

Capital Expenditures for Debt Purposes Policy

Capital expenditures are generally defined as expenditures on property and assets that have a useful life greater than one year. Below are categories of expenditures that do and do not constitute capital expenditures for debt purposes under the County's policies, which may be different than their classifications for other purposes (such as financial accounting). These categories do not apply to asset classification by the Audit Office. Any questions should be directed to OMB and CAO.

Not Capital Expenditures. The following expenses are not capital expenditures under the County's policies:

- Costs of supplies expected to be consumed within a one-year period. *Examples: office supplies, paper towels, printer ink, envelopes, and stamps.*
- General overhead and operating expenses. *Examples: utility bills, janitorial expenses, and annual software subscriptions.*
- Any other expenditures that do not meet the minimum dollar thresholds described below.

Capital Expenditures – Real Property and Tangible Personal Property

Acquisition. The cost of buying a building, property, or any piece of real estate is a capital expenditure. The acquisition of physical assets with a useful life greater than one year, such as vehicles, equipment, and hardware, is generally a capital expenditure. *See table below for cost requirements.*

Construction. The costs of constructing buildings or structures, including the necessary materials, professional services, labor, and equipment, are capital expenditures. Structures must have an expected useful life in excess of one year. *See table below for cost requirements.*

Capital Repair and Maintenance. Certain costs of repairing and maintaining buildings and equipment can be capital expenditures. However, the ordinary expenses required to operate buildings or equipment are not. *See table below for cost requirements.*

Any requests involving repairs or maintenance should be discussed with OMB and CAO, but for the purposes of illustration, the following are generally classified as capital expenditures when associated with real property or tangible assets with useful lives greater than one year:

- Fixing a material defect that arose before acquisition or during construction;
- Materially adding to the property, such as physical enlargement or capacity increase;
- Materially increasing productivity, strength, quality or output of the property;
- Restoring property to its ordinary operating condition after it has (i) been damaged, (ii) deteriorated to a state of disrepair, or (iii) after the end of its class life; and
- Adapting property to a new or different use.

Computer Hardware and Software: The cost incurred when buying computer hardware like desktops, laptops, servers, etc. is a capital expense, as long as the hardware's useful life is expected to be greater than one year. *See table below for cost requirements.*

Software costs may or may not be capital expenditures. The purchase, development, installation, and customization costs of software applications for which the County owns the code (and may customize and modify the code) are generally capital expenditures, including the associated labor costs. The purchase of a software license in which the County receives a license to install and use an application may be a capital expenditure if the term of the license agreement is greater than one year; however, the County's policy is to use debt to finance software only when it is owned by the County or permanently licensed to the County. The costs of software selection, training and maintenance generally are not capital expenditures.

Cost Requirements for Capital Expenditure Categories Above

The cost categories below are intended to serve as guidelines. All requests are subject to final review by OMB, taking into account departmental needs and budgetary restrictions. See descriptions above for more information about each category of expenditure.

Land/Buildings/Physical Structures		Tangible Assets such as Equipment (including Hardware)	Software Costs
Acquisition	Construction, Renovation, Capital Repair and Maintenance	Acquisition and Capital Repair and Maintenance of Equipment	Acquisition, Development, and Customization
\$1+	\$25,000+ project (includes costs of land, labor, materials, etc.)	\$5,000+ per unit, <u>or</u> \$1,000-\$4,999 per unit as part of a project or bulk order totaling over \$50,000	\$50,000+ for software owned by or permanently licensed to the County

Additional Considerations for Useful Life

If a capital expenditure relates to an asset with a useful life of less than five years, OMB will generally require funding with short-term debt, such as commercial paper, rather than long-term debt, such as bonds.