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Factors Creating the Need for a Capital Improvements Plan (CIP)

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

The University of Tennessee
County Technical Assistance Service
226 Anne Dallas Dudley Boulevard, Suite 400
Nashville, Tennessee 37219
615.532.3555 phone
615.532.3699 fax
www.ctas.tennessee.edu

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Initially, the local government is required by the state or federal government or pressured by citizens to provide a service. To provide these mandated services, buildings, equipment, and land must be purchased by the local government. Since these capital improvements do not last forever, local government should develop a plan to replace them or make necessary additions on a timely basis when they are needed. What factors create the need for capital improvements?

Physical Obsolescence—The physical quality of a capital improvement will deteriorate over a period of time. Buildings usually last from 30 to 50 years while equipment will last from 5 to 10 years. Land should last forever. Since this physical obsolescence can be projected, the local government should have a plan to replace or restore the item when it reaches the time and condition for replacement or restoration.

Functional Obsolescence—In many cases, buildings and equipment become functionally obsolete before they become physically obsolete. For example, a three story school building may be a sound physical structure, but it does not meet the requirements of handicapped children and fire safety. To correct these deficiencies may not be cost-effective since the building will have to be replaced before the debt created to fund the improvements is paid. Another example would be that a building may be 35 years old and require \$2 million to renovate with the new debt retirement over a 20 year period. At the end of 10 years, less than half the debt will be paid, but the local government will have a 45 year old building with a state or federal mandate requiring the replacement.

Sometimes the population shifts from one area to another in the same local government jurisdiction resulting in the land location and improvements being functionally obsolete to best serve the people. Some equipment may have a life of more than 10 years; however, the maintenance cost may be too expensive compared to a new replacement or new equipment may result in greater productivity. Whenever an item is basically sound physically but not economically, a governmental service would be functionally obsolete.

Population Growth—Because of population growth in many counties and cities, capital improvements must be added to adequately provide services. Working closely with local planning departments, local governments can analyze and project population growth which can be used to project future capital improvement needs. Also, data in the county property assessor's office, local electric departments, and school attendance records will provide information relative to population growth and its location. A state or federal mandate has often created issues related to functional obsolescence or population type issues such as reduction in pupil teacher ratios.

State and Federal Mandated Services—When the state or federal government mandates new services or the expansion of current services, the local government must plan for required capital improvements. Examples of such mandates are kindergarten education, elementary guidance counselors, ambulance service, sanitation landfills, and jail standards including additional courts, accessibility for the handicapped, bus safety standards, reduction in teacher pupil ratios, and many others.

Citizens' Pressure for Optional Services— In many cases local citizens demand optional services such as libraries, parks, civic centers, ambulance services and fire protection.

Changes in the Economic Base—The change from an agriculture and industrial economic base to a high technology base will require local governments to expand capital improvements to attract businesses. These improvements will include facilities for re-training citizens and providing facilities for management by high tech businesses. The results of a recent survey by the University of Tennessee as published in the Business Location Determinants in Tennessee indicate that local governments must prepare the community to compete for new businesses. Of the fifteen major determinants, five would be the responsibility of the local government:

<u>Factors Essential in Choice of Location</u>	<u>Responsibility</u>
1. Existing production facilities	Business
2. Less union influence	State
3. Right to work laws	State
4. Pro-business of state government	State
5. Worker productivity (training, experience, & ability)	Local*
6. Access to current markets	Location
7. Skilled work force (training, experience, & ability)	Local*

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| 8. Availability of credit | Business |
| 9. Low taxes | State & Local |
| 10. Open new markets | Business |
| 11. Cheap and available energy | Location |
| 12. Government support for building construction | Local* |
| 13. Quality of life | Local* |
| 14. Water supply | Location |
| 15. Cheap and available land | Local* |

*All of the Local responsibilities either directly or indirectly are affected by capital improvements.

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