

**MARIN EMERGENCY RADIO AUTHORITY  
DISCUSSION OF EQUIPMENT REPLACEMENT RESERVE**

**GENERAL CONCEPTS:**

Some governmental agencies elect to provide for future asset acquisitions in advance of purchase. Such accumulations may be provided from various sources. Examples include:

- Debt proceeds
- Specific levies of tax
- User fees.

Funding may be from sources that are restricted by law or contract for a designated purpose or voluntarily designated by the organization's governing body. For instance, a bond measure may specify that an amount of bond proceeds be restricted for acquisition of specified equipment. Alternatively, the governing board may adopt a policy that management accumulate a specified amount from user fees for future asset acquisition. Since a policy is self-imposed, the governing body may amend its policy as it pleases.

**METHODOLOGIES:**

The method of accumulating resources may be designed to consider the organization's specific characteristics, such as the projected timing of operating cash flows, anticipated special revenue sources, investment return on reserved funds, timing and cost of equipment replacements, etc. On the other hand, the simplicity of accumulating resources evenly until the planned replacement date may override other considerations.

Where an equipment system is comprised of many assets with varying useful lives, it may be practical to create a schedule that includes projected equipment replacement dates and values in order to establish reserve levels that will be adequate when specific equipment is required to be replaced. Conceptually, this would be similar to an equipment depreciation schedule with adjustment for inflation and investment returns. Please see the attached example.

**GOVERNMENT X  
EQUIPMENT RESERVE SCHEDULE**

**Equipment Replacement Reserve**

	Structures	Electronics	Electronics
Acquisition date	1/1/2017	1/1/2017	1/1/2027
Current cost	\$ 5,000,000	\$ 10,000,000	\$ 12,801,000
Assumed inflation rate	2.50%	2.50%	2.50%
Projected replacement cost	\$13,425,000	\$12,801,000	\$16,386,000
Expected investment return	4%	4%	4%
Years until replacement	30	10	10
Estimated replacement date	1/1/2047	1/1/2027	1/1/2037

Accumulation year:

1	\$239,369	\$1,066,207	
2	\$239,369	\$1,066,207	
3	\$239,369	\$1,066,207	
4	\$239,369	\$1,066,207	
5	\$239,369	\$1,066,207	
6	\$239,369	\$1,066,207	
7	\$239,369	\$1,066,207	
8	\$239,369	\$1,066,207	
9	\$239,369	\$1,066,207	
10	\$239,369	\$1,066,207	
11	\$239,369		\$1,364,805
12	\$239,369		\$1,364,805
13	\$239,369		\$1,364,805
14	\$239,369		\$1,364,805
15	\$239,369		\$1,364,805
16	\$239,369		\$1,364,805
17	\$239,369		\$1,364,805
18	\$239,369		\$1,364,805
19	\$239,369		\$1,364,805
20	\$239,369		\$1,364,805
21	\$239,369		
22	\$239,369		
23	\$239,369		
24	\$239,369		
25	\$239,369		
26	\$239,369		
27	\$239,369		
28	\$239,369		
29	\$239,369		
30	\$239,369		

Total payments \$7,181,072 \$10,662,074 \$13,648,054