



Office of the Mayor

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Date: May 24, 2021
To: Department and Division Heads
From: Mayor Satya Rhodes-Conway
Subject: 2022 Operating Budget: Agency Guidance

What a remarkable year it has been. Not since the influenza pandemic of 1918 has our city faced a public health crisis of this magnitude, necessitating major changes in work policy, procedures, and alternative forms of service delivery.

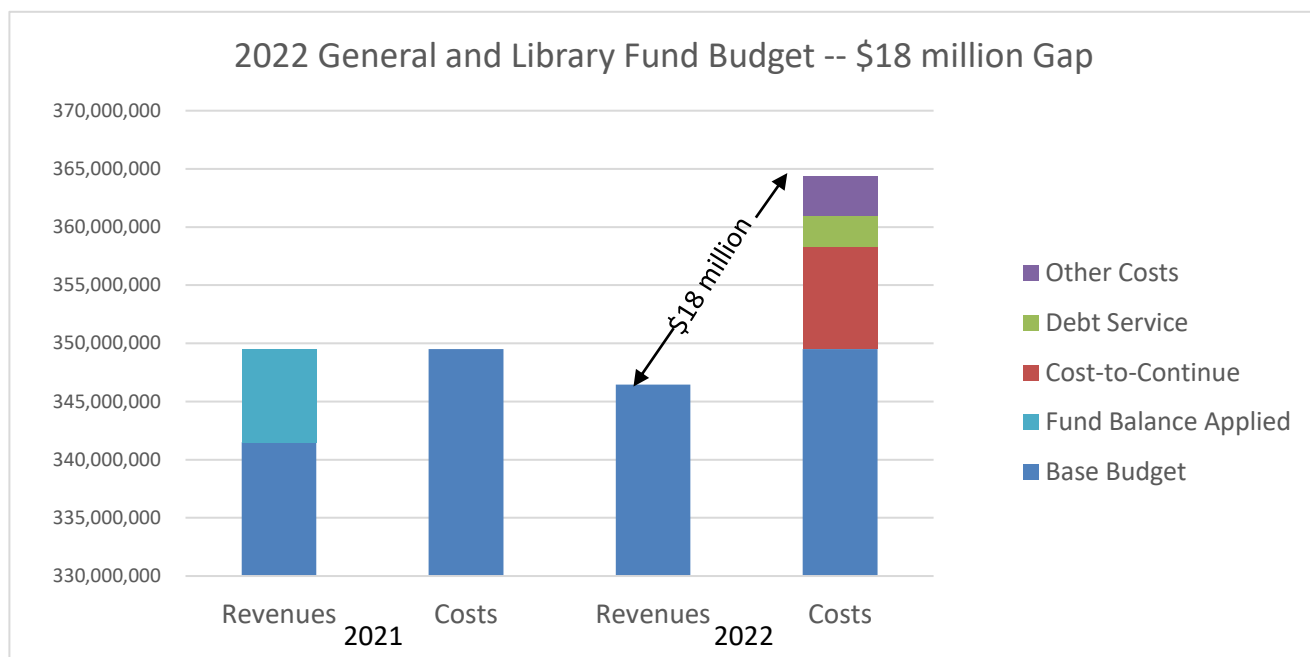
City services were transformed rapidly and dramatically at the onset of the pandemic. We found ways to help our residents—remaking multiple city facilities to serve those without secure housing, maintaining public access and accountability through virtual meetings, keeping our city safe through masking, distancing and cleanliness protocols, and reimagining the public space to support our economy and our small businesses. As policymakers and public servants we have gained nimbleness and resiliency, skills that will serve us well as we face the challenges ahead.

As we announce the end to our public health orders due to remarkably high vaccination rates and highly effective vaccines, we enter a new phase of the recovery with anticipation. But we are also cognizant that this past year brought into stark relief the incredible interconnectedness of our world and the dramatic racial, gender, social, and economic inequalities in our society. We have seen that public health and well-being have different implications depending on the type of work we perform, our economic status, and our race. Madison is challenged to do more to bridge economic and racial divides and make sure all city services, not just the emergency services related to our pandemic response, are delivered in a responsive and equitable fashion.

It is with these lessons learned that we embark on building back our city better than before. Even though we will receive one-time federal assistance through the American Rescue Plan Act, we continue to face significant budget challenges that will constrain our operations and policy choices and require new innovations.

