and is not eligible as a capital expenditure.
- (2) Replacement of copy machine(s).
- (3) Replacement of any information technology equipment that was originally purchased with capital money and has not been in use for at least five years.
- (4) Individual computer terminals connected only to the internet.
- (5) Laptops and notebook computers, unless such devices i) are kept in designated carts which keep the devices secure and accounted for when not in use, (ii) do not leave the building where they are housed, and (iii) are marked and tracked by a security/inventory system. In addition, the agency user of such devices must have a demonstrated track record of usage, ownership, or maintenance of all of such similar devices for a minimum of five years with virtually no loss or damage of equipment.
- (6) Blackberries and similar products, I-Pods, I-Pads and similar products, cell phones and PDA's.
- (7) Elements that could be part of the computer system, but are not mutually dependent upon each other, i.e. heavy duty carrying cases for audio-visual equipment.

6.4 Equipment System Upgrades

To be capital eligible expenditures, upgrades to equipment systems must meet the baseline eligibility criteria outlined in Section 3.0 of this Directive and the additional criteria for upgrades outlined in Section 4.0 of this Directive.

7.0 COMPUTER HARDWARE, SOFTWARE, NETWORKS AND SYSTEMS

The costs of computer hardware, software, networks and integrated systems that meet the baseline eligibility criteria outlined in Section 3.0 of this Directive and the additional criteria established in this section are eligible Capital Projects. Acquisitions may be in the form of stand-alone purchases, equipment systems, or upgrades.

7.1 Eligibility of Software

Under the City's policy, operating and application software are considered integral components of computer equipment and systems and, in fact, of many other types of equipment. In concept, software is akin to the equipment, fixtures, or library books needed for a new capital facility, in the sense that the physical asset, in this case the hardware and/or network would be virtually useless without it. Consequently, within the restrictions set forth in this section, software is an eligible Capital Project.

7.2 Computer Hardware, Software, Networks and Systems – Eligible Costs

The following expenditures are generally capital eligible:

- (1) The cost of computer hardware components, including warranty costs customarily included with component prices, whether as part of an equipment system or upgrade, or as a stand-alone purchase. Equipment purchased as part of an integrated computer system must meet also the requirements in Section 6.0 of this Directive.
- (2) The cost of operating system software purchased in conjunction with computer hardware or a system integration project.
- (3) The cost of purchasing application software. Operating or applications software purchased in connection with a system upgrade must meet the requirements of section 4.0 of this Directive in addition to this Section.
- (4) Outlays incurred and related to the development of software meeting the capitalization criteria in Directive 30, *Capital Assets*, Section 9.0. Operating or applications software developed in connection with a system upgrade must also meet the requirements of Section 4.0 of this Directive.
- (5) The cost of purchasing or developing software that provides for the conversion of old data or allows access to it by new systems. Data conversion may be capitalized only to the extent that it is determined to be necessary to make the computer application operational.
- (6) The cost of purchasing, installing or developing computer networks.
- (7) The cost of quality assurance services incurred in connection with a computer system implementation project.
- (8) The cost of establishing a business contingency system only when the contingency system will also be used for normal production/operational purposes (e.g. testing, load balancing, or staging.) The monthly fees associated with the on-going maintenance of the system are not capital eligible.
- (9) Purchase of network printers if such purchase is a part of a larger Local Area Network (LAN) upgrade.

7.3 City Employee Salary Costs- Eligible Costs

City employee salary costs in connection with the development of computer software, networks and systems are eligible capital expenditures only:

- (1) When the individual employees are working on the system during the period starting with development and ending upon formal systems acceptance by the managing agency;
- (2) If the project cost, before City employee salaries, is at least ten million dollars; and
- (3) If costs are incurred during the Application Development Stage of the project. Activities in this stage include the technical design of the selected systems application alternative (see Directive 30, Section 9.2.2).

Employee costs other than those of City employees and employees of City component units are not capital eligible.

All salary costs must be charged using IFAs in accordance with guidelines set forth here and in Section 9.0 of this Directive.

7.4 Ineligible Costs

The following costs are generally not eligible capital expenditures:

- (1) Preliminary business and operational planning for new or replacement systems and upgrades.
- (2) Demonstration of potential systems, vendor selection, consultant selection; except for side-by-side pilots in relation to an already-defined capital project.
- (3) Ongoing preventive and/or remedial maintenance costs, including first year costs.
- (4) Annual fees for disaster recovery services.
- (5) Business process reengineering costs as described in Section 7.5 of this Directive.
- (6) Outlays associated with activities during the Preliminary Project and Post-Implementation/Operation Stages of internally generated software projects (See Directive 30, Section 9.2.4).
- (7) Contingency fees for IT projects.
- (8) Travel/lodging expenses when listed as separate line items for otherwise capitally eligible IT consultants.

7.5 Business Process Reengineering Costs

Computer systems development projects may be closely associated with, or conducted in conjunction with, business process reengineering efforts. Generally, business reengineering involves the streamlining of operations for improved efficiency and effectiveness. It may include the hiring of consultants to provide operational guidance. The cost of business process reengineering, whether done by agency staff or third parties, must be charged to the expense budget. However, process reengineering which is inherent in the design of a system and the implementation of which is essential in order to make full use of the functionality contained by an otherwise capitolly-eligible computer system development project, may be capitalized as part of that system. Capitalization should cease no later than the point at which the computer software is substantially complete and operational.

