



BEST PRACTICE

Presentation of the Capital Budget in the Operating Budget Document (2008) **(BUDGET and CEDCP)**

Background. After the capital budget or multi-year capital plan is adopted, a government should decide how to best present major capital program highlights in the operating budget document. An exceptional capital presentation enhances the transparency and accountability to citizens. It gives a broader context for citizens to understand major components of the capital budget and its relationship to the operating budget.

GFOA has recommended practices that are concentrated on the development, implementation, and monitoring of the capital budget. This recommended practice focuses on the presentation of the major capital program highlights in the operating budget document.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider the following guidelines when incorporating information on the capital budget within the operating budget document. Presentation of the capital section should include a summary of the multi-year capital plan as well as detailed information related to the budget. Each government will need to establish the appropriate balance between summary-level and detailed information.

1. *Placement.* The capital budget should be in a distinct section of the budget document. It is very difficult to follow the various elements of the capital program if information is scattered throughout the document. The capital budget should show a direct link to the multi-year capital improvement plan. By including this information within the same or adjacent section of the document, it is easier for the reader to follow that relationship.
2. *Definition.* A definition of capital expenditures should be included in the budget document. The definition of a capital project can be designed in a way that is broad enough to encompass a variety of different situations. Governments frequently refer to asset life and dollar threshold in the capital expenditures definition. However, not every project cost is actually capitalized (e.g., furnishings often are not).
3. *Sources and Uses.* The capital presentation in the operating budget document should focus on both sources and uses. The government should indicate the total dollar amount of capital expenditures for the budget year and for the multi-year plan. The capital plan sources and uses summary should include all projects (regardless of fund) that fit within the government's definition of capital expenditures. This information can be presented by fund, category, priority, strategic goal, or geographic location. The government should identify the funding sources for the same time period as expenditures. Pie charts are useful for identifying components, while bar charts show specific trends (historical and future). A budget overview or separate budget in brief could be included that presents both operating and capital highlights.
4. *Process.* The following items help to communicate major steps within the capital budget decision making process.
 - *Calendar.* A calendar showing key dates in the capital process should be presented, along with text describing the process. The calendar could be juxtaposed with the operating budget calendar. Responsible parties (departments) and statutory deadlines are useful in describing the process.

- *Prioritization.* Information on how capital projects are evaluated and prioritized is critical. The criteria for evaluating capital projects could include such items as safety, location, return on investment, net payback, public need, connection to other plans, and available funding. Changes in priority could also be addressed.
 - *Funding.* Funding sources should be defined. Alternative funding options could include pay-as-you-go, debt (type, size, duration, etc.), and levying additional taxes. Legal constraints and reliability of capital funding sources are important considerations
 - *Management.* Depending on the size and complexity of the capital plan, some projects within the capital plan may be contracted out versus managed in-house. That decisionmaking process should be communicated.
5. *Identification.* Capital projects should be broken out between recurring and non-recurring. Recurring capital projects are those that 1) are included in almost every budget and 2) have a regular replacement cycle. Capital projects could be grouped by category, department, type, function, or funding.
6. *Individual Capital Project Detail.* Many budget documents include individual capital project detail for major projects. Detail for major projects could include:
- *Description.* For significant and/or non-recurring capital expenditures, the document should concisely describe these items (i.e. indicate the project's purpose and funding sources) and indicate the amount appropriated for the project during the budget year(s). For example, the construction of a convention center would be both significant and nonrecurring.
 - *Operating Impacts.* The operating impact from the capital budget should be both quantified and discussed. For example, operating expenses would increase with the need for additional positions when opening a new facility. On the other hand, operating expenses would decrease for energy savings projects. Also, some capital projects may result in additional revenues.
 - *Timetable.* Showing a timetable for different phases of a project is very informative. Capital project schedules can be presented on the individual sheets.
 - *Graphics.* Legible graphic illustrations (pictures or maps) can add value to a capital project presentation.
 - *Links to Other Plans.* Governments may consider indicating on the individual capital project sheets what specific goals that the capital project is fulfilling.

To avoid placing excessive detail in the capital section of the operating budget document, consideration may be given to placing the additional information on the web or in a separate capital document.

References

- GFOA Best Practice, "Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets," 1997, 2001, and 2006.
- GFOA Best Practice, "Multi-Year Capital Planning," 2006.
- GFOA Best Practice, "Establishing the Estimated Useful Lives of Capital Assets," 2002 and 2007.
- GFOA Best Practice, "Capital Project Budget," 2007.

Approved by the GFOA's Executive Board, October 17, 2008.