



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Developing a Capital Budget

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal 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 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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Table of Contents

Developing a Capital Budget	3
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Developing a Capital Budget

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The first step in developing a capital budget is to plan. This includes setting a calendar (much like the one for the annual budget); creating an inventory of equipment, buildings, and facilities; assessing the status of current large projects, including funding and targeted completion dates; identifying future needs; and finally prioritizing the items. All departments need to be involved in this process.

The next step is to look at finances. Assess and establish your financing options (Can we pay for this in cash if we set aside \$10,000 each year for five years? Is lease/purchase a better option? What about issuing a bond for the new public works garage?); determine financial limits (How much will we have to work within two years?); and determine your current debt obligations (We owe \$20,000 on this loan and will have it paid off in the middle of next year).

The last stage of the capital budgeting process is implementation. The CIP is normally approved by resolution, with the first year of the program (the capital budget) adopted as a separate section in the annual budget. As mentioned earlier, once the program has been adopted and firms are hired, land is purchased, and construction begins, close scrutiny of these large and expensive projects will save you a lot of headaches and, potentially, bad publicity in the future.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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