

RELATIONSHIP BETWEEN THE CAPITAL AND OPERATING BUDGETS

The Capital and Operating budgets affect each other in a number of ways. The amount of debt that can be supported by the Operating Budget helps determine the value of the bonds that can be sold in any given fiscal year. Operating Budget resources, as governed by the County's revenue and by its budget stability and debt management policies, determine the level and composition of the County's Capital Budget. The County's debt policy contains guidelines to help the County stay within a sound fiscal framework despite year-to-year variations in the amount of resources available for debt service.

Capital Budget decisions affect the Operating Budget in several ways. First and foremost is the amount of Operating Budget revenue that must be used to provide for debt service payments on any general obligation bonds sold to fund capital projects. A key element of the County's debt management policy is to restrict debt service to 8% or less of the County's total Operating Budget to ensure that debt service payments will not overburden operating resources. The County will continue to be well within these guidelines in the coming fiscal year.

A second potential impact of the Capital Budget on the Operating Budget is the possible appropriation of General Fund revenues for transfer to the Capital Fund. Although the great majority of capital projects are funded through the sale of general obligation bonds, the County will occasionally fund a capital project from General Fund operating revenues.

The third impact the Capital Budget has on the Operating Budget consists of the operating and maintenance costs associated with the completed facilities. The greatest operating impacts occur with a new facility, such as the opening of a new branch library. In such instances, costs relating to new professional staff, new maintenance and support staff, and additional operating and utility expenses must all be included in the Operating Budget.

Other types of capital projects may have a relatively small impact on the Operating Budget. Renovations rarely increase operating costs much, if at all. Road, storm drainage, and other infrastructure projects do not normally result in the need for additional costs. However, when such projects reach a critical mass, additional maintenance staff will be needed, and at some point in the future, resurfacing and other expensive maintenance activities will be required.

Capital expenditures can also have positive impacts on the Operating Budget. For instance, infrastructure maintenance funded through the Capital Budget can result in substantial Operating Budget savings. An example is the resurfacing of roads using capital budget funds, which usually reduces the need for temporary repairs of potholes and other maintenance funded from the Operating Budget. Likewise, the renovation of an old facility will usually result in lower maintenance or operating costs for that facility.