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DEPRECIATION OF CAPITAL ASSETS

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The state's capital assets include physical facilities, major information technology systems, and equipment with a multi-year expected useful life. Capital assets are typically funded through the state's capital budget. In contrast, operating budget expenditures fund routine, year-to-year expenses, including some maintenance of capital assets. According to the Office of the State Architect (OSA), the inventory of state-owned and state-supported capital assets has substantially increased over the last two decades, and so too has the catalog of assets in need of significant maintenance or repair. This issue brief provides an overview of the types of capital assets, how depreciation of capital assets is recorded, information about the state's current building inventory, and how moneys are spent to maintain, renovate, or replace the state's capital assets.

Types of capital assets. Capital assets can be broadly divided into two categories: (1) fixed assets; and (2) non-fixed assets. Fixed assets, such as buildings and land, are typically funded through the state's capital budget. Non-fixed assets, such as information technology systems and major educational or scientific equipment, may be funded through either the capital or operating budget. Some non-fixed assets, such as the vehicle fleet, are funded through the use of capital operating leases, and thus are not technically owned by the state.

Depreciation of Capital Assets

The value of most capital assets decreases over time. For example, as a building, vehicle, or information technology system ages, its systems also age and require ongoing maintenance and repair in order to maintain functionality. Simple depreciation is calculated by dividing the total original value of an asset by its projected useful life. The result is the amount an asset depreciates annually. Ideally, some fraction of the total value of a capital asset is reinvested each year in order to prolong its useful life or to budget for its eventual replacement.

Recording depreciation. The Office of the State Controller requires agencies to report annually on the depreciation of all capital assets held by the agency. Accounting and reporting for depreciation are governed by generally accepted accounting standards and federal requirements. State agencies report depreciation to the Office of the State Controller according to several broad categories, including:

- land;
- leasehold and land improvements;
- buildings;
- vehicles and equipment;
- software;
- library materials and collections;
- infrastructure; and
- other capital assets.

At the end of FY 2009-10, the total reported value of capital assets for all state agencies was $21.6 billion. Of that amount, the reported accumulated depreciation was $5.1 billion, resulting in a net value of $16.5 billion. Despite the reporting and recording of ongoing depreciation, no moneys are typically collected to reinvest in existing capital assets. However, most state agencies likely spend some part of their operating budgets on routine maintenance of capital assets.

State Building Inventory

As of December 2010, the total gross square footage (GSF) of state-occupied facilities was 68.4 million GSF, and the estimated replacement value was $13.1 billion. Of this amount, 42.7 million GSF reflects the square footage of state-owned buildings supported by the General Fund. The estimated replacement value of this 42.7 million GSF is $8.6 billion. The estimated replacement value is derived from insured values set by the Office of Risk Management within the Colorado Department of Personnel and Administration. The total reported GSF in the state's inventory has grown 49.5 percent in the last 20 years.

Maintenance of Fixed Capital Assets

The OSA is charged with assessing the ongoing controlled maintenance need of the state's building inventory. It tracks the condition of the state's fixed assets and annually prioritizes and reports the outstanding maintenance needs to the legislature. This effort encompasses 40 agencies and about 2,500 buildings statewide. In addition, each state agency conducts periodic physical condition audits to determine the Facility Condition Index (FCI) of its facilities, and then reports on its findings to the OSA. The FCI measures the cost of remedying a building's deficiencies compared to the building's current replacement value. The State Architect's target FCI for all buildings is 85.

Controlled maintenance. Controlled maintenance involves site improvements and corrective repairs or replacement of utilities and equipment at existing state-owned, state-supported buildings and other physical facilities. In contrast, operational maintenance is intended to maintain facilities and their component systems to the end of their expected useful life cycles. Agencies may annually request money for controlled maintenance projects from the legislature. Depending on the size of an agency and its ability to pay, the dollar threshold triggering a controlled maintenance request is about $15,000.

The OSA recommends a minimum of 1 percent of the estimated replacement value of the state's total inventory be spent for controlled maintenance needs annually. This recommendation is based on the prevailing industry standard, which suggests an annual reinvestment rate of 3 to 4 percent of a building's current replacement value in order to maintain a facility's condition. Table 1 shows the amount recommended by the State Architect for controlled maintenance for each of the last 10 years as compared to 1 percent of the total replacement value of the state's General Fund-supported inventory. It also shows the total amount of controlled maintenance funding in each year, and the percent of the total recommendation that was funded.

Table 1
Ten-Year History of Controlled Maintenance Funding for General Fund-Supported Buildings
(state funds only, in millions)

Fiscal Year	Amount Recommended for Funding	1% of Total Replacement Value	Amount Funded	% Funded of Total Recommended
FY 02-03	$69.6	$53.3	$2.5	3.6%
FY 03-04	55.1	62.2	1.0*	1.8%
FY 04-05	41.6	58.2	0.5	1.2%
FY 05-06	60.2	60.1	38.8	64.5%
FY 06-07	67.7	64.6	35.0	51.7%
FY 07-08	73.7	67.7	50.9	69.1%
FY 08-09	73.1	71.9	26.1	35.7%
FY 09-10	81.9	76.2	24.2	29.5%
FY 10-11	62.5	84.6	10.1	16.2%
FY 11-12	62.3	86.0	10.4	16.7%
Totals	**$647.7**	**$684.8**	**$199.5**	**30.8%**

Source: Office of the State Architect

*An additional $15 million was provided from federal funds.