

2. BUDGETING

2.2 Budgeting Procedures

2.2.3 Capital Improvement Budgets

2.2.3.10 Traditional appropriated budgets contain both operating and capital expenditures. To improve management control and planning, capital expenditures for major acquisitions or construction of facilities and equipment may be separated from current operating expenditures and placed in a capital improvement budget. This budget will contain all major capital expenditures from all funds, including internal service. It will also distinguish debt incurred to acquire long-lived assets from debt incurred to finance current operations.

2.2.3.20 A capital improvement budget starts with a capital improvement program. A capital improvement program is a plan for capital expenditures to be incurred over a fixed period of time and the projected resources required to finance the expenditures. It is a long range plan that looks beyond the traditional annual/biennial budget.

2.2.3.30 To develop a capital improvement program, it is necessary, first, to compile an inventory of existing facilities and major equipment to evaluate their adequacy for present and future service needs and, second, to establish objectives and priorities for replacing whatever is inadequate and acquiring additional needed facilities and equipment.

2.2.3.40 The critical step in the development of a capital improvement program is the evaluation and prioritization of the relative need for and cost/benefit of each proposed improvement. Extensive public hearings and legislative deliberations are essential to establish an adequate program.

2.2.3.50 In developing the capital improvement program, it is important to keep the following things in mind:

1. Include projects currently in progress.
2. Include internal service fund capital outlays and purchases made by other funds and contributed to internal service funds.
3. Establish a minimum cost for items to include in the capital improvements program; capital expenditures less than the established minimum should be included in the operating budget of the fund/department that will incur the expenditure.
4. Coordinate capital improvement plans with other governments with overlapping or neighboring jurisdiction; it is appropriate for the capital improvement program to reference capital improvements planned by these governments. This can be especially important when establishing the timing of construction to minimize detours and delays.
5. Because the capital improvement program is entity-wide, it can be organized by project, by funding source, by type of construction, or in other suitable categories, instead of the more traditional funds and departments used for operating budgets. The annual/biennial capital improvement budget should follow the same format as the capital improvement program.

2.2.3.60 After evaluating and picking the capital improvements to be completed, it is necessary to choose the best method of financing. Some examples of financing are past savings (reserves), current revenues (also called “pay as you go”), debt financing, (whether from bonds, registered warrants, installment purchases, or leases), and contributions (such as special assessments and grants).

- 2.2.3.70 Once a capital improvement program is established it will be necessary to repeat the same steps annually/biennially to update and extend the program. A capital improvement program should not be “cast in concrete.” Economic and environmental conditions will change, and those changes should result in modifications to the capital improvements program, accelerating, delaying, reprioritizing, even canceling scheduled improvements.
- 2.2.3.80 The capital improvements budget is next period’s portion of the capital improvements program. It is presented with the annual/biennial operating budget, and those portions which require annual/biennial appropriations are adopted by the same ordinance or resolution that adopts the annual/biennial appropriated operating budget. The remaining portion of the capital improvements budget consists of the annual/biennial portion of continuing appropriations, included in the comprehensive budget but appropriated on a project rather than an annual/biennial basis.
- 2.2.3.90 The capital improvement budget is prepared by Basub, element, and object. In addition, each intergovernmental revenue should be separately identified by a grant source code.