8.0 LEASES AND LEASEHOLD BETTERMENTS

8.1 Lease Payments

Lease payments are ineligible for capital funding, except lease payments for temporary space to the extent that such temporary space is necessitated by the betterment of an existing asset.

8.2 Leasehold Betterments

Betterments and upgrades made to real property, structures, facilities, equipment, or other Capital Assets the City uses or controls under a long term lease may be eligible for capital funding provided that the project meets all Baseline Eligibility Criteria outlined in Section 3.0 of this Directive. The probable period of usefulness (PPU) used to structure the financing for such a betterment or upgrade must not exceed the useful life of the betterment or upgrade or the remaining term of the lease, whichever is shorter, but in no case can be less than five years. Unexercised renewal options or purchase options cannot be counted in determining the remaining lease term.

8.3 Initial Outfitting of Leasehold

The initial outfitting of structures, facilities, equipment or other Capital Assets the City uses or controls under a long term lease may be eligible for Capital funding provided that the initial outfitting meets the requirements of Section 5.0 of this Directive. The PPU used to structure the financing for the initial outfitting must not exceed the remaining term of the lease or the useful life of the betterment, whichever is shorter, and in no case can be less than five years. Unexercised renewal options or purchase options cannot be counted in determining the remaining lease term.

8.4 Leasehold Improvements

A leasehold improvement is a permanent betterment or upgrade that increases the usefulness of the leased property which will revert back to the lessor at the end of the lease

term. Leasehold improvements which meet all the requirements of this Directive are eligible capital expenditures. Unexercised renewal options or purchase options cannot be counted in determining the lease term for minimum useful life.

9.0 INTERFUND AGREEMENTS

An IFA is a mechanism that the City uses to account for and charge to the Capital Project Fund certain personal service and overhead costs that were initially charged to the General Fund.

The operative concept for IFAs is that they are buy/sell agreements that enable the Capital Projects Fund to reimburse the General Fund for in-house Capital Project costs initially charged to the General Fund. IFAs take on the identity of contracts in which the “vendor” agency agrees to perform prescribed services. IFA terms and conditions, in many respects, are the same as those in a contract negotiated with an outside consultant or contractor. These services are subject to audit in the same manner as they would be if performed by an outside contractor.

There are five expense components that comprise eligible IFA charges:

- (1) *First-line* employee services (as defined in Section 9.1 below). These are the direct wage and salary costs of full-time, part time, or seasonal employees when working on Capital Projects, and employees who work on computer system Capital Projects as provided in Section 7.3 of this Directive.
- (2) Fringe benefit costs for first-line employees.
- (3) Administrative overhead costs including personal services, fringe benefits, and related OTPS costs such as supplies, rent, and utilities incurred by the agency that contributes first-line employee services.
- (4) Administrative overhead costs, including personal services, fringe benefits, and related OTPS, such as supplies, rent, and utilities for the agency’s executive staff (commissioner, deputy commissioner and assistants).
- (5) Citywide overhead costs covering the agency’s share of services provided by specified City overhead agencies.

Hourly rates for first-line employees, fringe benefit rates and citywide overhead agency services are determined by OMB. OMB works with agencies to determine allocation bases and procedures, and combines all five elements into a single billing rate (customized for each agency, and by bureau within agency, where applicable) which is applied to first-line employee hours or other appropriate methodology.

9.1 Eligible First-Line Employee Costs

Eligible first-line employee costs include:

- (1) Design, engineering, architectural and construction supervision services incurred in the planning, development, review or construction stages of Capital Projects by the first-line managing agency.
- (2) Legal services provided in connection with the planning for or purchase of a Capital Asset.
- (3) Legal, legal support and engineering services incurred in connection with judgments and claims related to Capital Projects.
- (4) Costs incurred in connection with the development of computer software, networks and systems under the restrictions set forth in Section 7.3 of this Directive.
- (5) In limited situations, direct construction labor when approved by OMB.

9.2 Ineligible First-Line Employee Costs

Ineligible first-line employee costs include:

- (1) Wage and salary costs of employees when not working on Capital projects and activities or whose cost is necessary as a general cost of doing the agency's business.
- (2) Hours spent on warranty work and follow-up by first-line employees once a project is completed.
- (3) Pre-scope work that cannot be attributed to a specific Capital Project or activity
- (4) Any ineligible costs and expenses identified in the preceding sections of this Directive are also ineligible IFA costs and expenses.

10.0 CITY CAPITAL GRANT PROJECTS ON PRIVATE PROPERTY

City capital grant projects on privately-owned property must meet all the requirements of this Directive. In addition, such projects must comply with significant legal requirements that are not addressed in this Directive. Examples of such City capital grant projects include construction or reconstruction of charter schools, cultural institutions and social services organization on privately-owned space. Funding of internal staff of private organization is not eligible.

All costs reimbursed by the City must be reasonable, based on the standards of a prudent person.