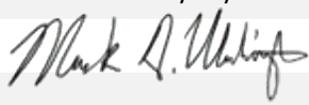




ADMINISTRATIVE POLICY

SUBJECT	FIXED ASSET ABANDONMENT POLICIES, PROCEDURES, AND OBJECTIVES		
NUMBER	26-02	SIGNED DATE	02/12/2026
ISSUED BY	Mark Washington, City Manager		
PREPARED BY	Kate Berens, Deputy City Manager		
REVISED			
ASSOCIATED POLICIES			
CITY VALUES	<input checked="" type="checkbox"/> Accountability <input type="checkbox"/> Customer Service <input type="checkbox"/> Innovation	<input type="checkbox"/> Collaboration <input type="checkbox"/> Equity <input checked="" type="checkbox"/> Sustainability	

SUMMARY: Fixed Asset Abandonment Policy

PURPOSE: The purpose of this Statement of Fixed Asset Abandonment Policies, Procedures, and Objectives (the “Policy”) is to establish the financial objectives, developer expectations, asset valuation techniques, and accounting practices necessary for the prudent abandonment of City-owned fixed assets.

POLICY:

- A. Scope: The fixed asset abandonment policy applies to all fixed assets held in ownership by the City of Grand Rapids’ Water Department, Environmental Services Department, Stormwater Department, and Energy, Lighting, and Communications Department (“Utilities”).
- B. Objectives: The primary objectives, in priority order, of the City’s fixed asset abandonment policy shall be:
 - 1. Maintenance of Service: Maintaining a high level of utility services is the chief objective of this policy. The abandonment of fixed assets should not be pursued unless it is clearly demonstrated that there will be minimal impact on the delivery of utility services, or that no superior alternative exists.

2. Fund Balance: Abandonments should be handled in such a way that the negative impacts on fund balances are minimized.
 3. Development: When abandonments are necessary or preferred for economic and community development, they should be carried out so long as they do not conflict with the preceding objectives.
- C. Developer Obligations: When private development precipitates the abandonment of a fixed asset owned by the Utilities, the developer is required to provide fair compensation in exchange for the abandoned asset.
- a. If the asset-to-be-abandoned must be replaced to maintain current service levels, compensation should take the form of a replacement asset, contributed to the Utilities by the developer. If the value of the contributed asset exceeds or matches the Net Book Value (“NBV”) of the asset-to-be-abandoned, no additional compensation shall be required. If the NBV of the asset-to-be-abandoned exceeds the value of the contributed asset, the developer shall make the Utilities whole through direct reimbursement of the lost value in a timely fashion.
 - b. If the asset-to-be-abandoned does not require replacement, compensation should take the form of direct reimbursement of the asset’s NBV.
 - c. The receipt of contributed assets is treated as revenue by the City and shall offset the loss expense that is recorded when an asset with non-zero NBV is abandoned.
 - d. These obligations shall also apply to public developments that are not requested by the Utilities themselves.
- D. Adjusting the Fixed Asset Listing: When a fixed asset is abandoned, the corresponding entry in the Fixed Asset Listing must be adjusted accordingly. This ensures that the Fixed Asset Listing displays an accurate accounting of assets in service.
- a. If possible, the Fixed Asset Number (“FA#”) corresponding with the asset-to-be-abandoned should be identified. If direct identification is not possible, a reasonable assumption (based on in-service date, asset name, location, etc.) should be made as to which FA# corresponds with the asset-to-be-abandoned.
 - b. If the FA# has an NBV of zero, Accounting Services should be notified once the asset has been fully abandoned. The FA# should then be Fully Retired, which results in the asset being removed from the Fixed Asset Listing. No journal entry will be necessary in this situation.

