



GFOA BEST PRACTICE

Planning, Budgeting and Periodic Assessment for Capital Maintenance and Replacement (2007) **(CEDCP)**

Background. Capital assets comprise major government facilities, infrastructure, equipment and networks enabling the delivery of public sector services. The quality and continued utilization of these capital assets are essential to the health, safety, economic development and quality of life of those utilizing such assets.

Budgetary pressures may impede capital program investments for maintenance and replacement purposes, making it increasingly difficult to sustain existing capital asset condition and avoid functional obsolescence. Yet deferring such essential reinvestments reduces vital public services and may even endanger public safety. The financial result is increased cost as the physical condition of these assets declines. Government entities should therefore establish capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and capital improvement plans should address the continuing investment necessary to properly maintain its capital assets. Such practices should include proactive steps to promote adequate capital maintenance and reinvestment in existing public capital assets.

Recommendation. The Government Finance Officers Association (GFOA) recommends that local and state governments establish a system for planning, budgeting and periodic assessment of their capital maintenance/replacement needs. The following actions should be considered:

1. Develop and maintain a complete inventory of all capital assets. This inventory should contain essential information including engineering description, location, physical dimensions and condition, "as-built" documents, warranties, maintenance history, book value and replacement cost. Operating cost information could also be included. Database and geographic information technologies should be employed to assist in this task.
2. Develop a policy to require periodic measurement of the physical condition of all existing capital assets. Document the established methods of condition assessment. Periodically evaluate the capital program using data driven analysis of asset condition as well as past expenditure levels.
3. Establish condition/functional performance standards to be maintained for each component of capital assets. Such standards may be dictated by mandated safety requirements, federal or state funding requirements or applicable professional standards. Use these standards and a current condition assessment as a basis for multi-year capital planning and annual budget funding allocations for capital asset maintenance and replacement.
4. Develop financing policies for capital maintenance/replacement which encourage a high priority for those capital programs whose goal is maintaining the quality of existing assets. Consider earmarking fees or other revenue sources to help achieve this goal.
5. Allocate sufficient funds in the multi-year capital plan and annual operations budget for routine maintenance, repair and replacement of capital assets in order to extend the useful life of these assets and promote a high level of performance throughout the target period.
6. At least annually, report on capital infrastructure, including:

- a. Condition ratings jurisdiction-wide
 - b. Condition ratings by geographical area, asset class, and other relevant factors
 - c. Indirect condition data (e.g., water main breaks, sewer back-up complaints)
 - d. Replacement life cycle(s) by infrastructure type
 - e. Year-to-Year changes in net infrastructure asset value
 - f. Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g., budgeted street miles reconstructed compared to actual)
7. Report trends in infrastructure spending and accomplishments in the jurisdiction's Capital Improvements Program including trends in spending, replacement cycle, and other important factors for each major infrastructure category.

References

- GFOA Best Practice, "Considerations on the Use of the (GASB 34 Reporting Model) Modified Approach to Account for Infrastructure Assets," 2002.
- "Managing the Capital Planning Cycle: Best Practice Examples of Capital Program Management," *Government Finance Review*, 2004.
- *Capital Budgeting and Finance: A Guide for Local Governments*, ICMA, 2004.
- GFOA Best Practice, "Capital Project Budget," 2006.
- GFOA Best Practice, "Establishing the Estimated Useful Lives of Capital Assets," 2002 and 2007.
- GFOA & National Advisory Council on State and Local Budgeting Best Practices in Public Budgeting (Practice #s 2.2, 5.2, 6.2, 11.5). – www.GFOA.org/services/nacslb.

Approved by the GFOA's Executive Board, October 19, 2007.