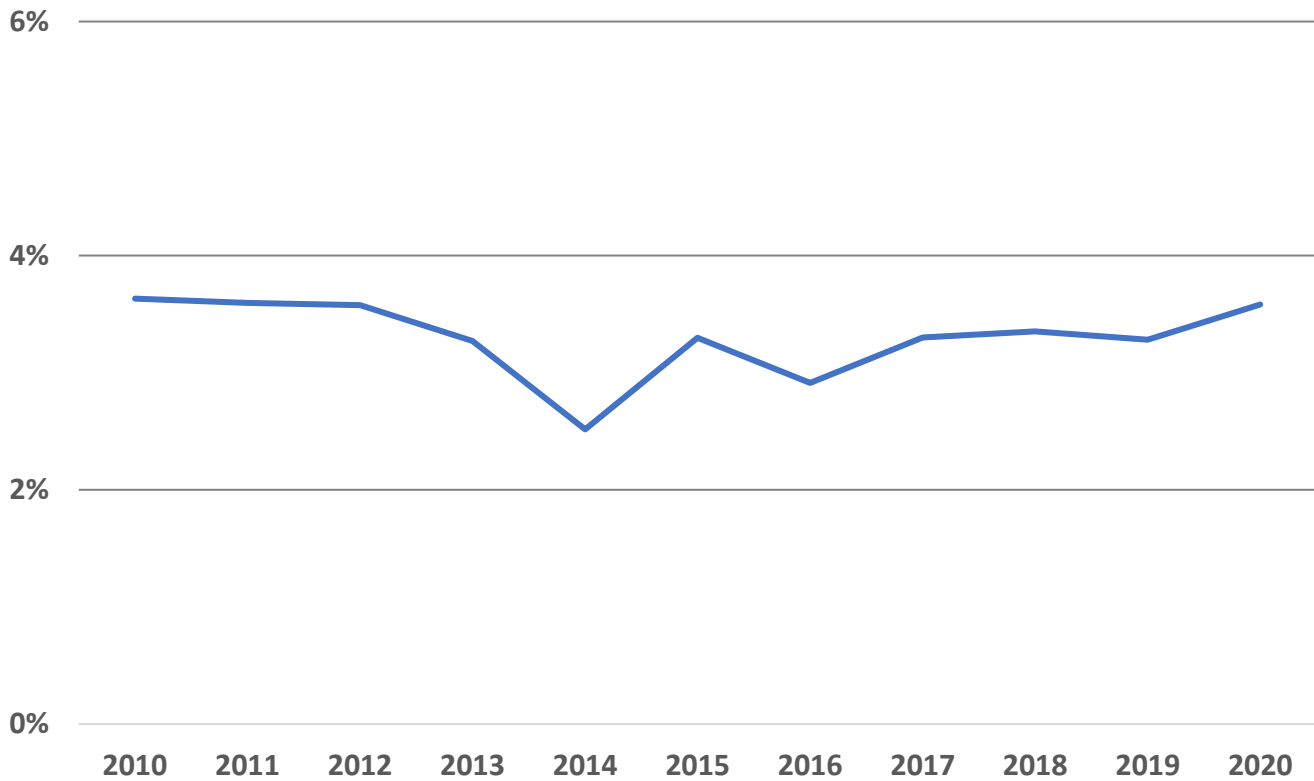


## CONDITION OF CAPITAL PLANT INDICATORS

## LEVEL OF CAPITAL OUTLAY

(As a % of Net Operating Revenues)



