

Capital Planning

What is capital? Definition and Categories

A capital expenditure is an outlay of significant value that results in the acquisition or improvement of property or assets that have useful lives extending beyond a single year.

Capital assets that counties and cities own and use are commonly classified into the following categories:

1. Land
2. Buildings and Improvements to Buildings
3. Infrastructure
4. Equipment, machinery and other permanent personal property.
5. Construction in progress

In order to be considered capital, expenditures for those items must be of significant value. Accountants refer to this as the capitalization threshold. Capitalization thresholds are not the only criteria used when deciding whether or not an item should be placed in some type of planning process. It is the very expensive, long-lived, and irregularly recurring capital projects and acquisitions that deserve the special treatment called capital budgeting.

Capital Improvement Program (CIP)

A CIP is a multiyear forecast of the following:

1. Major capital needs
2. The expenditures necessary for these capital needs
3. The sources of financing for these expenditures
4. The impact of the projects onto future operating budgets

CIPs normally extend out approximately 5-6 years. Some fast growing entities extend their CIPs out 10 years.

CIPs can be divided amongst major categories. The categories above could be split into the following divisions:

1. New land and buildings. These types of items tend to have a higher cost and can have major impacts to services and budget. Each of these major items also tend to impact budgets for greater periods of time. These types of projects sometimes may have some criteria in ranking. Examples of this criteria may include:
 - Consistency with governing body goals (i.e. Comprehensive Plan)
 - Reduces or eliminates threats to public health and safety
 - Remedies facility or service deficiency
 - Results in more efficient operations
 - Legally mandated

- Takes advantage of grant or other outside funding
- Partners with other programs and projects
- Supported by the community

The importance of each of these issues should be determined by the governing body. This tends to still be a subjective process but gives some generalized direction from the Board on where it plans to expend funds for major projects.

2. Building and infrastructure improvements. These types of items tend to be directly related to ongoing maintenance issues. (Note: These types of maintenance issues may impact the 1st item under "remedies facility or service deficiencies.") These types of ongoing expenditures are usually part of the annual budget process under maintenance. Individual costs associated with these items can range greatly from small to large. Some jurisdictions attempt to plan these types of expenditures in a CIP. In order to accomplish these tasks, some type of capital asset management system would need to be implemented. These types of systems rely on engineering based analysis to evaluate the condition of facilities and infrastructure.
3. Equipment, machinery and other permanent personal property. The types of items tend to be directly related to ongoing replacement issues. (Note: These types of items may also be part of the 1st item and / or new programming). These types of ongoing expenditures are usually part of the annual budget process. Individual costs associated with these items tend to be smaller with the exception of a few standard items (i.e. vehicles, software). Some jurisdictions attempt to plan these types of expenditures in a CIP. These types of CIPs should be reserved for higher cost items. Some type of capital asset management system would also be needed to implement this type of CIP.

Source

David M. Lawrence and A. John Vogt, Capital Planning, Budgeting, and Debt Financing, County and Municipal Government in North Carolina, Article 17, 2007