RULE 4.3 – CAPITAL PROJECTS

Purpose

The City and County of Denver has a significant investment in capital assets, such as land, buildings, equipment, and infrastructure. The purpose of this rule is to ensure that the City's capital assets are acquired, safeguarded, controlled, disposed of, and accounted for properly.

A capital project is a project undertaken to build, develop, or improve capital assets. It is essential that the City's capital projects are recorded in an accurate and timely manner from inception to completion, including depreciation. Agencies/Departments must have processes in place to analyze capital projects to ensure proper accounting and asset classification.

This rule shall be read in conjunction with Fiscal Accountability Rule 4.2 – Capital and Controlled Assets to ensure compliance and understanding.

Definitions

Capital Project – Project undertaken to build, develop, or improve capital assets. Such capital projects shall include the direct costs for planning, designing, and engineering. Examples include constructing a new building, creating internally developed software, making a major addition to an existing structure, and expanding a roadway.

Capital Project Status – Capital projects are categorized into one of the following statuses:

- **In-Progress –** The capital project has been approved and work is ongoing
- **In-Service –** The point at which a capital project, or a portion of a capital project, can be used for its intended purpose, even if some work is still in progress. A building is considered in-service when a Certificate of Occupancy is issued.
- **Closed –** The capital asset is in service, all work is finished, and all related invoices, including retainage, have been paid.

Retainage – Money earned by a contractor but not paid until the project is complete, functioning satisfactorily, and all liens have been released. In some instances, retainage may also be referred to as construction contracts payable.

Infrastructure – Long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and are stationary in nature. Examples include, but are not limited to, roads, streets, alleys, bridges, curbs, gutters, drainage systems, traffic signals, fiber optic cables, paved trails, electronic message boards, and similar assets. Not included in infrastructure are sidewalks, street signs, lighting systems, medians, traffic islands, unpaved trails, and bike lanes.

Adopted 08/28/2006
Revised 07/01/2015

RULE 4.3 – CAPITAL PROJECTS, CONTINUED

Rule

1. Agency heads/department managers shall be responsible for ensuring that capital project management and financial management within the agency/department have integrated processes and good communication with regard to the status of the project.

2. Agencies/departments shall obtain approval from the Budget and Management Office (BMO) prior to making expenditures that are generally unauthorized in capital project funds. Unauthorized expenditures include, but are not limited to, capital equipment, travel, lodging, official functions, and subscriptions.

3. Agencies/departments shall capitalize projects when the project costs exceed $5,000, will be used in operations, and will have an initial useful life greater than one year. Software with a project cost of $50,000 or more, and a useful life greater than one year, shall also be capitalized. (Refer to the **Asset Type Table** in Fiscal Accountability Rule 4.2 – Capital and Controlled Assets.)

   Capitalizable costs include not only the cost to build, develop, or improve a capital asset, but also any ancillary costs necessary to place the asset into its intended location and condition for use, such as legal and title fees, land preparation costs, and demolition costs. Other costs that need to be capitalized include those that increase the economic value of the asset, increase the useful life of the asset beyond its original useful life, and/or increase the productive capability or capacity of the asset (e.g., uses, scope of users, etc.).

   Costs incurred to restore or maintain an asset to its original condition (e.g., repairs and maintenance) are not capitalized, but are expensed in the period incurred.

4. Agencies/departments shall deduct and retain from the total amount of approved applications for payment, including change orders, retainage, based on contract terms. The contractor may request a decrease of the retained amount after a certain percentage of work, as noted in the contract, has been satisfactorily completed. Retainage shall be held in account number 112500 (Contracts Payable).

5. One percent (1%) of the total budgeted construction cost of a single capital project or multi-phase capital projects shall be included for the planning, design, and construction of public art, and for the repair of such public art, when the cost of the capital project is equal to or greater than one million dollars per Ordinance 650, Series 1996.

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RULE 4.3 – CAPITAL PROJECTS, CONTINUED

6. Capital projects shall be completed within three years. If the completion of a capital project will exceed three years, agencies/departments shall provide a justification to BMO.

7. The Controller's Office shall send every agency/department that has capital project activity a **Capital Project Activity Report** three times per year according to the following table. The agency/department shall review the report for accuracy and completeness, and specify how to account for the project costs. Additionally, the agency/department shall submit a **Capital Project Capitalization Form** for when the related asset is placed in service.

Reporting Period	Report sent to Agencies/Departments (on or before)	Report Due to Controller's Office (on or before)
Jan 1 – Jun 30	Jul 31	Aug 31
Jul 1 – Sep 30	Oct 31	Nov 30
Oct 1 – Dec 31	Feb 12	Feb 28

The Controller's Office shall generate a capital project entry to be recorded in the City's financial system of record based on the Capital Project Capitalization Forms received. A **Capital Project Capitalization Form** does not need to be submitted for in-progress projects, infrastructure projects, or costs of normal repairs and maintenance.

Enterprise funds that have their own capital asset reporting systems shall be exempt from this requirement upon completion and approval of the Fiscal Accountability Waiver form. However, agency heads/department managers that meet this exemption shall create, document, and implement an adequate capital project reporting process for enterprise funds that ensures timely and accurate financial reporting in compliance with Generally Accepted Accounting Principles (GAAP). The process shall be reviewed at least annually to ensure compliance with this FAR and may be requested and audited by the Controller's Office.

8. Agencies/Departments shall close all open encumbrances associated with a capital project within 45 days after the capital project's final payment.

9. Every May, BMO shall review all open encumbrances and budget balances, including capital projects, for potential close-out. Agencies/departments shall respond to BMO inquiries within two weeks.

RULE 4.3 – CAPITAL PROJECTS, CONTINUED

10. Reconciliation of retainage shall be performed prior to the final payment of a contract. Any reconciling items in the retainage account shall be resolved within 45 days, except for items in dispute.

11. Rebates, sales of project specifications, and donations shall be deposited to revenue in the capital project fund. Vendor credits shall be posted to an expenditure account.

Authority and Accountability

The **Controller's Office** is responsible for this fiscal accountability rule and any procedures, guides, forms, step-by-steps, and one-page summaries associated with this rule.