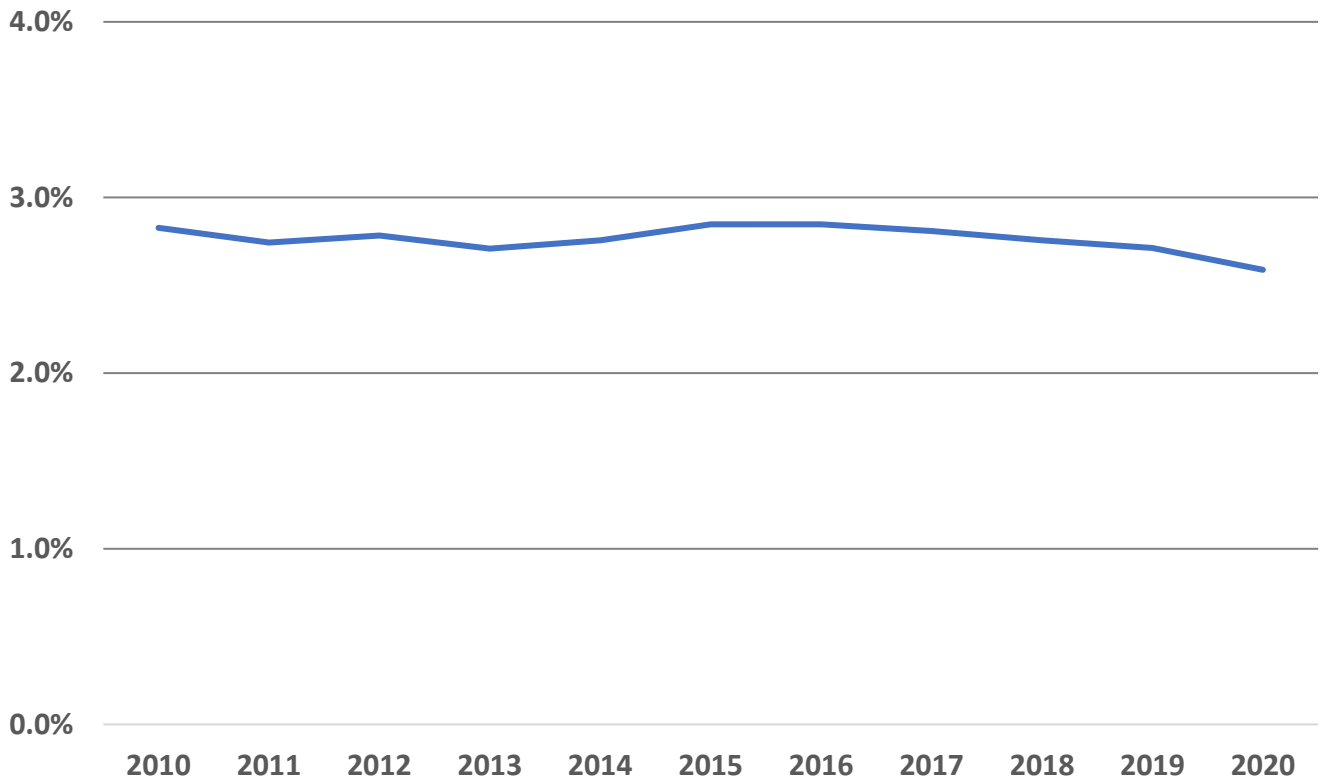
Capital outlay includes expenditures for equipment in the operating budget, such as vehicles or computers. It normally includes equipment that will last longer than one year. Capital outlay does not include capital improvement expenditures for construction of capital facilities such as streets, buildings, 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 the status of equipment and determine if it is being maintained in good condition. A declining trend in the short run of one to three years may not be concern for alarm as it could mean that a locality's needs have temporarily been satisfied. 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 liabilities.

The overall trend for the level of capital outlay is relatively flat for the 11-year timeline depicted. **FY2020 levels increased slightly from 3.3% to 3.6%.** The slight increase is likely due to Henrico County switching to telework with the COVID-19 pandemic and related stay-at-home orders requiring the immediate purchase of laptop computers to replace desktops. **Current levels are two percentage points higher than the average rate since FY1997, which was the year that "Data Processing" (currently the Department of Information Technology) was absorbed as a General Fund department.**

## DEPRECIATION

(As a % of Assets)



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 at a relatively stable proportion of the cost of the entity's fixed assets, as 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 likely being used beyond their estimated useful life.

Depreciation as a percent of assets has averaged 2.8 percent since FY2007. **FY2020 recognized a slight decrease to 2.6 percent, but the overall trend remained stable.** A decrease in depreciation is only a cause for concern if it is a reoccurring trend in subsequent fiscal years and **should continue to be monitored.**

