



**CAPITAL PLANT
INDICATORS**



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

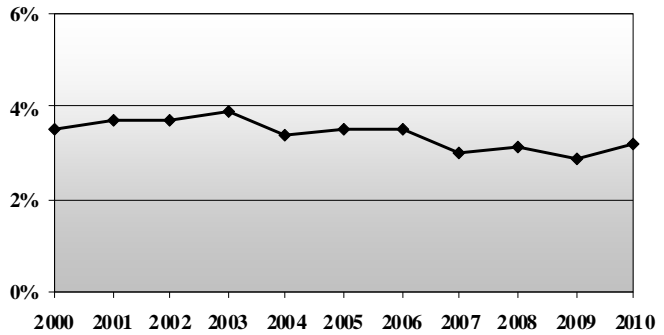
Formula:

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

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 eleven-year trend for this indicator depicts a range between 2.9 percent and 3.9 percent, which is indicative of the consistency of meeting capital outlay requirements within the operating budget. In FY00, this indicator reflected a total of 3.5 percent, while the FY10 total measures 3.2 percent. In fiscal years FY05 and FY06, the indicator remained constant at 3.5 percent and decreased by 0.5 percent to 3.0 in FY07. Although this percentage dropped in FY07, it is important to note that the indicator rebounded in FY08, showing a positive increase over the prior fiscal year. The County's level of capital outlay has averaged 3.4 percent of net operating expenditures throughout this eleven-year period.

In the recessionary economic environment of FY02 through FY04, in spite of a number of revenue challenges, particularly reductions in State aid, the County was able to maintain a stable level of capital outlay expenditures. This may be considered positive as the County was not forced to defer capital outlay expenditures in order to maintain a balanced budget. However, the current economic difficulties have presented much deeper revenue challenges than experienced in FY02 through FY04.

In FY09, the indicator fell to the lowest level in the eleven-year time frame at 2.9 percent. However, as in FY08, the indicator rebounded in FY10 to 3.2 percent, in spite of across-the-board operating budget reductions in FY10. It should be noted that in FY11, a second round of across-the-board budget reductions were implemented, and the FY12 budget development process will include yet another round of reductions to all departments. With three consecutive fiscal years of budget reductions, it is very likely that departments will have little choice but to consider capital outlay funding reductions to some degree, which could result in obsolete or inefficient equipment in the near future. As such, a warning trend is noted for this indicator.



The overall consistency in capital outlay expenditures in the eleven years examined may be viewed as a positive trend as current capital outlay needs are being met within existing resources. These capital outlay expenditures are largely concentrated in the areas of new computer equipment, replacement computers, and replacement vehicles, particularly in the area of public safety.



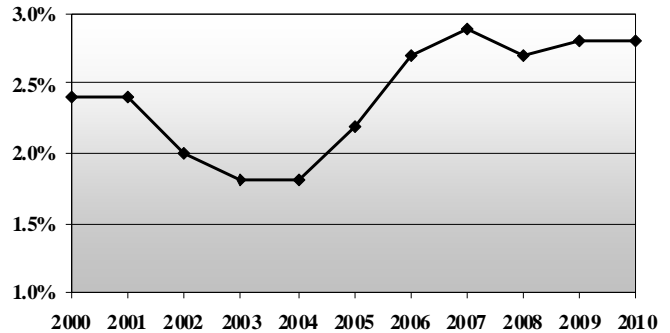
WARNING TREND: Decreasing amount of depreciation expense as a percentage of total depreciable fixed assets for Enterprise Funds and Internal Service Funds.

Formula:

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

Depreciation

(Depreciation Expense as a % of 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.

Trends:

The chart above reflects two overall trends. First, in FY00 and FY01, depreciation expense for the County of Henrico remained consistent at 2.4 percent. However, in FY02, with the implementation of GASB 34, 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 new Water Treatment Plant resulted in an increase in County "assets" of nearly \$92.0 million over a two-year period, although that increase is really of a one-time nature. The drop in FY08 is a result of a change in the capitalization threshold for personal property (furniture, vehicles, and equipment/software) from \$2,500 to \$5,000. In FY09, depreciation expenditures as a percentage of depreciable fixed assets yielded 2.8 percent, a slight increase from the prior fiscal year indicator of 2.7 percent. This indicator remained constant at 2.8 percent in the most recent fiscal year, FY10.

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 level that is slightly higher than that 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 absence of a truly downward 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.

