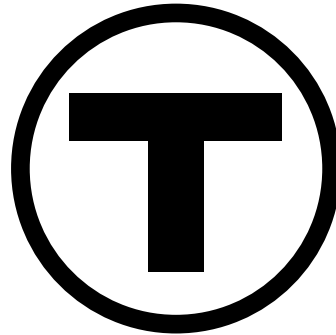

MBTA

Capital

Expense Policy



Policy on the Uses of Capital Funds

MBTA Fiscal and Management Control Board

Approved 8/13/18 (supersedes and replaces policy approved 5/14/18)



Policy on the Uses of Capital Funds

I. Purpose

The purpose of this policy is to provide high-level guidance on appropriate uses of capital funds, consistent with MGL Chapter 161A, Section 20, as amended, Chapter 53 of Title 49, United States Code, as amended by Fixing America's Surface Transportation Act, , and relevant Federal grant guidance and circulars. Clear guidance on capital expenses will help ensure that the Authority does not commingle funds between its operating and capital budgets and allow for the efficient and effective use of available capital resources to deliver the MBTA's capital plan.

This policy will be supplemented by detailed implementation guidance, including standard operating procedures for capital planning, programming, budgeting, and execution, to include timekeeping, accounting, and internal controls.

II. Definitions

For the purposes of capital planning and budgeting, the following definitions apply:

- Capital Investment Plan (CIP) is the MBTA's rolling five-year capital plan that aligns anticipated sources of capital funds with capital projects planned during the five-year window.
- Capital funds are Federal grants, MBTA revenue bonds, State bonds, or other State assistance or revenue designated to pay for or reimburse the MBTA for capital expenses, including the Capital Maintenance Fund "Lockbox".
- Capital expenses are costs incurred during a capital project, including professional services, construction, materials, labor costs, related fringe benefits, and an allocated share of general and administrative costs.
- Capital projects are investments or activities related to acquiring, constructing, or improving a capital asset. Capital funds are programmed to specific capital projects in the CIP or approved for lockbox funding by the Pay-Go Committee. Therefore, in order for an expense to be eligible for capital funds, it must be associated with an approved capital project.
- Capital assets are vehicles, facilities, units of equipment, or elements of infrastructure with a useful life of more than one year and an acquisition cost that is equal or greater than \$5,000.

III. Eligible Uses of Capital Funds

The following is general guidance for determining whether certain categories of activities and expenses may be appropriate for a capital project.

1. Acquisition of equipment/assets
 - a. Costs associated with the acquisition of equipment or assets with a useful life of more than one year and a unit cost equal or greater than \$5,000 are eligible capital expenses
 - b. Costs associated with equipment or assets with a useful life of less than one year and/or a unit cost less than \$5,000 may be eligible capital expenses on a case-by-case basis
 - c. Generally, if equipment with a unit cost less than \$5,000 is part of a larger program of capital renovation, renewal, or rebuilding, the acquisition and related costs of the equipment may be an eligible capital expense
 - d. Examples of eligible capital expenses: new subway cars; new signal equipment (if part of larger program)
2. Renovations, renewals, or rebuilding of assets
 - a. Costs associated with activities that extend the useful life of a capital asset through a program of renovation, renewal, or rebuilding are eligible capital expenses
 - b. Examples of eligible capital expenses: mid-life vehicle overhauls; locomotive engine rebuilding; station renovation
3. Improvements to assets
 - a. Costs associated with activities that add to or enhance the value of an asset are eligible capital expenses
 - b. Examples of eligible capital expenses: installation of new station elevator; new vehicle HVAC systems
4. Repair and maintenance
 - a. Costs associated with general repair or preventative or routine maintenance activities prescribed by a manufacturer or other authority to allow a capital asset to reach its useful life are generally **not** eligible capital expenses
 - b. Costs for repair or maintenance activities that extend the useful life of a capital asset are generally eligible capital expenses
 - c. Costs for repair or maintenance activities that do not extend the useful life of an asset but are not routine may be eligible for capital funding on a case-by-case basis
 - d. Examples of eligible capital expenses: vehicle component replacement; repairs to assets beyond useful life; repairs to damaged vehicles or infrastructure

5. Planning/design

- a. Costs for planning or design activities that precede the acquisition, construction, or improvement to a capital asset are eligible capital expenses
- b. Examples of eligible capital expenses: bridge design; facility condition assessment; development of vehicle specifications

IV. Using Capital Funds for Payroll

All MBTA payroll expenses (e.g. salaries, benefits, and overtime) shall be charged to the operating budget, with the following exceptions that are consistent with generally accepted accounting principles and Federal law, guidance, and reporting requirements:

1. The salaries and benefits of full-time employees who work exclusively on developing and delivering capital projects may be allocated to capital projects as direct or indirect costs and paid through capital funding sources.
 - a. Departments with **all** employees working full-time on capital projects are:
 1. Capital Programs and Delivery (program development, project planning, design, construction, field inspection, logistics, finance and controls, and contract administration of capital construction projects)
 2. Chief Engineer (assessment and management of capital assets; technical requirements, review, and approval for new capital projects)
 3. Vehicle Engineering (development and delivery of new vehicle procurements and overhauls)
 - b. Departments with **some** employees working either full-time or part-time on capital projects are:
 1. Engineering and Maintenance (support to capital projects through Power Systems Maintenance, Signals and Communication Maintenance, Maintenance of Way, and Transit Facilities Maintenance employees)
 2. Rail Maintenance (capital improvements to rail vehicles occurring within MBTA facilities)
 3. Bus Maintenance (capital improvements to bus vehicles occurring within MBTA facilities)
 4. Subway Operations and Bus Transportation (support to capital projects through bus diversions)
2. Overtime incurred by employees in support of delivering capital projects may be included in a capital project's budget as Force Account and paid through the same capital funding source or sources.
3. Exceptions to this policy may only be made with the approval of the Chief Financial Officer.

V. Use of Bond Proceeds for Employee Salaries

Bond proceeds may not be used to pay MBTA employee salaries.

VI. Direct and Indirect Costs

Employee salaries and benefits paid from capital funding sources shall be allocated to specific capital projects. Charges will be applied as either direct or indirect costs in accordance with federal guidelines and in accordance with the MBTA's Cost Allocation Plan generally defined as:

1. Direct Costs
 - a. Can be identified specifically with a particular grant, award, project, contract or other cost object and can be charged on an item-by-item basis.
2. Indirect Costs
 - a. Costs that have been incurred for common objectives but cannot be readily identified with a particular grant, award, project, contract or other cost object
 - b. Direct costs of minor amounts may be treated as indirect.

VII. Implementation

1. No later than 90 days after this policy is approved, the CFO will issue implementation guidance and a list of the employee positions defined herein as eligible for classification on a capital budget.
2. Every two years, this policy will be reviewed and amended as appropriate and reauthorized by the Authority's governing board of directors.
3. On an annual basis, a review of the Authority's practices related to classifying employees on a capital budget shall be performed by a an independent third party auditor. This review shall cover the fiscal year ending June 30, and be provided to the Authority's governing board of directors no later than November 30 of the following fiscal year.