Instructions
Determination Letter for Construction Work-in-Progress (CWIP) for Real Property

The **Bold** headings in these instructions relate directly to **Bold** headings in the Determination Letter.

The purpose of the Determination Letter is to document evaluation of a project relative to CWIP criteria and therefore whether costs will be capitalized or expensed. The letter should be completed and forwarded to RPMD for all projects with a CWIP cost per property that equals or exceeds $200,000. A separate determination letter must be executed for each real property. When CWIP cost per property is less than $200,000 the project manager should document the determination, keep it in the project file, and forward a copy to the activity manager. This Letter is for Real Property determinations. If the project involves Personal Property use the Personal Property Determination Letter available on the Finance Office CWIP intranet site.

In order to be considered a CWIP activity, a construction project must meet the criteria for capitalization and result in a constructed asset (or a change to a constructed asset). This includes new construction but also includes construction work resulting in repair and renovation in existing facilities. A new addition to an existing facility would be considered new construction although it would not be assigned a new Property ID. A CWIP activity is a project which increases the useful life or performance capability of a capitalizable asset. A capitalizable asset is one where the total estimated CWIP cost of the project is $200,000 or more, service life is estimated to be 2 or more years, is not intended for sale or transfer, and is intended to be used or is available for use by NOAA.

CWIP can be either real or personal property or internal use software. Real Property is defined as land and permanent improvements to the land such as buildings and structures. Property that becomes an integral part of a building such as heating and air conditioning units is considered to be a part of the real property.

Project Location: To be Real Property the facility must be on the RPMD inventory of real property or new construction of a building or structure. For new construction, consult with RPMD for concurrence that the new construction is real property. For existing real property use the real property data, including Property ID, Property Name, and address, from the RPMD inventory report (aka the “property conglomeration report”). Consult with RPMD if assistance is needed. Other identifying information such as other property names commonly used by the end user should be provided as supplemental information.

Description of the Activity: This is one of the most important parts of the letter for conveying the determination thought process. It should include a description of the scope of work but it should be more than that and contain additional information. Justify the determination with a brief and concise analysis relative to Sustainment, Restoration, and Modernization (SRM). Definitions are provided further on in this document. When making the SRM determination,

which relates directly to a CWIP determination, keep in mind the project's primary reason. A project may result in beneficial aspects which appear to be modernization, such as code update or energy efficiency, but if these are being done as part of a sustainment project then they would not change the CWIP determination from sustainment.

If this is potentially a split cost project, CWIP and Non-CWIP, analyze each separately. Split cost is based on the professional evaluation of the project manager. For costs to be split and reasonably tracked the work must be readily severable. It should be such that CWIP and non-CWIP can have reasonable separate CLINs, and can be shown as such on bid sheets and contractor invoices. Where scope is intermingled and cannot be separated consider that the entire project may have to be CWIP. Note that only if the CWIP cost of the project is equal to or greater than $200,000 would the project be tracked as CWIP. The non-CWIP costs are not included.

> Examples: These are only examples, provide a description suited to describing the project in question. For a split cost project you would have CWIP and non-CWIP paragraphs.
>
> 1. This project replaces an air handler and a Computer Room Air Conditioning unit. This is determined to be Sustainment and is not CWIP.
>
> 2. This project replaces a significant part of the building HVAC system including all major pieces of equipment, and the controls system. This is determined to be modernization and is CWIP.

Property, Plant, or Equipment (PP&E): All boxes must be checked for a project to be CWIP. If no, then the determination is complete and go to the signature page.

Will this project: Increase useful life of the asset, or increase size or performance capability? This is the overriding consideration. To be capitalized a project MUST increase useful life of the asset or increase size or performance capability. It's important to recognize that increasing useful life of a component, or possibly even a system, may not increase the useful life of the asset (the facility or building). An example of increased size could be new construction or construction of an addition. Example of increased performance capability could be a larger generator, addition of air conditioning where there was none, increasing electrical service to a facility, or increasing HVAC capacity.

Where a project goes from increasing useful life of a building component to increasing the useful life of the building can be subjective. The definitions of SRM can help. Sustainment would not be CWIP, whereas Restoration or Modernization are. Replacing a component of a building system is likely to be Sustainment or non-CWIP. Replacing an entire major building system is likely to be Restoration or Modernization and be capitalized.

For projects with Improvements to non-owned buildings/structures (including leased buildings, GSA assignments, etc.) where the cost of the project is equal to or greater than $200,000 the project should be considered CWIP if it increases the performance capability or size or increases the useful life of the asset. Most tenant-improvement projects would be considered CWIP because they increase the performance capability by changing the use of the space or increasing the utilization rate for the space. However, some tenant improvement projects, such as cyclical painting and carpeting would be Sustainment and therefore not CWIP.

