
CAPITAL PLANT
INDICATORS

WARNING TREND: A decline in capital outlay in operating funds as a percentage of net operating expenditures.

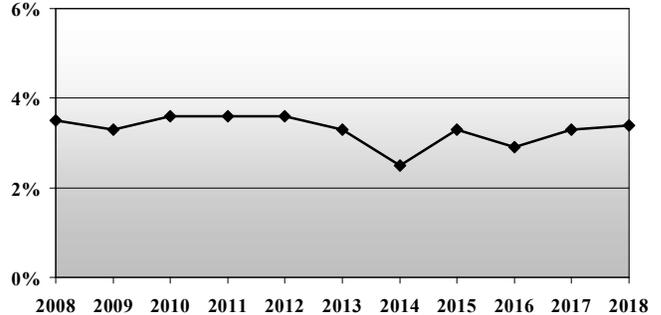
Formula:

$$\frac{\text{Capital Outlay from Operating Funds}}{\text{Net Operating Expenditures}}$$

Level of Capital Outlay
(as a % of Net Operating Expenditures)

Level of Capital Outlay:

Capital outlay includes expenditures for equipment in the operating budget, such as vehicles or computers. It normally includes equipment that will last longer than one year. Capital outlay does not include capital improvement expenditures for construction of capital facilities such as streets, buildings, fire stations, or schools.



The purpose of capital outlay in the operating budget is to replace worn equipment or add new equipment. The level of capital outlay is a rough indicator of whether or not the stock of equipment is being maintained in good condition. However, this indicator does not reflect the cost of routine maintenance and repair. If this indicator is declining in the short run of one to three years, it could mean that a locality's needs have temporarily been satisfied, because most equipment lasts more than one year. If the decline persists over three or more years, it can be an indication that capital outlay needs are being deferred, resulting in the use of obsolete and inefficient equipment and the creation of a future unfunded liability.

Trends:

The FY2017 Trends document was redefined to include capital outlay associated with the Central Automotive Maintenance Fund, the Technology Replacement Fund, and the Vehicle Replacement Fund to more accurately reflect capital expenditures. The eleven-year trend for this indicator depicts a narrow range between 2.5 percent and 3.6 percent, which is indicative of the consistency of meeting capital outlay requirements. A sharp drop in the measure, from 3.3 percent in 2013 to 2.5 percent in FY2014, was bookended by a return to 3.3 percent in FY2015. This one-year aberration was the result of departmental budget balancing maneuvers.

The Vehicle Replacement Fund, as noted earlier, was created in the FY13 budget as a budget reduction measure by reducing the unassigned General Fund balance level from 18 percent to 15 percent and assigning that difference to purchase Police vehicles, Fire apparatus, and school buses. Beginning in FY15, Police vehicles and Fire apparatus purchases remained in the Vehicle Replacement Fund but were funded with current General Fund revenues. The decision was made to keep these expenses in a separate fund within the Capital Project series of funds to allow for the carry-forward of unspent appropriations from one year to the next. This is particularly helpful with the acquisition of Fire apparatus as there are significant price fluctuations based on what types of equipment are scheduled to be replaced. In FY16, \$1.0 million was added to the Vehicle Replacement Fund as the start of a multi-year effort to fund school bus replacements with current revenues. This funding was increased to \$2.0 million in the FY17 budget and to \$2.5 million in the FY18 budget. These additions of funding are planned to continue over several years until a total of \$4.0 million a year is achieved.

The Central Automotive Maintenance (CAM) fund purchases and maintains vehicles for many of the County's agencies. CAM budgets for the replacement of vehicles for all other departments on an annual basis. In FY18, CAM spent \$2.3 million on the replacement of vehicles and other equipment.

