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**Date:** June 21, 2022  
**To:** Department and Division Heads  
**From:** Mayor Satya Rhodes-Conway  
**Subject:** 2023 Operating Budget: Agency Guidance

I write to you today to kick off the City's 2023 Operating Budget process. Every year, department heads and staff are tasked with the tremendous responsibility of developing a balanced budget that provides core services to residents, advances citywide priorities, and helps us meet our Service Promise to support an inclusive and thriving community. The budget is a critical planning tool that allocates funding and provides a roadmap for all we plan to accomplish in the upcoming year. In 2022, the City made significant investments in providing equitable services to the Town of Madison, which will be attached to the City later this year. We also increased funding for violence prevention and public safety strategies, continued our commitment for affordable housing, and expanded programs to grow a more diverse workforce. I am grateful to you and all City staff who are working tirelessly to implement our ambitious plans.

As we celebrate progress made, we also acknowledge the challenging realities and context in which we are developing our 2023 budget. While we have made great strides in responding to and recovering from COVID-19, we continue to face public health, social, and economic impacts from the pandemic. Additionally, inflation and supply chain issues are putting pressure on the cost of goods and services we rely on to serve our residents. Finally, the City is severely restricted in our revenue options by the State legislature, which puts strict limits on our property tax levy.

As cost rise faster than revenues, the City faces a significant structural deficit over the next five years. Currently, the finance department projects a \$13.1 million deficit for 2023. Major factors driving our expenses include increasing salaries and benefits (including steps, longevity, and negotiated increases), rising cost of health insurance, and higher debt service costs. On the revenue side, we do anticipate some growth due to net new construction, but State mandated levy limits mean revenues do not keep pace with growth or inflation. While each of you is primarily responsible for your own agency budget, it is important that you understand this bigger picture.

Although we are facing a significant budget gap, the City is fortunate to have received much needed fiscal relief from the federal government through the American Rescue Plan Act (ARPA). Of the \$47.2 million awarded to the City, \$22.8 million has been allocated to support critical community needs, with the remaining \$24.4 million allocated to government services. We utilized \$6.9 million of ARPA funds to balance the budget in 2021 and \$13.1 million to balance the budget in 2022. Through prudent fiscal management, we have set aside the remaining funds to address the budget gap in 2023 and 2024. In

addition to ARPA, we are looking to leverage other local and federal sources to address our immediate budget needs, including Tax Increment District proceeds and federal transit relief funding. By leveraging multiple sources of one-time funds, the Finance Department believes we can reduce the projected gap to \$1.6 million. This gap will need to be closed with carefully considered expenditure reductions. In this context, I am providing the following guidance for 2023 operating budget requests:

### Base Proposals

- Agencies will receive a base budget consistent with the cost-to-continue current services.
- Agencies may reallocate funding across services so long as the changes are net neutral and do not increase the agency's overall expenditures.

### Reduction Targets

- All General, Library, and Fleet Fund agencies will present a 1% reduction proposal. Public Health is exempt from submitting a reduction scenario.
- Proposed reductions need to be ongoing and should be not one-time.
- Prioritize your agency's activities and assess whether there are programs or activities that can be phased out due to shifting needs.
- If you propose raising revenues or shifting costs to other funding sources to meet your target reduction, you must contact your budget analyst to discuss feasibility. Agencies cannot propose new revenues that result from charging other agencies. Proposals to shift costs to other funding sources must be sustainable on an ongoing basis.

### Enterprise Agencies

- All Enterprise Fund Agencies will submit operating budget plans consistent with current revenue projections for 2023.
- Agencies projecting revenue shortfalls for 2023 will need to present a base budget that includes expenditure reductions to meet available revenue.
- Proposed rate increases should be analyzed through an equity lens and consider resident ability to pay. Where possible, agencies should prioritize reducing expenditures over increasing rates.

### Town of Madison

- Agencies should include new Town of Madison requests as part of their budget proposal. Requests related to Town of Madison should focus on the equitable delivery of services.
- Note: If agencies received funding for ongoing Town-related expenses in 2022 (for example, funding for positions that start mid-year in 2022), these annualized expenses are included in your cost to continue budget. If you are requesting **new** funding for Town of Madison, these requests should be added in the supplemental request section of the proposal form.

### Supplemental Requests

- In addition to Town-related requests, agencies may submit up to one (1) supplemental request to address urgent needs. Where possible, include ways these requests can be scaled or phased in over time.

### Priorities of Racial Equity, Social Justice, and Sustainability

- Agency requests should be aligned with citywide priorities, including racial equity, social justice, and sustainability. Department heads are encouraged to engage department equity teams to think about how to advance equity goals within your base budget. If you have questions regarding sustainability measures, they can be directed to our sustainability staff.

### Creativity and Innovation

- Be creative in developing proposals to reduce the cost of service delivery. Consider ways to work across agencies and collaborate with others to create cost-saving efficiencies. If you have ideas for inter-agency coordination that do not fit directly within your budget, contact your budget analyst to discuss options.

The 2023 budget presents a unique opportunity to leverage one-time funding sources to close our budget gap and provide continuity of services to residents. At the same time, our structural deficit is persistent. Though I am asking for a smaller reduction in 2023 than in prior years, we must use this opportunity to focus on long-range planning and have serious discussions about our service levels for 2024 and beyond. In parallel with the budget process, the Finance Department will begin working with department heads and staff on long-range planning efforts. This will include the Results Madison service reengagement scheduled for July, which will be an opportunity to update the City's chart of accounts service structure to better align budgeting with community outcomes. In addition, they will be refining their 5-year financial outlook and developing a framework to support city-wide planning. I appreciate your leadership in this challenging process. I look forward to reading your proposals and hearing your ideas for balancing our budget.