Will this project result in an existing asset being demolished or permanently removed from service? Demolition costs should be allocated to CWIP cost if demolition is directly related to the CWIP aspect of the project and the CWIP property. If the demolition is for a building/structure that is not being replaced/restored at that same location then the demolition costs should be expensed and not included in the new construction (which is at a different location).

DEFINITIONS

Sustainment (ST)

Facilities sustainment is defined as the maintenance and repair activities necessary to keep a typical inventory of facilities in good working order. Sustainment includes regularly scheduled maintenance as well as cyclical major repairs or replacement of components that occur periodically over the expected service life of the facilities. Due to obsolescence, sustainment alone does not keep facilities "like new" indefinitely, nor does it extend their service lives. A lack of full sustainment results in a reduction in service life that is not recoverable in the absence of recapitalization funding.

1. **Preventive maintenance & minor repair**. Scheduled tasks that sustain a facility's level of service during a prescribed lifetime.

2. **Unscheduled maintenance.** Service calls, emergency responses, and other tasks that cannot be individually anticipated.

3. **Major repair & replacement.** The overhaul or replacement of facility components. Such tasks extend the service life of individual components and reset the schedule of preventive maintenance & minor repair.

Restoration and Modernization (Recapitalization) (RM)

Recapitalization is defined as major renovation or reconstruction activities (including facility replacements) needed to keep existing facilities modern and relevant in an environment of changing standards and missions. Recapitalization extends the service life of facilities or restores lost service life. It includes restoration, modernization or replacement of facilities but not the acquisition of new facilities. It also includes the demolition of deteriorated facilities if demolition is part of the renovation process or performed in conjunction with construction of replacement footprint elsewhere.

Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident or other causes.

Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years.

Consolidation as part of demolition includes the cost of relocating personnel and functions necessary to vacate a building as well as minor construction and repair costs for the receiving facility.

1. **Replacement due to obsolescence.** The retrofitting or replacement of facility components that are no longer the best technical or economic choice for their function. Examples include the retrofitting of lighting and HVAC equipment with more energy efficient components.

2. **Change in use**. The modification of facilities to suit a use other than that intended at design; i.e. examination of building permits for commercial properties typically shows that most additional construction is done to accommodate changes in use rather than correcting facility deficiencies.

3. **Policy mandated retrofits**. Building code upgrades. Seismic retrofits and handicap accessibility improvements are examples of legislation-based R&M requirements.

4. **Catastrophic damage**. Unanticipated damage requiring extensive capital expenditures.

5. **Repairs from neglect.** The requirements rising from repairs and scheduled tasks not done in a timely fashion. By definition this factor goes to zero if both regular maintenance and any unanticipated damage have been fully funded. A typical example is the damage done to ceilings and walls when roof maintenance is not done and leaks occur.

6. **Long-lived components**. Scheduled maintenance requirements are based on the repairs necessary over facility service life (service lives for non-residential facilities vary roughly from 30 to 60 years). Individual components with service lives that exceed the facility service life—i.e. many exterior surface and closure elements, select electric and HVAC equipment—eventually will require repair or replacement.

7. **Tenant alterations in leased space**: work required to adjust the physical characteristics of an asset to make it suitable for agency use, add capacity, or add capability that was not previously present.

GUIDELINES FOR ESTIMATED USEFUL LIFE

An estimated useful life schedule for real property is provided below. Project Managers (PMs) should determine the useful life of a CWIP Activity from the schedule below. If a PM determines that the useful life for their CWIP Activity is not addressed in the schedule or is not appropriate for their CWIP Activity, the PM shall document the deviation from the schedule in a separate memo. The PM-signed memo should state the rationale for the deviation. The memo shall be submitted with the determination letter, or, if the deviation is determined to be needed at a later time, submitted prior to the beneficial occupancy date. Any deviation memo must be included in the CWIP activity file and in the PM file.

GENERAL COMPONENTS	COMPONENT	ESTIMATED USEFUL LIFE (in years)
Building Shell	Site Preparation	50
	Foundation	50
	Steel Frame	50
	Construction Exterior	50
	Floor Structure	50
	Walls-Exterior	50
	Roof Structure	50
Building Finishes	Roof Cover	20
	Construction Interior	20
	Floor Cover	20
Building Services Systems	Electric	23
	Heating, Ventilation, and AC	23
	Plumbing	23
	Fire Protection	23
	Elevators	23
	IT & Network Infrastructure	10
Building Fixed Equipment	Fixed Equipment 20 year	20
	Fixed Equipment 15 year	15
	Fixed Equipment 10 year	10
Structures	Structure 50 year	50
	Structure 30 year	30
	Structure 20 year	20
	Structure 10 year	10
Site Work	Site Work 50 year	50
	Site Work 30 year	30
	Site Work 20 year	20
	Site Work 10 year	10