

LAFCO RESOLUTION NO. 2023-10

**RESOLUTION OF THE SOLANO LOCAL AGENCY FORMATION COMMISSION ADOPTING
THE SOLANO LAFCO GASB 87 LEASE CAPITALIZATION POLICY**

WHEREAS, Solano LAFCO hired James Marta & Company to conduct an independent audit for Fiscal Years 2022 and 2021; and;

WHEREAS, James Marta & Company found that Solano LAFCO to be in compliance with governmental accounting and auditing standards, and;

WHEREAS, James Marta & Company recommended that Solano LAFCO adopt a new Lease Capitalization Policy for compliance with Governmental Accounting Standards Board statement number 87, and;

WHEREAS, James Marta & Company reviewed the attached Solano LAFCO GASB 87 Lease Capitalization Policy and found it to be consistent with GASB 87 and meets the statement's requirements, and;

WHEREAS, Solano LAFCO Commission reviewed, considered, and heard testimony on the attached GASB 87 Lease Capitalization Policy at the duly noticed June 12, 2023 meeting.

NOW, THEREFORE, BE IT HEREBY DETERMINED AND ORDERED as follows:

1. The Solano LAFCO Lease Capitalization Policy, as shown in Exhibit A, shall be adopted and effective retroactively to July 1, 2021.

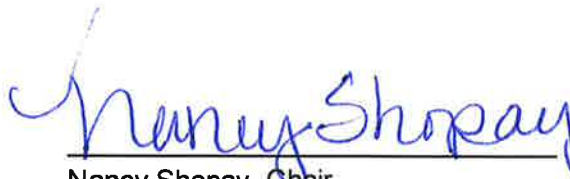
PASSED AND ADOPTED by the Local Agency Formation Commission of Solano County at a regular meeting, held on the 12th day of June 2023, by the following vote:

AYES:

NOES:


ABSENT:

ABSTAIN:



Nancy Shopay, Chair
Presiding Officer Solano Local Agency
Formation Commission

ATTEST



Christina Love, Deputy Executive Officer

Exhibit A – Solano LAFCO GASB 87 Lease Capitalization Policy

EXHIBIT A

Solano LAFCO GASB 87 Lease Capitalization Policy Effective Date: Retroactive to July 1, 2021

General Policy

The Commission shall not enter into a lease with a duration of more than one year (12 months), nor a lease with an option to extend beyond one year unless such a lease provides the Commission with preferred pricing or another significant business advantage.

Leases that are not classified as short-term and whose aggregate payments made or received exceed \$35,000 will be capitalized ("Capitalization Threshold") in compliance with GASB 87, except as noted below:

- Leases that transfer ownership and do not contain termination options
- Short-term leases (12 months or less)
- Leases of assets that are investments
- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (timber, living plants, living animals)
- Supply contracts
- \$1 Leases or similar, not an exchange/exchange-like transaction

This policy shall be reviewed annually and adjusted as conditions warrant. This policy and future changes to it will be approved by the Executive Officer.

Definitions

Lease: A contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

Short-term lease: A lease that, at the beginning of its term, has a maximum possible term under the contract, including any option to extend, of 12 months or less.

Financed purchase: If a contract (1) transfers ownership of the underlying asset to the lessee by the end of the contract and (2) does not contain termination options other than fiscal funding or cancellation clauses, the contract is not a lease and should be reported as a financed purchase.

Finance Lease: A finance lease is a leasing arrangement in which the lessee obtains ownership of the leased asset by the end of the lease term. With the implementation of GASB 87 effective for fiscal years beginning after June 15, 2021, there is no longer an operating vs. capital classification. Instead, all leases will be referred to as financing leases.

Measurement of a Finance Lease

As of the commencement date of a lease, the lessee measures the liability and the right-of-use asset associated with the lease. These measurements are derived as follows:

Lease Liability: The present value of the lease payments, discounted at the discount rate for the lease. This rate is the rate implicit in the lease when that rate is readily determinable. If not, the lessee instead uses its incremental borrowing rate.

Right-of-Use Asset: The initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

Determining Lease Term

Noncancelable Period
+ Period covered by option to terminate when it is NOT certain to be exercised
+ Period covered by the option to extend when it is reasonably certain to be exercised
= Total Lease Term

The Commission will reassess the lease term if one or more of the following occurs:

- Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option.
- Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option.
- An event specified in the contract that requires an extension or termination of the lease takes place.

This Board policy will be reviewed annually and adjusted as conditions warrant, such as changes in net assets, or other required updates by the GASB.