
Overall 2022 Budget Strategy and American Rescue Plan Act (ARPA) Proposed Projects & Prioritization

FINANCE COMMITTEE | JUNE 21, 2021



Agenda

- Context on the 2022 budget, revenue losses, and budget shortfalls
- Overview of the American Rescue Plan Act (ARPA) and allowable uses
- Proposed strategy for ARPA funds and overview of resolution
- Detailed information on community investment proposals

Context: City Budget Shortfalls and Deficits

The economic impacts of the COVID-19 pandemic resulted in significant revenue losses for the City. To balance the 2021 budget, the City relied on an unprecedented use of fund balance (“rainy day” funds). The 2022 budget anticipates an \$18 million budget shortfall.

■ **General and Library Funds**

- \$8.0 million of general fund balance used for 2021 budget
- \$4.8 million additional deficit anticipated for 2021
- \$18 million gap for 2022 budget

■ **Parking Utility**

- Reserves reduced from \$32 million to \$14 million

■ **Room Tax Fund**

- 2020 deficit of \$1.8 million despite 50% cuts to programs and no transfer of room taxes to general fund
- 2021 deficit of \$3.3 million due to slower recovery for group travel in urban centers

■ **Monona Terrace**

- Reserves gone
- \$3.5 million cash loss through end of 2021

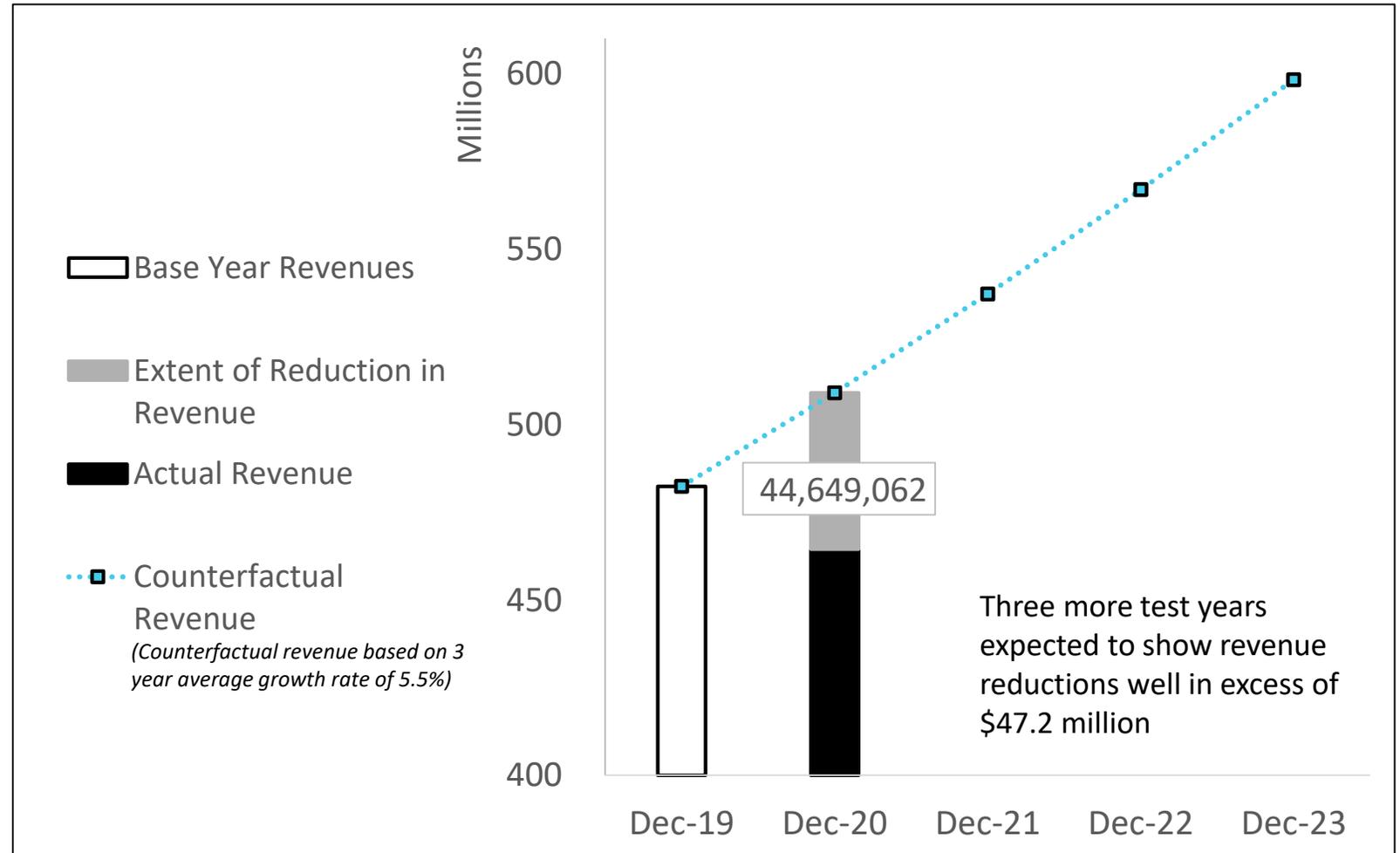
ARPA Overview: Eligible Uses

- U.S. Treasury interim rule identified 5 eligible uses for state and local funds
- City's proposal will balance multiple priorities, with a focus on investing in the community (#2) and maintaining government services (#3)

1. **Public Health:** Containing COVID-19 and addressing other urgent public health needs
2. **Economic Hardship:** Supporting families, small businesses, and hardest-hit industries
