

## CHAPTER 4

### PLANT REPLACEMENT AND IMPROVEMENT PROGRAM

4-1. Purpose. To provide the policy, procedures and operating principles of the Revolving Fund and the Plant Replacement and Improvement Program (PRIP).

a. The Revolving Fund was established to be available without fiscal year limitations but with delegated authority for the following primary purposes:

(1) To acquire, operate, maintain, and repair civil works lands, structures, and other plant, serving more than one civil works project and/or multiple civil works appropriations, and meeting current capitalization criteria.

(2) To purchase, operate and maintain aircraft as authorized.

(3) To temporarily finance services finally chargeable to appropriations for civil works functions.

(4) To furnish facilities and services for military functions of the Department of the Army and other government agencies and private persons as authorized by law.

b. The PRIP was established within the Revolving Fund to plan and provide for acquisition of Revolving Fund owned property. The Revolving Fund PRIP shall be used to acquire capitalized plant and equipment with at least a 2-year life, meeting the capital asset threshold requirements, and supporting more than one civil works project and/or appropriation. Capital assets are classified as either minor items or major items, depending on the acquisition cost of the asset. Capital assets acquired through the Revolving Fund, PRIP must be justified solely on civil works mission requirements. Revolving Fund assets may also provide incidental support to military programs, other governmental agencies, states, municipalities, individuals or corporations when not otherwise in use, provided that the

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activities pay applicable usage charges. Commanders and directors will not use overhead accounts, project funds or any combination of other funding mechanisms to avoid use of the Revolving Fund, PRIP. See Appendices A thru L for exclusions and stipulations.

c. Revolving Fund, PRIP supports multiple civil works projects and/or appropriations at Corps Districts. Headquarters and MSC have oversight responsibilities of districts, with no direct involvement in the management of civil works projects. Thus, the Revolving Fund, PRIP is not an appropriate funding source for headquarters and MSC operational and facility requirements. Exceptions to this policy will be on a case-by-case basis and will require Congressional notification and authorization.

d. Additions and Betterments (A&B). Additions and betterments are defined as improvements rehabilitations, renovations, conversions, replacements or upgrades which either add something to a capital asset that was not there before, or increase the useful life, functional capacity, operating efficiency or usefulness of the asset. Additions and betterments to personal property capital assets will be capitalized only if they meet the current capitalization threshold (see Appendix A). Additions and betterments to real property capital assets will be capitalized regardless of cost.

e. Additions and Betterments 35% Rule. If the total cost of an A&B is equal to or greater than 35 percent of the estimated replacement cost of an item, then the remaining book value and the cost of the A&B will be added together to determine a new acquisition cost. A new useful life will be assigned based upon the condition of the original item and the scope of improvements resulting from the A&B. Plant increment and depreciation will begin from the date the A&B is completed using the completion date of the A&B as the new date of acquisition, the new acquisition (book) cost, and the new useful life in the computations. The total cost of A&B not meeting the 35 percent criteria will increase the book cost to be used in the computations with the original date of acquisition and the original useful life.

f. Revolving Fund Reimbursement. The Revolving Fund is

operated entirely within its own resources rather than from annual appropriations, making it necessary for prompt reimbursement to be obtained from the using appropriations or projects for services rendered in order that sufficient funds are available for continued operation.

(1) Repayment of the Revolving Fund, PRIP investment is in the form of depreciation and plant increment charges, which are included in the plant rental rate computed for each asset. Plant rental rate computation guidance is provided in Appendix B. Depreciation and plant increment charges are the only constant source of funds available to finance Revolving Fund, PRIP requirements. Therefore, new acquisitions and additions and betterments should be transferred to plant-in-service in accordance with financial regulations. Floating plant assets acquired by the Marine Design Center and Headquarters initiatives assigned to other commands will be placed in service at the actual recorded cost upon receipt by the asset-owning command. Any adjustments to the cost will be made upon receipt of additional plant cost documentation. Detailed guidance is provided in Appendix C.

(2) Documentation of Asset Valuation. Asset valuation is a pivotal element of inherent fiduciary managerial responsibility to ensure proper reimbursement of acquisition costs to the Revolving Fund. Asset valuation is based on historical cost documentation, e.g., contracting instruments, financial accounting system records, etc., or cost estimates where historical cost data is not available. A Work Order Completion Report (ENG Form 3013) will be retained for each asset as valuation documentation.