Today our focus is on starting the process for developing the 2022 operating budget. We made a number of fundamental changes in how we provide services in the 2021 budget. We must continue on that path in the 2022 budget.

As demonstrated in the chart below, we face a budget gap of \$18 million. Over one-half of this gap is due to one-time measures used to balance the 2021 budget—\$8 million from our rainy day fund, \$1.2 million in one-time compensation reductions, temporary delays in filling vacant positions, and other short-term strategies. In other words, because we addressed so much of last year's budget gap with temporary measures, we must readdress that gap plus the additional gap arising each year from our structural deficit challenge.



It seems hard to believe, but the dissolution of the Town of Madison and the resulting incorporation of much of its population and land area into the City of Madison, first codified nearly 20 years ago, will occur in less than 18 months on October 31, 2022. City agencies have carefully documented the estimated cost of providing services to our new neighbors—upwards of \$4.0 million in annual operating costs on an ongoing basis beginning in 2022. This compares with an estimated \$2.3 million in town revenue set to begin in 2023. The \$18 million budget gap reflects some of the costs in preparation for serving those portions of the town and its residents that will soon be a part of the city.

The Finance Department estimates that in order to continue our current service levels and incorporate the Town of Madison attachment, General and Library fund expenditures will increase by \$15 million, or 4.3%. By comparison, because of state mandated limits on property taxes and the economic effects of the pandemic, revenues are estimated to increase by 1.5%.

State law limits our options to increase revenues. As such, to balance a deficit of this magnitude, we will have to employ a number of cost reduction strategies, most of which will need to be on-going.

We need to ask ourselves serious questions about whether or not we should be in the business of providing certain services. We need to ask ourselves what changes we made during the pandemic should become permanent. I am calling on all of you to do what families in our community do every day—focus on the essentials. As you review your services and develop your operating budgets for 2022, you should continue to focus on considerations of racial equity, social justice, and sustainability and seek to answer the outreach and process questions posed in developing your 2022 capital budget proposals.

To that end, I have established the following guidance for operating budget requests:

Base Proposals

- Agencies will receive budget targets consistent with the cost-to-continue funding levels.

- Agencies can reallocate funding across services so long as the overall agency amount is in line with the budget target.
- Agencies will prepare one proposal for each of their services within their budget.

Enterprise Agencies

- All Enterprise Fund Agencies will submit operating budget plans consistent with current revenue projections for 2022.
 - Agencies projecting revenue shortfalls for 2022 will need to present a base budget that includes expenditure reductions to meet available revenue.
 - Rate increases should be carefully analyzed in the context of equity and resident ability to pay; expenditures should be prioritized wherever possible.
- Enterprise Agencies not receiving a General Fund subsidy do not need to submit a budget reduction scenario.

Reduction Targets

- All General & Library Fund agencies will present 5% reduction proposals.
 - Proposed reductions need to be ongoing and should be not one-time.
 - Be creative in developing proposals to reduce costs of your service delivery. If you have ideas that might save money but do not fit in the confines of the budget proposal process bring those ideas to your Budget Analyst so we can explore them further.
 - Prioritize your services and consider ending services of limited value or effectiveness.
- Public Health is exempt from submitting a reduction scenario.

Other Guidance

- Keep racial equity and social justice at the forefront of everything we do—use the new equity questions included in the capital budget process to guide the development of your operating budget proposals.
- Consider how reducing our impact on the environment could also save money.
- Think about ways we can potentially save beyond the silos of your agency. Bring forward your ideas of ways to improve our coordination to help improve efficiency and reduce costs.
- No new revenues that result from charging other agencies should be proposed; other types of revenue proposals will be considered.
- Proposals that result in shifting costs to another funding source must be sustainable on an ongoing basis.
- Novel ways to combine services and other innovative ideas are strongly encouraged.
- Agencies should not include any Town of Madison-related costs in their budget requests. Costs associated with the Town attachment will be prioritized and included in the 2022 Executive Operating Budget.
- Supplemental requests may be submitted for urgent needs. These are limited to one request per agency. Where possible, include ways increases can be scaled or phased in over time.

Rising to this challenge is not something any one of us can do on our own. We have learned much over the past year and worked together and supported one another to accomplish a great deal as #TeamCity. Our teams must continue to innovate and prioritize. I look forward to your ideas to balance our budget and build back better.