

Capital Expenditures

Overview

The City budgets for capital assets using a 5-year window, asking each department to consider their capital needs over this period. The most common capital requests are vehicle and operating equipment replaces, based upon the expected lives of the equipment.

Assets will be capitalized where: (1) ownership title is held by the City of South Bend, (2) the acquisition cost of the item exceeds the capitalization threshold identified in the following table, and (1) the item has a useful life in excess of one year.

<u>Asset Category</u>	<u>Capitalization Threshold</u>
Land	All land is capitalized
Construction in Progress	All construction in progress is capitalized
Infrastructure	\$250,000
Buildings	\$100,000
Land & Building Improvements	\$100,000
Intangibles	\$100,000
Machinery & Equipment	\$ 10,000
Computer & Office Equipment	\$ 10,000
Vehicles	\$ 10,000

Budgeting for constructed items such as infrastructure projects generally follow the same guidelines, although there are extra challenges because there are so many factors that could change the shape of the cash flows the projects, not the least of which, in Northern Indiana, is weather. Further, projects for years 4-5 may not be developed yet.

All capital items are required to have a payment method assigned to them: either Cash for outright purchase or Lease for anything paid in installments such that cash is not impacted as heavily in any particular year. The worksheets for the budget include a template to aid fiscal officers in estimating annual lease payments and these amounts are expected to be part of the departments' Debt Service line in the body of the budget document. Capital acquired by cash has its own line in the document. These distinctions are necessary since our budget documents are developed with an eye toward the cash balance is each fund.

Supplementary analysis is performed throughout the budget process to ensure that capital costs are properly incorporated into the budget. Analysis is also performed in review of capital acquisition trends by department, to alert the administration to any unexpected changes in capital acquisition requests and allow administration to address those changes as needed.

Financial Impact of Capital Investment

Capital Leases are favored by enterprise funds and those funds with relatively steady revenue streams and are used for routine replacement for larger items such as vehicles. Typically capital financed through lease funding is routine and replacement items which do not typically require additional maintenance costs.

Cash Purchases are used for smaller routine purchases from funds with adequate cash flow to cover the purchases. Typical cash purchases include individual replacement vehicles, infrastructure improvements which are routine in nature or covered by grant funds and smaller land maintenance projects. Typically capital financed through cash funding is routine and replacement items which do not typically require additional maintenance costs.

Bond Financing is used for large, one-time or infrequent acquisitions infrastructure improvement (“Smart Streets” and the City’s Long-Term Control Plan for sewer control) and large building projects (new fire stations and other City buildings). These expenditures are usually made from funds with limited revenue streams and are not expected to require ongoing financial resources beyond basic maintenance. These purchases are considered carefully to ensure that a) the funding source can support these expenditures, b) there is an adequate Return on Investment (ROI) for the expenditures, and c) the ongoing maintenance of the project can be supported either by additional revenue streams created by the project or by other resources of the City.

A majority of the capital purchases or leases are not expected to have a significant impact on the ongoing operating budget. However, there are many new park and street projects which will require additional maintenance. The assumptions used state that many of the improvements which will require more maintenance such as more frequent mowing, watering, etc. will be offset by the improvements which will require less maintenance due to the improved nature of the projects.

The purchase of certain CNG vehicles for Public Works and Public Safety is expected to result in reduced fuel costs, but the actual benefit is difficult to quantify. There are no anticipated changes in City personnel due to these capital expenditures. Certain Information Technology purchases like the computer refresh program will lead to employee time savings and productivity improvement.

The following pages detail the capital outlays anticipated in detail by fund.