

Capital Budget vs. Operating Budget

Dear Reader:

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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 municipal 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 MTAS website material.

Sincerely,

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How is a capital budget different from the adopted operating budget? The capital budget is a subset of the adopted budget. A municipality can have a regular budget without a capital budget, but it can't have a capital budget without a regular budget. Furthermore, state laws do not require capital budgets.

Capital budgets typically operate on a project length schedule rather than a fiscal year schedule. Capital budgets also mark the first year of a Capital Improvement Program (CIP) or multi-year budget, which typically spans five years. The CIP should be updated every year to review expected revenues, inflation, project length, project necessity, and prioritization.

So why go to the trouble? For large projects that will take more than one year to complete or finance, and for projects that are not financed by proprietary or trust funds, having a separate place to track the project and its expenses is much easier. In addition, these are very expensive (typically more than \$25,000) undertakings and deserve closer attention and scrutiny. Furthermore, this type of long-term planning helps set priorities, forces consideration of life expectancies of facilities and equipment, allows multi-year financing for projects that could otherwise not be attempted without debt issuance, improves cash management by simplifying debt retirement, and rating agencies look favorably upon cities with CIPs.

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