The Technology Replacement Fund is an internal service fund for the purchase of computers, laptops, and other pieces of technology necessary for County employees to efficiently do their jobs while avoiding the budget swings created by one-time purchases. This fund was created in FY01 and was funded by eligible departments adding 1/3 of the costs of their equipment to a 'Technology Replacement' line item within the department's

budget. These line items would be utilized as revenues to support the purchases from the Technology Replacement Fund. Over time as computer equipment became cheaper and started lasting longer, a fund balance was developed for the Technology Replacement Fund. During the economic downturn, this fund balance was utilized to offset the loss of revenues in the General Fund. In FY13, department contributions were eliminated and all expenses in the Technology Replacement Fund were supported by the balance of the fund. The FY15 budget included a transfer of \$1.0 million of ongoing revenues to reduce the use of the Technology Replacement Fund balance. Subsequent budgets have gradually added ongoing revenues in support of this fund's operations. The FY2018 budget assigned \$2.25 million of General Fund support for the \$2.4 million in planned expenditures.

The recent restatement of this indicator to include the other funds supported by General Fund revenues shows a more accurate reflection of the level of capital outlay expenses within General Government. It also shows a more consistent level of expenditure, indicative of the County's efforts to make sure a) employees have the right equipment to do their job, and b) County infrastructure is updated and maintained on a regular basis. As major steps have been made in executing a plan to fully fund programs to replace school busses, fire apparatus and technology equipment, and the overall percentage of funding for capital outlay has returned to historical levels, no warning trend is noted for this indicator.

WARNING TREND: Decreasing amount of depreciation expense as a percentage of total depreciable fixed assets for Enterprise Funds and Internal Service Funds.

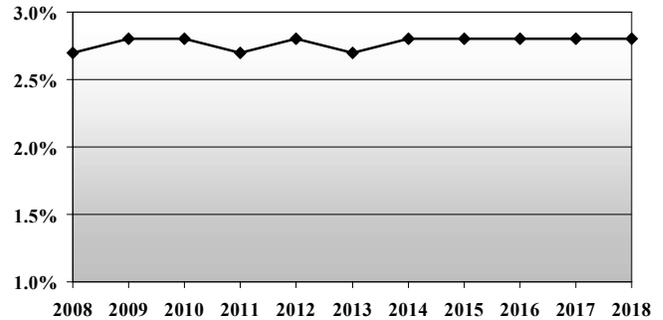
Formula:

$$\frac{\text{Depreciation Expense}}{\text{Cost of Depreciable Fixed Assets}}$$

Depreciation:

Depreciation is the mechanism by which a cost is associated with the use of a fixed asset over its estimated useful life. Depreciation is recorded only in the Enterprise and Internal Service Funds. Total depreciation expense typically remains a relatively stable proportion of the cost of the entity's fixed assets. The reason is that older assets, which are fully depreciated, are usually removed from service and newer assets take their place. If depreciation expenses start to decline as a proportion of the fixed asset cost, the assets on hand are probably being used beyond their estimated useful life.

Depreciation
(Depreciation Expense as a % of Assets)



Trends:

The chart above reflects two overall trends. First, with the implementation of GASB 34 in FY02, a change was required in the length of depreciation for Utilities infrastructure. The change increased the time for depreciating many of these assets and is based on an industry standard. (GASB 34 required standardization in many areas that encompass fixed assets of localities and one of the changes actually increased the term of depreciation for certain assets). Concurrent with this, the value of fixed assets arising from the County's Water Treatment Plant resulted in an increase in County "assets" of nearly \$92.0 million over a two-year period, although that increase was really of a one-time nature. Throughout the FY08 to FY18 time period, depreciation expenditures as a percentage of depreciable fixed assets have been consistent at either 2.7 percent or 2.8 percent.

What this graph shows clearly, is that with the standardization in the recordation of fixed assets that is the result of GASB 34, this indicator now reflects a higher level than was noted in the 1990's. This result was anticipated as assets of the Enterprise Fund continue to increase in value as the number of customers and the assets of the system continue to increase.

The consistency of this trend suggests that the County's depreciable assets are not currently being used past their depreciable useful life.

No warning trend is noted for this indicator.