(a) Useful Life. Useful life will be determined by the asset manager subject to minimum and maximum life assignments of each asset category in the financial regulation. Asset useful life will be reviewed at least every two years. Documentation of the review will be forwarded to the PRIP Manager. Any changes to useful life will be documented and coordinated with the PRIP Manager prior to adjusting the finance and accounting system. Conditions necessitating a change in useful life include, but are not limited to: obsolescence, technological advances, changes in workload, replacement prior to full utilization of current useful life (e.g., asset with a 40 year

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life replaced after 30 years of usage), etc. Fund availability cannot be used as a basis to change the useful life of an asset, for example by paying off the undepreciated balance of a continuing use asset.

(b) Depreciation. Depreciation is the allocation of the acquisition cost of an asset over its assigned useful life to the benefiting projects. Only straight-line depreciation is permitted. No salvage value will be used in calculations. See Appendix D.

(c) Increment. Plant increment is the surcharge to cover the increased cost of replacement over the original cost of an asset. Its purpose is to maintain the purchasing power of the Revolving Fund corpus. With the exception of leasehold improvements, no Revolving Fund owned asset is exempt from plant increment unless a waiver has been submitted and approved. Plant increment charges for Revolving Fund owned assets will discontinue only in those instances where such an item of plant is fully depreciated and there is no requirement for a replacement (See Appendix D). Requests for waiver of plant increment must be coordinated through Resource Management for concurrence prior to approval and are subject to the following approval thresholds:

- Directors of FOAs will submit plant increment waivers directly to CERM-F.

- MSC Commanders may approve requests to discontinue plant increment on assets with initial acquisition costs up to \$300,000 and may delegate up to fifty percent of their authority to District Commanders. MSC Commanders will consolidate District/Division approved plant increment waivers and forward to CERM-F quarterly, until superceded by an automated reporting system. Quarterly reports are due to HQ, CERM-BA NLT the 15<sup>th</sup> day of the month following the end of the quarter. The report will include, as a minimum, property number, acquisition price and date waiver granted.

- Requests for waivers for assets with initial acquisition cost over \$300,000 will be coordinated through the MSC and submitted to CERM-F for approval.

In the event that a waiver is approved on an item subsequently requiring replacement, plant increment must be reinstated. The waiver is reversed and increment is reinstated as if it had not ceased. This results in the unpaid increment being brought current and paid to the Revolving Fund in the current fiscal year. Plant increment will continue until the replacement item is placed in service. Reversal of the plant increment waiver will be coordinated through Resource Management in the same manner in which the waiver was first approved.

(d) Insurance is levied on Revolving Fund, PRIP assets, to fund an account from which the remaining book value or substantial repairs can be paid (See Appendix D).

e. Revolving Fund Cash Management. Successful financial management of the Revolving Fund requires accounts and operations to be frequently reviewed to ensure that costs are currently and equitably absorbed by the customers and that a sufficient cash balance is maintained in each USACE command to permit prompt liquidation of obligations as they mature. The actions listed below will help ensure maximum utilization of limited Revolving Fund resources.

(1) Cash flow projections in support of repayment of PRIP investment will be included with the annual PRIP submissions. The cash flow projections will address prior year, current year, budget-year and out-year income streams for depreciation, plant increment, and insurance. The projections will be calculated from the estimated and/or actual date the item is placed in service over its estimated useful life.

(2) Depreciation, plant increment, and insurance income are required to be transferred quarterly to Headquarters, IAW financial regulation. The amount transferred will be based on charges generated in the financial accounting system (See Appendix D).

(3) Reconciliation of assets in service in the finance and accounting system to the property book (real and personal) will be done annually to insure accurate and full reporting of income generated from depreciation, plant increment, and insurance.

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(4) A review of assets in the process of acquisition (work in process) will be done at least semiannually to insure that assets are placed in service no later than the month succeeding the receipt of the receiving report, which should be completed upon constructive receipt of the asset.