3. **Revenue Loss:** Providing vital public services, to the extent of revenue lost during the pandemic
4. **Premium Pay:** Offering enhanced compensation for the health and financial risks that essential workers face
5. **Water, Sewer, and Broadband Infrastructure:** Investing in key infrastructure to deliver clean water and reliable broadband internet access

The need for revenue replacement

- Under Treasury rules, it would be allowable to allocate full \$47.2 M on revenue replacement
- Allocating ARPA funds to revenue replacement is critical for the City's financial health and ability to maintain operations at current levels



Tax Increment District (TID) 25 Surplus

The closing of TID 25 will result in a surplus that will help balance the budget, but will not close the budget gap.

- TID 25 – East Wilson Street area – created in 1995 and used to finance Block 89 redevelopment, Monona Terrace Hilton Hotel Parking, E. Wilson Street Garage and other public infrastructure and private development loans.
- Resolution to close TID 25 will be introduced at July 6th Council meeting.
- Overall surplus (“residual incremental revenues”) anticipated to reach \$30 million by end of 2022; city share estimated at \$10 million.
- Incremental revenues for affordable housing will be collected in 2023 (estimated at \$4.9 million)
- Early distributions can be made from surplus after closure resolution adopted and prior to final audit/closure in summer of 2023.
- MMSD has requested a \$7.5 million distribution prior to mid-2022.

Overall strategy for the use of ARPA local government aid

\$47.2M

Total allocation

- Disbursed in two tranches
- Will cover costs incurred March 2021 – December 2024, with reporting through Dec. '26

