

Capital Budgets

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,

The University of Tennessee
Municipal Technical Advisory Service
1610 University Avenue
Knoxville, TN 37921-6741
865-974-0411 phone
865-974-0423 fax
www.mtas.tennessee.edu

Table of Contents

Capital Budgets.....	3
----------------------	---

Capital Budgets

Reference Number: MTAS-842

One of the most often neglected areas of water and sewer utility operations is long-range planning for capital needs. In accounting terms an expense item is generally something that is considered consumed shortly after its purchase. Examples are office supplies, hand tools, and nuts and bolts. Capital purchases or projects are larger, more expensive items that have a longer useful life. If you install 2,000 feet of new sewer line you expect that line to last for several years. The cost of the line and its installation would not be expensed on the statement of revenues, expenses and changes in net position, but would be recorded as a capital item on the statement of net assets. At the end of the financial year capital items are recorded as a part of the utility plant and are then depreciated over their useful life.

City water and sewer utilities should develop a plan for capital needs for the next four to five years. This will help to accomplish several things:

- The city will have a plan for the orderly replacement of equipment and utility infrastructure;
- This plan will help the city provide necessary funding for the projects; and
- The plan will allow the city to prioritize its needs and schedule the work.

The capital budget should be viewed as a tool for the city to use and revise as needed. It will need to be updated on an annual basis. The capital budget also helps the city demonstrate to ratepayers where revenue dollars are being used to improve water and sewer operations.

XYZ CITY — CAPITAL BUDGET					
F/Y 2006 - F/Y 2010					
Capital Item	F/Y 2006	F/Y 2007	F/Y 2008	F/Y 2009	F/Y 2010
Maple Street Water Line	\$20,000	\$10,000			
Replace Pick-Up Truck			\$12,000		
New Pump Water Plant				\$30,000	
Elm Street Line Upgrade		\$10,000	\$10,000	\$10,000	\$10,000
New Backhoe	\$25,000				
Total	\$45,000	\$20,000	\$22,000	\$40,000	\$10,000

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.

Source URL (retrieved on 09/20/2019 - 2:56pm): <https://www.mtas.tennessee.edu/reference/capital-budgets>