(5) Obligation plans will be prepared annually for the purpose of monitoring program execution and identifying excess funds. Updated obligation plans will be submitted IAW mid-year review guidance from CERM-B.

#### 4-2. PRIP Program Formulation

a. Major Items. Any item or system valued in excess of USACE approval authority is considered a major item. Major items require approval from the Assistant Secretary of Army, Civil Works (ASA (CW)), the Office of Management and Budget (OMB), and the Congressional Committees on Appropriations. Items and systems will not be subdivided to avoid the major item threshold. The major item threshold is defined in Appendix A.

##### (1) Major Item New Start (MINS)

(a) Commanders may request funds for design of new major items, provided such funding does not exceed the major item threshold prior to Congressional approval. Commanders will request authority from Headquarters, Resource Management before reprogramming current allocations to start design work on a new major item.

(b) The design effort for a major item must be completed to ensure scope and concept feasibility and reasonable accuracy of the cost estimate. The results of the design effort will be included in the project proposal and submitted, by the technical element, as a major item budget year request through the MSC to HQUSACE for submission to higher authority. There will be no exceptions to this requirement. Funds expended under minor items for lost design of a potential MINS should be expensed in the period in which the design was determined to be lost, but must be expensed no later than the end of the current fiscal year. Once the lost design is expensed to the appropriate funding account, a Memorandum will be forwarded through the

MSC/FOA to CERM-BA to request withdrawal of PRIP Authority and corresponding funding. See Appendix L for additional guidance.

(c) A narrative justification statement will be submitted using ENG Form 4613-R, Major Item New Start and Update of Continuing Major Items, Civil Works Revolving Fund, Plant Replacement and Improvement Program for each Major Item New Start. The justification must provide a clear and convincing need to satisfy an existing mission related requirement, as well as an adverse impact statement on mission accomplishment if the requested Major Item is not approved. Instructions for completing ENG Form 4613-R are in Appendix E of this regulation. All MINS requests will be reviewed by functional proponents at District, Division, and HQUSACE as appropriate.

(d) A complete MINS package will include the ENG Form 4613-R, an affordability analysis, PRIP payback schedule and a life-cycle economic analysis on new acquisition versus rehabilitation and, if applicable, an analysis of lease or rental options. The affordability analysis should look at the annual PRIP payback costs along with the annual ownership and operating costs. Any additional requirements will be provided in the annual budgetary guidance.

(e) If a district has more than one MINS to request, the items will be prioritized and so stated in a memorandum to division for review and approval. Divisions will review, approve, consolidate and prioritize districts' MINS requests and submit to Headquarters.

(f) Unapproved or unfunded MINS submissions must be revised, as appropriate, and resubmitted in subsequent years if the requirement remains valid. These items will not automatically be included in future year program(s).

## (2) Continuing Major Items (CMI)

(a) Continuing major items are previously approved major items that will be executed in more than one fiscal year. For CMI, ENG Form 4613-R will be updated and submitted annually by the technical element, regardless of the need for budget year funds. Technical elements must coordinate changes in project scope, schedule, and/or costs with the Marine Design Center

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where applicable and with appropriate division and headquarters review elements before submitting the updated form. The original MINS package submitted and approved will be updated whenever there is a change in scope and for cost increases of ten percent (10%) or more. Cost increases of less than 10% only require ENG Form 4613-R to be updated. Congressional notification and concurrence is required prior to funding changes in scope and cost increases of 10% or more. Thereafter, any additional cost increase irrespective of the dollar amount will require Congressional notification and concurrence prior to funding. Congressional notification will occur either in the next budget update or as an Out of Cycle Request if the authorization is needed in the current fiscal year.

(b) The request for funding authority will be submitted using ENG Form 4943-R, PRIP Plant Item Justification Sheet Funding Request, in accordance with annual budgetary guidance. Instructions for completing ENG Form 4943-R are in Appendix F of this regulation.

(3) Grouped Major Items.

(a) A Grouped Major Item may be established when determined by HQUSACE that like items or systems will be required Corps-wide, over a short period of time, and that the total costs of the grouped items will exceed the HQUSACE authority.

(b) Once Grouped Major Items are established, allocations will be made in accordance with the prioritized division list. Local PRIP managers/coordinators will coordinate funding requests, priority rankings, and allocation requirements with the local technical proponent for the Grouped Major Items.