\$22.8M

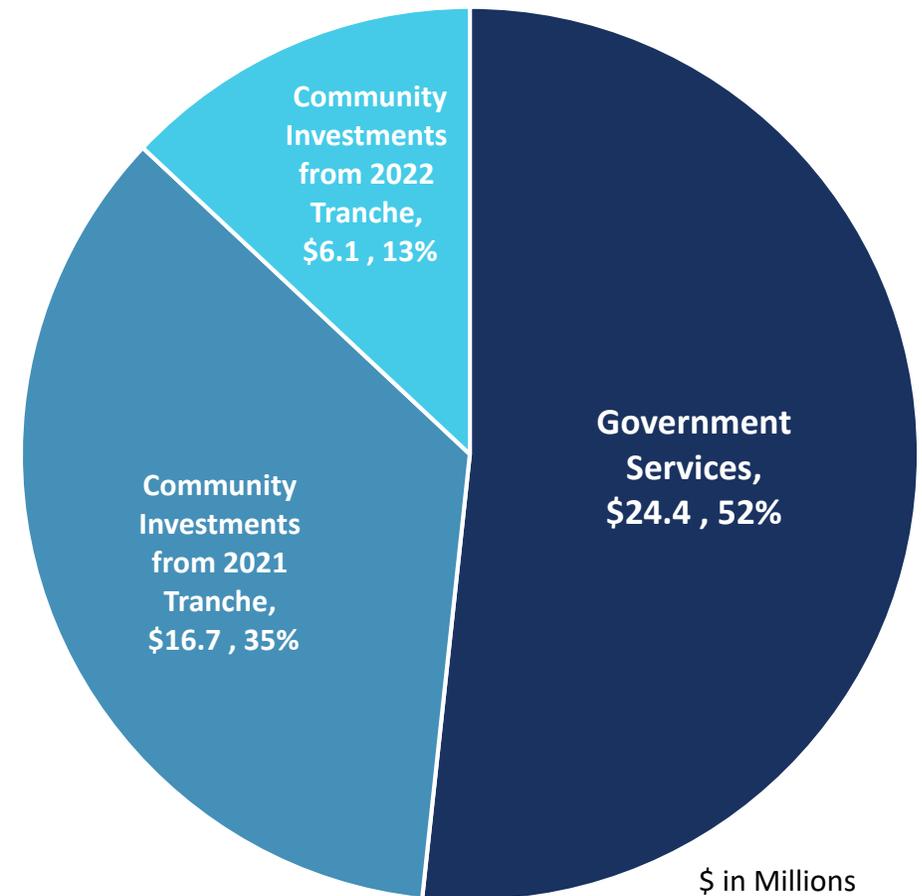
Community Investments

- Intended to address immediate, one time costs (not ongoing operating expenses)
- Majority of funding (\$16.7m) will be allocated from first tranche to have greater impact on community needs

\$24.4M

Government Services

- Balance General Fund budget and avoid use of fund balance in 2022
- Stabilize Monona Terrace and Room Tax Fund
- Note: Proposal does not restore revenues for Parking Utility (future ramp replacement will rely on debt and TIF financing)



Detailed Allocation Strategy: Balancing the budget and investing in the community

	2021	2022	Total	
	(\$ in millions)			
General Fund				
2021 Fund Balance Applied	8.0	0.0	8.0	
2021 Budget Shortfall	4.8	0.0	4.8	
2022 Budget Shortfall (net of cuts)	<u>0.0</u>	<u>13.0</u>	<u>13.0</u>	
	12.8	13.0	25.8	
Monona Terrace Shortfall	3.0	0.5	3.5	
Room Tax Fund				
2020 Deficit	1.8	0.0	1.8	
2021 Shortfall	<u>3.3</u>	<u>0.0</u>	<u>3.3</u>	
	5.1	0.0	5.1	
Total -- Maintaining Government Services	20.9	13.5	34.4	
Other Funding and Adjustments to Offset Government Services Needs				
TID 25 Surplus	5.9	4.1	10.0	
Defer Restoration of General Fund Balance	<u>8.1</u>	<u>-8.1</u>	<u>0.0</u>	
	14.0	-4.0	10.0	
Net Government Services Needs from ARPA	6.9	17.5	24.4	
ARPA for Community Investments	16.7	6.1	22.8	48%
ARPA for Maintaining Essential Government Services	<u>6.9</u>	<u>17.5</u>	<u>24.4</u>	52%
ARPA Allocations	23.6	23.6	47.2	

Anticipated budget shortfalls

Other funding and adjustments

Final allocation



ARPA Resolution, Legislative Timeline, and Prioritization for Community Investments



Legislative Timeline

Initial Resolution (introduced June 15, 2021)

- Detail allocation of community investments
- Make immediate appropriations by amending the 2021 adopted operating and capital budgets

2021 Mid-Year and/or Year-End Appropriation Resolutions

- 2021 General Fund deficit – ARPA funds
- 2020 and 2021 Room Tax Fund deficits – ARPA funds (indirectly) and TID 25 surplus
- 2020 and 2021 Monona Terrace deficits – TID 25 surplus

2022 Budget

- Appropriations for remaining community investments from ARPA funds
- Fill most of 2022 general fund budget gap (some cuts will be necessary) with ARPA
- Restore general fund balance using remaining TID 25 surplus and through charging costs to remaining ARPA funds.

Initial Resolution

Title: Accepting and allocating American Rescue Plan Act of 2021 (ARPA) Local Fiscal Recovery Funds for the City of Madison and amending the 2021 Adopted Operating and Capital Budgets to appropriate \$4,995,000 of ARPA aid to the operating budget and \$3,265,000 to the capital budget.

