



## BUDGET

# Capital Planning & Your Five-Year Forecast

Understanding the long-term implications of capital expenditures over time will be necessary and will provide invaluable information for strategic long-term finances and when you are updating your annual five-year forecast.

**Planning for capital costs** in a school district is often overlooked as part of a sound long-term financial plan. This is often due to capital expenditures, such as facility maintenance and classroom furniture replacements, being in direct competition for district general operating funds. The focus of general fund dollars is traditionally on other important items such as staffing, benefits, curriculum, and technology expenses. It is important for a district to have a full picture of the costs and life expectancy of capital items to help prioritize when these expenses need to move to the forefront in budget discussions.

One of the most vital times to start a capital plan is upon completion of a major facility project. Once a district completes a facility project, it may not seem necessary to track the capital cost because you now have a “new” building(s). Although a school building is intended to last for decades, the equipment and finishes will have to be maintained to reach its life expectancy. These new buildings will start to require maintenance and replacements of the smaller equipment in five to 10 years. The building envelope and large mechanical equipment will start to need expensive repair and replacement between 10 and 20 years. Having a plan in place for scheduled maintenance and repair will help ensure the longevity of your “new” building(s).

A capital plan helps with building longevity, but it will also increase the accuracy of your five-year forecast. Once you have created a capital plan for long term maintenance of facilities in your district, this valuable tool will help you capture these costs in your five-year forecast or to plan for a sufficient sized permanent improvement levy. Planning will help ensure that you have included enough cost for maintenance and repairs. Surprise repairs or equipment replacements are one of the fastest ways to derail a district’s annual budget with implications for the five-year forecast.

A long-term capital plan has benefits beyond the five-year forecast. Understanding the cost of maintaining district assets over the long term will also help in planning for future ballot initiatives. A capital plan will help districts make decisions on whether these costs should be included in a planned operating levy or whether a district is better served to include them in a future bond issue or permanent improvement levy. The time invested in creating a capital plan will have significant long-term benefits to a district. For instance, if a district had a detailed capital plan scheduled out, several items would have been readily identified when funding like ESSER funds became unexpectedly available for air quality and



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other safety measures. Those could have easily been moved to these limited-time funds and stretch otherwise planned funding to other capital items.

To complete a thorough capital plan, time investment and stakeholder buy-in are a must. The district's custodial and maintenance staff are generally the most knowledgeable about your assets. An example of this is when you are planning for auto or bus replacements, your mechanics will have a great deal of insight. Once staff members recognize how a good capital plan can benefit their department by helping with funding and equipment replacements, they become a great resource for information. As they see the benefits, they are more willing to do the work to help gather data.

You can also depend on these resources for information on the history of the equipment. If you have heard the adage "they don't build them like they used to," an example of this in education is the mechanical equipment that is operating in your buildings. The oldest pieces of equipment are not always the equipment that will need to be replaced first. If a new piece of equipment is constantly breaking down and is expensive to maintain, it may need to be replaced sooner than an older piece of equipment that has had little downtime and low maintenance cost. Your maintenance staff will have a good understanding of the history of your equipment. They will be able to help you prioritize which equipment should be replaced first when balancing equipment downtime, historical repair cost, and savings from installing more energy-efficient equipment.

You will also need to utilize other valuable staff resources in areas such as athletics, music, or the arts. Your athletic director will know more about the needs in athletics. They will be able to help bring together the district and the boosters when setting priorities for funding projects in the athletic departments. The teaching staff will have insight into the equipment and tools they use in their classrooms. They will be able to give you insight into the condition and life expectancies of items such as instruments, kilns, classroom appliances, etc. The best capital plan utilizes all district resources.

If you discover from the capital plan and budget process that you need to include these costs in an upcoming levy or bond issue, you will gain an added benefit by including your district staff. Many of your staff are community members or a trusted source of information for your community members. Their support in the community will be key. When they understand the process used to make the decision to go on the ballot and realize how it will impact their department, they are more likely to be supportive.

One of the first and most important steps to complete a capital plan will be to get to know your assets. An inventory of your assets in all categories will be necessary to begin the process. The staff's time and knowledge will be most beneficial during this stage. Once you have taken an inventory of what you have in place, you will have to evaluate each item. The goal is to determine how each piece fits into your plan based on the age and condition of your assets, the life expectancy, and the replacement cost for these items. Although creating a full inventory will be a time-consuming process, it is critical for the capital planning process.

### AREAS OF FOCUS FOR CAPITAL PLANNING SHOULD INCLUDE:

- Building Envelope – Roofing, doors, windows, etc.
- Asphalt and Concrete
- Equipment – Maintenance/custodial
- Transportation
- Flooring
- Athletics
- Building furniture and equipment
- Technology
- Food service
- General maintenance – Mechanical equipment, interior finishes, etc.

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