(c) Additional information on the establishment of Grouped Major Items is given in Appendix E.

b. Minor Items.

(1) New Minor Items. Items that exceed the current capitalization threshold and do not qualify as major items are considered minor items. The capitalization and major item thresholds are defined in Appendix A.



(2) Continuing Minor Items. Some minor items require funding over multiple fiscal years. These items will take precedence over new minor items in prioritization.

(3) A narrative justification statement will be submitted using ENG Form 4943-R, PRIP Plant Item Justification Sheet. The justification must provide a clear and convincing need to satisfy an existing mission related requirement, as well as an adverse impact statement on mission accomplishment if the requested Minor Item is not approved. Instructions for completing ENG Form 4943-R are in Appendix F of this regulation. All Minor Item requests will be reviewed by functional proponents at District, Division, and HQUSACE as appropriate.

(4) Minor Items and Cost Increases. Cost increases will be monitored to ensure items can continue classification as a minor item and not require reclassification as a major item. Should the cost estimate increase so that it is equal to or greater than the MINS threshold, all work will be suspended. The item is then submitted as a MINS awaiting Congressional notification and concurrence. Congressional notification will occur either in the next budget update or as an Out of Cycle Request if the authorization is needed in the current fiscal year.

c. Asset Property Types and Categories. Major and minor items will be categorized using the property asset categories listed in financial regulations. No other category codes are authorized. Existing asset records bearing other category codes will be maintained until asset disposal. Appendix G provides descriptions of and acquisition guidance on the property asset codes acquired through the Revolving Fund, PRIP.

d. Annual Funding Authority. Annual funding authority provides obligation authority for minor items, continuing major items and approved major item new starts in the current PRIP program.

e. Budget Year Program. The budget year program represents requests for obligation authority for minor items, continuing major items, and major item new starts for the budget year. The budget year is the second year of the Five-Year PRIP

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Plan. Major item new starts will require transmittal through ASA(CW) and OMB to Congress for approval.

f. Affordability. An affordability analysis is a decision-making tool used in the development of the Commander's investment portfolio and is required to support new requirements. An affordability analysis will consist of an analysis of alternatives (status quo, rental, lease/purchase, contract out the operation, and new acquisition) based on present value analysis using the current civil works budget guidance. Cash flow projections in support of operation and maintenance and repayment of investment cost (PRIP payback) will be part of the affordability analysis to support feasibility of new investments. For the purpose of this analysis, the PRIP payback is to be calculated using the inflation factor used in the economic analysis. The inflation factor and discount rate to be used in the economic analysis can be found in OMB Circular A-94, Appendix C, which is updated annually and may be downloaded from the website at:  
<http://www.whitehouse.gov/OMB/circulars>

g. PRIP Payback and Annual Insurance Schedule. A PRIP Payback and Annual Insurance Schedule is a decision-making tool used to estimate the repayment of an investment over the useful life of the asset and payment of plant increment and insurance as applicable. Plant increment and insurance extends beyond the life of the asset unless waived. An example of a PRIP payback schedule is at Table 4-1.

Table 4-1 PRIP Payback And Annual Insurance Schedule					
Title/Description of Asset to be Acquired			Deck Barge		
Asset Estimated Total Cost			\$6,875,000		
Current Fiscal Year Plant Increment Rate			1.05		
Inflation Factor used in Economic Analysis or Calculated three (3) Year Average			0.01022		
Number of Years Asset will be in Service. This is also the total years the asset will be Depreciated Over			8		
Annual Estimated Depreciated Amount for Asset			\$859,375		
Date Asset will be Place in Service			1 Oct 02		
Annual Insurance Fee Assessed on Asset			\$0.00		
YEAR	Plant Increment Factor	Annual Plant Increment Amount	Annual Insurance Fee	Annual Depreciation Amount	Total Payment
1	1.0500	42,969	0	859,375	902,344
2	1.0602	51,752	0	859,375	911,127
3	1.0704	60,534	0	859,375	919,909
4	1.0807	69,317	0	859,375	928,692
5	1.0909	78,100	0	859,375	937,475
6	1.1011	86,883	0	859,375	946,258
7	1.1113	95,666	0	859,375	955,041
8	1.1215	104,448	0	859,375	963,823
9	1.1318	113,231	0	0	113,231
10	1.1420	122,014	0	0	122,014
<b>TOTAL</b>		\$824,914	\$0	\$6,875,000	\$7,699,914

h. Contingent Liability. Reserved.

i. Five-Year PRIP Plan.