Structure:

1. Overview of ARPA guidance
2. Proposed City strategy for ARPA investments, including categories of investment
3. Reporting requirements and structure
4. Operating (\$5.0M) and capital (\$3.3M) budget amendments

Overview of ARPA Guidelines

Introduction of the resolution describes

- Federal guidelines of legislation
- City revenue losses during the pandemic
- City's eligibility to use full ARPA allocation for revenue replacement
- Recommended allocation split between community investments and revenue replacement

WHEREAS, the Interim Final Rule provide specific guidance for cities to allow the use of ARPA funds to replace lost revenue in order to continue providing government services, and

WHEREAS, based on the City's calculations, using the formula prescribed in the Interim Final Rule, the City has lost over \$44 million in revenue through 2020 and is expected to be eligible to use the full allocation of ARPA for government services and revenue replacement, and

WHEREAS, in light of the economic impact of COVID-19, \$22.8 million of the City's ARPA allocation is proposed to be focused on community investments intended to address immediate, one-time costs, with the remaining \$24.4 million focused on maintaining government services including balancing the city's general fund budget and stabilizing Monona Terrace finances and programs funded from Room Tax funds, and

WHEREAS, the City is recommending expending about \$16.7 million of the first half of funding and \$6.1 million of the second half of funding on responding to the economic impacts, addressing inequities exacerbated by COVID-19, and building back better, and the remaining funding on government services (revenue replacement), and

Proposed Strategy for City Investments

Outlines 5 priorities for community investments:

- Violence Prevention and Youth Employment (\$2,585,000)
- Homelessness (\$8,650,000)
- Affordable Housing (\$6,650,000)
- Emerging Needs (1,000,000)
- Small Business Support (\$3,915,000)

WHEREAS, five major priorities have been identified for use of the community investment funds, including violence prevention and youth employment, homelessness, affordable housing, neighborhood and small business revitalization, and emerging needs, and

WHEREAS, the City is outlining these broad categories as a means to target investments towards critical needs while ensuring that all investments are incurred in alignment with both the regulatory guidance and intent of ARPA, and

WHEREAS, the City has outlined the following strategy for investing the City's allocation across these five categories in the programs listed below up to the specified amounts, and

Priority Area: Violence Prevention & Youth Engagement (\$2,585,000)

Project Name	Estimated Cost (ARPA Allocation)	Category	Brief Description/ Additional Comments	Initial Resolution or 2022 budget
PHMDC Violence Prevention Initiatives	\$ 1,200,000	Operating	Support violence prevention initiatives; coalition led by PHMDC will reconvene in late June to outline specific strategies	Both (\$160K in initial resolution)
Summer Youth Employment - Summer 2022	\$ 650,000	Operating	Expanding youth employment in Summer 2022 through new internship opportunities, Summer Service Corps, a wage subsidy program	2022 Budget
Summer Youth Employment - Summer 2021/ Fall Expansion	\$ 465,000	Operating	Expand youth employment opportunities through partnerships with community agencies	Initial Resolution
Crisis Response Team (CARES) Support and Evaluation	\$ 150,000	Operating	Fund an additional service line in the Electronic Health Record (EHR) system and fund an external evaluator	Initial Resolution
Summer Youth Employment - Summer 2021 Youth Reengagement	\$ 120,000	Operating	Provide youth employment and drop-in activities that promote social-emotional development in the Parks	Initial Resolution

Note: Proposals are sorted by total ARPA allocation amount (largest to smallest)

Priority Area: Homelessness (\$8,650,000)

Project Name	Estimated Cost (ARPA Allocation)	Category	Brief Description/ Additional Comments	Initial Resolution or 2022 budget
<i>Salvation Army Darbo Site</i>	\$ 2,500,000	Capital	Proposal to purchase Darbo Site from Salvation Army	2022 Budget
<i>Unsheltered Homeless Support</i>	\$ 2,000,000	Operating	Exploring strategies to provide support outside of the shelter system	Initial Resolution
<i>Purpose-Built Men's Shelter</i>	\$ 2,000,000	Capital	Increase City contribution to this project	Initial Resolution
<i>Endowment for homelessness operating funds</i>	\$ 2,000,000	Operating	Seed an endowment to fund operating costs for homeless services	2022 Budget
<i>Occupy Madison (OM) Solar Project</i>	\$ 150,000	Capital	Offset OM operating costs and mitigate greenhouse gas emissions through solar panels	Initial Resolution

Priority Area: Affordable Housing (\$6,650,000)