- c. If the FA# has an NBV greater than zero at the time of abandonment, it must be adjusted to reflect the value being lost to abandonment. If the entire asset is being abandoned, as opposed to a portion being abandoned, the FA# should be Fully Retired, which results in the asset being removed from the Fixed Asset Listing. In both situations a journal entry shall be recorded to recognize the lost value.
- E. Valuing Linear Assets: To determine the value being lost when a portion of a linear asset is being abandoned, one of the following valuation methods should be employed, in priority order:

a. FA Value Method

1. In the FA Value Method, the asset's FA# is identified along with the total length of the linear asset. The NBV Per Foot should then be determined, which is calculated by dividing the NBV of the FA# by its total length in feet.
2. This NBV Per Foot value should then be multiplied by the length of the asset portion being abandoned to determine the estimated value of abandonment. The FA# should be Partially Retired by an amount equal to this value. The FA entry to record the retirement includes the recognition of this loss.
 - a. $\text{NBV Per Foot} = \text{FA\# NBV} / \text{total length of asset in feet}$
 - b. $\text{Value of Abandonment} = \text{NBV Per Foot} \times \text{length of asset abandoned}$
 - c. $\text{Final FA Value} = \text{FA\# NBV} - \text{Value of Abandonment}$
3. If there is insufficient information available and the total length represented by the FA# cannot be determined, the Front Footage Method should be employed instead.

b. Front Footage Method

1. Using historic Water & Sewer Rate Studies, identify the Front Foot rates that were used during the calendar year in which the asset-to-be-abandoned was put into service. For example, if the asset was placed into service in 2014, then either the 2013 or 2014 Water & Sewer Rate Study could be referenced.
2. Front Foot rates can be found in Task 28 of the respective Rate Study. If the asset-to-be-abandoned is 8" or wider, the commercial/industrial rate should be used. If it is smaller than 8", domestic front foot rates should be used.

3. Once the appropriate Front Foot rate has been determined, it should then be multiplied by the length of the asset that is being abandoned. This number should then be multiplied by the percentage of the asset's remaining useful life, which will result in the Front Footage Abandonment Value. The FA# should be Partially Retired by an amount equal to this value. The FA entry to record the retirement includes the recognition of this loss.
 - a. 8" or wider asset rate = Industrial/Commercial Front Foot Rate
7" or less asset rate = Domestic/Residential Front Foot Rate
 - b. Front Footage Abandonment Value = (Front Foot Rate x length of asset abandoned) x (Remaining Years of Useful Life / Total Useful Life)
 - c. Final FA Value = FA # NBV - Front Footage Abandonment Value

APPENDIX:

A. Examples of Valuation Methods

- I. **FA Value Method:** a 40-foot stretch of a 100-foot water main is being abandoned. The asset originally cost \$2M but has accumulated \$1.2M of depreciation, leaving it with an NBV of \$800k.

1. NBV Per Foot = FA# NBV / length of asset in feet
NBV Per Foot = \$800,000 / 100 feet
NBV Per Foot = \$8,000 per foot
2. Value of Abandonment = NBV Per Foot x length of asset abandoned.
Value of Abandonment = \$8,000 per foot x 40 feet abandoned
Value of Abandonment = \$320,000
3. Final FA Value = FA# NBV - Value of Abandonment
Final FA Value = \$800,000 - \$320,000
Final FA Value = \$480,000

- II. **Front Footage Method:** a 300-foot stretch of water main is being abandoned in the year 2025. The exact length represented by the FA# is unknown, but the main is 8" in diameter. It was put into service in 1980 and has a 75-year useful life. The asset originally cost \$2M and has accumulated \$1.2M of depreciation, leaving it with an NBV of \$800k.

1. 8" or wider = Industrial/Commercial Front Foot Rate
8" or wider = \$120 per foot (per 1980 Rate Study)
2. Front Footage Abandonment Value = (Front Foot Rate x length of asset abandoned) x (Remaining Years of Useful Life / Total Useful Life)
Front Footage Abandonment Value = (\$120 per foot x 300 feet) x (30 years remaining / 75 total years)
Front Footage Abandonment Value = \$14,400
3. Final FA Value = FA# NBV - Front Footage Abandonment Value
Final FA Value = \$800,000 - \$14,400
Final FA Value = \$785,600