

APPLICABLE LAW

General Municipal Law

- Section 6-c details procedures for the establishment of, and expenditures from, a capital reserve fund for cities, counties, towns, villages, and sewer and water improvement districts, including voter approval requirements.
- Section 6-d details procedures for the establishment of, and expenditures from, repair reserve funds for cities, counties, towns, villages, school districts, fire districts, and town or county improvement districts. These funds may be used to fund repairs to capital improvements or equipment when the repairs are of a type that does not recur annually or at shorter intervals.
- Section 6-g details procedures for the establishment of, and expenditures from, a capital reserve for fire districts, including voter approval requirements.
- Section 99-g provides an optional, detailed process for developing a formal capital program for capital asset acquisitions.
- Sections 101 and 103 provide competitive bidding requirements which must be followed.
- Section 109-b provides requirements for installment purchase contracts for the acquisition of equipment, machinery and apparatus. The Office of the State Comptroller also has regulations on this subject (2 NYCRR Part 39).

Education Law

- Section 416 details voter approval requirements for school taxes for certain capital purposes.
- Section 3651 details procedures for the establishment of, and expenditures from, capital reserve funds for school districts, including voter approval requirements.

Local Finance Law

- Local Finance Law contains provisions regarding the issuance of bonds and notes to finance various capital assets and infrastructure improvements.

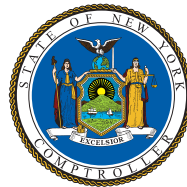
The following Local Government Management Guides from the Office of the State Comptroller's Division of Local Government and School Accountability, available at www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm, contain further information regarding capital assets and planning:

- Capital Assets
- Multiyear Capital Planning
- Strategic Planning
- Multiyear Financial Planning
- Reserve Funds

OFFICE OF THE STATE COMPTROLLER



DIVISION OF
LOCAL GOVERNMENT AND
SCHOOL ACCOUNTABILITY



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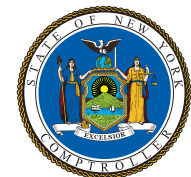
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LOCAL GOVERNMENT
FINANCIAL TOOLBOX

Capital Planning for Local Governments and School Districts

Capital assets need to be actively managed to ensure that local governments receive the most value for their investment. This brochure discusses the need for capital planning and provides suggestions for developing a capital plan.



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State Comptroller

Local officials are responsible for providing and maintaining capital assets and infrastructure within their jurisdiction. In order to fulfill this responsibility, local officials should develop a long-term capital plan to manage their capital assets adequately and efficiently. The plan should be linked to periodic needs assessment (what do we need) and the budgetary process (what can we afford).

Capital assets are generally defined as those assets used in operations which have expected useful lives (i.e., the period during which the asset is reasonably expected to be used) of more than a year. These include buildings and other facilities, water and sewer infrastructure, streets and highways, equipment, vehicles and machinery. Like any portfolio, these assets need to be actively managed to ensure that the most value is received from this considerable investment.

Acquiring capital assets or financing capital improvements often requires significant cash outlays. Capital assets such as machinery and equipment eventually break down and need replacement, and roads and buildings need repair and renovation. If adequate attention is not given to asset replacement and maintenance needs, what typically happens is that the local government operates in a crisis or emergency environment. This is not the most efficient or economical approach to replacing or repairing capital assets. Multi-year capital planning can help avoid this situation.

CAPITAL PLANNING BENEFITS

A capital plan provides many benefits, including:

- A documented plan to help guide management in decision making
- A basis for management to establish priorities and determine infrastructure needs
- Assistance in determining the cost effectiveness of maintaining existing assets versus acquiring new assets

- A structured approach for making financing decisions to fund capital assets
- A direct link to the budgetary process, allowing local officials to identify which assets need attention in any given year
- An opportunity to keep the public informed and to solicit public input.

DEVELOPING A CAPITAL PLAN

Working through the following questions will provide a basis for developing a long-range capital plan:

- Who will be responsible for overseeing the plan's development and implementation?
- How will an asset inventory and requests for capital assets be developed for the plan?
- How many years should capital needs be projected?
- Will real property (e.g., buildings and land) and personal property (e.g., vehicles and equipment) need to be acquired, constructed or reconstructed?
- Who will be involved during the plan's development (e.g., board members, department heads, general public, special interest groups)?

After answering these and other questions, the governing body should create a multiyear capital plan, which is a long-term plan that details when and how capital purchases will be made and paid for. The plan should include:

- An inventory of assets your municipality owns
- Identification of the new capital assets needed
- The order (priority) in which assets are to be acquired, replaced or repaired
- Estimated costs of acquisition, replacement or repair
- The method by which assets will be financed

- Estimates of how much it will cost to operate or maintain individual assets once you have them.

A typical plan will list each capital asset along with its replacement cost, ideally adjusted for inflation, and expected lifetime. The effective annual cost of an asset can be found by dividing its replacement cost by the number of years it is expected to be in service. Adding the annualized costs for all assets will then determine the amount that needs to be considered for asset replacement during each year of the capital plan.

After the plan details are in order, the governing body should seek public input and formally adopt the capital plan. The board should revisit the plan annually as a part of its budget process and make necessary adjustments, and monitor plan results over time to determine how well goals and objectives are being achieved.

FINANCIAL ASPECTS

Funding for capital projects can come from any combination of State or federal sources, local funds or the proceeds of debt. State and federal funding sources include grants, low interest loans, or direct provision of equipment, labor or services. Local funding sources include fund balances, reserve funds, annual budget appropriations, proceeds from sales of existing assets, payments under intermunicipal cooperation agreements with other local governments, and private sources such as gifts and donations.

For projects funded through borrowing, principal and interest payments must be budgeted each year to retire debt. Similarly, lease payments must be budgeted each year to pay for leased equipment.

Consider the annual budgetary impact of capital acquisitions, some of which will require extra expenses such as wages, supplies, maintenance and insurance. Others may result in cost savings, such as lower maintenance or energy costs for replacement equipment, or revenue generation from user fees.