Project Name	Estimated Cost (ARPA Allocation)	Category	Brief Description/ Additional Comments	Initial Resolution or 2022 budget
<i>Hotels Converted to Housing</i>	\$ 2,500,000	Capital	Strategy to convert hotels into permanent affordable housing; potential to leverage other funding	2022 Budget
<i>Youth Centered Housing Project</i>	\$ 2,000,000	Capital	Fund development of housing specifically for youth experiencing homelessness and/or aging out of foster care	2022 Budget
<i>Tenant Damage Fund</i>	\$ 1,000,000	Operating	Develop a new approach to reducing security deposit barriers and increasing access to housing	2022 Budget
<i>Homeownership Support/Rehabilitation Program (Consumer Lending)</i>	\$ 500,000	Capital	Expand down payment assistance and rehabilitation loan programs	2022 Budget
<i>Emergency Rental Assistance program operations</i>	\$ 400,000	Operating	Hire staff to administer emergency rental assistance programs and/or support community providers in program administration	Initial Resolution
<i>Naturally Occurring Affordable Housing (NOAH) Energy Efficiency Program</i>	\$ 250,000	Capital	Continue program to increase energy efficiency, decrease environmental toxins and install solar in NOAH buildings	2022 Budget

Priority Area: Emerging Needs (\$1,000,000)

Project Name	Estimated Cost (ARPA Allocation)	Operating or Capital	Brief Description/ Additional Comments	Initial Resolution or 2022 budget
<i>Services to Residents who are Undocumented</i>	\$ 700,000	Operating	Support programming, services, and outreach for communities of people who are undocumented through partnerships with community partners	Initial Resolution
<i>Connection to Basic Needs</i>	\$ 150,000	Operating	Support community-directed responses to provide basic needs for residents continuing to face the economic fallout from the pandemic	Initial Resolution
<i>PFAS Education, Outreach and Coordination</i>	\$ 100,000	Operating	Provide funding for additional PFAS testing and assessment at or near the Dane County airport.	Initial Resolution (\$50,000) and 2022 Budget
<i>Healthy Aging Education and Engagement</i>	\$ 50,000	Operating	Fund a consultant to initiate an evaluation of the Madison Senior Center role in serving the increasingly diverse older adult population in Madison.	2022 Budget

Priority Area: Neighborhood and Small Business Revitalization (\$3,915,000)

Project Name	Estimated Cost (ARPA Allocation)	Category	Brief Description/ Additional Comments	Initial Resolution or 2022 budget
<i>Small Business Equity & Recovery (SBER) Program-</i>	\$ 2,615,000	Capital	Supplement or supplant GO funding for SBER	Both (\$615,000 in initial resolution)
<i>Retail Building Improvement Grant Program</i>	\$ 500,000	Capital	Grants to assist retail establishments with the build-out of commercial spaces	Initial Resolution
<i>Public Market Foundation Operating Support</i>	\$ 400,000	Operating	Bridge gap in funding, assuming project moves forward	Initial Resolution
<i>Neighborhood Business District Support</i>	\$ 300,000	Operating	Support Black, Latino, and Hmong Chambers, BID, and Neighborhood Associations; support customized based on needs	Initial Resolution
<i>Downtown Vacant Storefront Art Program</i>	\$ 100,000	Operating	Support local artists to display artwork in vacant storefronts	Initial Resolution

Initial Resolution -- Operating Budget Amendments: \$4,995,000

Program	Agency	Amount	Major
PHMDC Violence Prevention Initiatives*	Public Health	\$160,000	Purchased Services
Summer Youth Employment - Summer 2021/ Fall Expansion*	CDD	\$465,000	Purchased Services
Crisis Response Team (CARES) Support and Evaluation*	Public Health	\$150,000	Purchased Services
Summer Youth Employment - Summer 2021 Youth Reengagement*	CDD	\$120,000	Purchased Services
Unsheltered Homeless Support*	CDD	\$2,000,000	Purchased Services
Emergency Rental Assistance program operations*	CDD	\$400,000	Personnel
Services to Residents who are Undocumented*	CDD	\$700,000	Purchased Services
Connection to Basic Needs*	CDD	\$150,000	Purchased Services
PFAS Education, Outreach and Coordination*	Public Health	\$50,000	Purchased Services
Public Market Foundation Operating Support*	EDD	\$400,000	Purchased Services
Neighborhood Business District Support*	EDD	\$300,000	Purchased Services
Downtown Vacant Storefront Art Program*	Planning	\$100,000	Purchased Services

Note: Proposals are sorted by priority area, by total ARPA allocation amount

Initial Resolution -- Capital Budget Amendments: \$3,265,000

Program	Agency	Amount	Munis Project
Purpose-Built Men's Shelter*	CDD	\$2,000,000	13346
Occupy Madison Solar Project*	CDD	\$150,000	NEW
Small Business Equity & Recovery (SBER) Program Expansion*	EDD	\$615,000	13072
Retail Building Improvement Grant Program*	EDD	\$500,000	NEW