(1) PRIP estimates for the Current Year and four additional years are required for future program planning. Information submitted is used to determine the overall capital investment dollar amount and the category dollar amounts for the Budget Year and future fiscal years. The importance of a multi-year program document as a planning tool cannot be overemphasized.

(2) The five-year PRIP plan shall be prepared on ENG Form 1978-R, Plant Replacement and Improvement Program, until superseded by an automated system. Instructions for completing ENG Form 1978-R are in Appendix H of this regulation.

(3) Revisions of the five-year plan should be kept to a minimum. Future plant replacement needs should be based on, as a minimum, age, operation and maintenance requirements, replacement cost, obsolescence, continuing needs in support of

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changing missions, etc. MSC Commanders may delegate authority for program revision to District Commanders. A current five-year plan, with all approved changes, will be maintained at the district and division level. Revised five-year plans will be sent to Headquarters when significant program changes occur. Otherwise, submission schedules in current budgetary guidance will be followed.

j. Program Approval Authorities.

(1) District Commanders will review, prioritize and approve minor item requests, continuing major item requests, major item new start (MINS) requests, and the Five-Year Plan to ensure they are realistic and compatible with the mission of the Corps, construction schedules and workloads for submission to the Division Commander.

(2) Division Commanders will review, prioritize and approve division-wide consolidated funding authority requirements in support of minor item requests, continuing major item requests, major item new start (MINS) requests, and the Five-Year Plan to ensure they are realistic and compatible with the mission of the Corps, construction schedules and workloads for submission to Headquarters.

(3) Headquarters will review, prioritize, and approve funding authority requests, minor items, continuing major items, and major item new starts. MINS items and continuing major items, if applicable, will be submitted through ASA (CW) and OMB to Congress for authorization. Five-year plans will be reviewed for the development of out-year program requirements.

4-3. PRIP Execution.

a. Delegation of Authorities. Division Commanders are delegated authority to reprogram funds between items in their approved annual program and from items in their approved annual program to new minor items in accordance with transfer authority as provided in the annual budgetary guidance. Existing minor items and new minor items requiring additional current year funding exceeding the current year allocation will be submitted to Headquarters for approval and funding. These items will be defined as out-of-cycle requests.

b. Out-of-Cycle Requests. PRIP items identified outside of the five-year planning process, or out-year items in the five-year plan that must be moved forward, requiring funding in the current year, are considered out-of-cycle or unfunded requirements. All out-of-cycle requirements will be approved by the local commander and submitted through the MSC to Headquarters with appropriate documentation in support thereof, to include the ENG Form 4943-R. The justification statement must address the reason(s) why the item must be funded in the current year and condition(s) that precipitated the requirement, such as, safety, health, legal, environmental considerations, etc. A description of the item and its purpose and availability of current year funds within the district/MSO must also be addressed.

c. Obligation Plan. An obligation plan will be developed for each item in the approved current year program and forwarded through the MSC to Headquarters IAW budgetary guidance.

d. Surplus/Excess Funds in current year program. If surplus funds exist on a current year approved item, all items in the current year program must be evaluated for funding shortfalls and excess funds applied thereto first. If excess funds still exist, a decision must be made to either fund future, planned minor items or return the funds to HQ. Future, planned minor items are those minor items included in the submitted five-year plan.

e. Execution Reports. Execution of the PRIP program will be based on actual obligations as reported in the Corps' financial accounting reporting system and will be compared to obligation plans to measure program performance.

f. Disposal. Requests for disposal of capital assets will be coordinated with Logistics, Real Estate, and Resource Management by the technical proponent. Prior to requesting disposal, the technical proponent will ensure the Revolving Fund has received full payback, such that the book value of the capital asset is zero. All proceeds of disposal sale will be deposited in the Revolving Fund and increment charges will cease IAW financial regulations.