



2024 Operating Budget Overview for Finance Committee

June 26, 2023

Agenda

- 2024 Operating Outlook
 - Cost to Continue Revenue & Expenditures Assumptions
 - Budget Gap
 - Approach for 2024
- Process Overview & Budget Guidelines
- Finance Committee & Common Council Engagement

2024 Operating Outlook

Budget Calendar; Cost to Continue Assumptions; Budget Gap

Key Dates for 2024 Budget Development

	Capital	Operating
Kick-Off Meeting	Tuesday, March 21 11:00am	Tuesday, June 20 11:00am
Agency Requests Due	Friday, April 21	Friday, July 21
Agency Briefings with Mayor's Office	May 8 – 19	August 7 – 18
Executive Budget introduced to Common Council (CC)	Tuesday, September 5	Tuesday, October 3
Finance Committee (FC) Briefings	September 11 – 12	October 9 – 10
FC Amendment Meeting	Tuesday, September 26	Monday, October 23
CC Amendment Week	October 30 – November 10	
CC Budget Adoption Meetings	November 15 – 17	

Overview of Operating Budget Phases



Cost to Continue

Cost to Continue (C2C) is the first step of developing the city's operating budget. It is a baseline estimate of how much it will cost the City to provide the same level of service in the upcoming year.

City-Wide Adjustments

- Remove one-time funding used to balance the 2023 Budget
- Personnel Costs
 - Estimated through a salary & benefit projection that incorporates step & longevity increases and negotiated increases
 - Includes placeholders for benefits rates, which will be updated later in the year
 - Based on 2023 payroll allocations
- Utilities, Fleet, and Cost Allocation Plan charges
- Workers Comp & General Liability Insurance

Agency-Specific Adjustments

- Remove one-time funding and expenses from the 2023 adopted budget
- Annualize partial year commitments
- Build in contractually required increases for purchased services
- Agency C2C determined through meetings between agencies and budget staff

Current Budget Gap

(General and Library Funds)

Expenditures = \$410.8 million

Total expenses are \$28.4 million (7%) higher than 2023 adopted budget. Major changes:

- + \$19.0m: Salary + benefits increases
- + \$12m: Restore Metro subsidy
- + \$4m: Placeholder for GF Debt Service
- + \$1.1m: Inter-D Charges from Fleet, Insurance, WC
- + \$1.1m: Citywide Purchased Services increases for utilities and software costs
- - \$8.9m: Removes one-time expenses for shelter operations, homeless endowment, transfer to insurance, 2023 employee bonus payments

Revenues = \$382.4 million

Total revenues are \$152,000 (0.04%) higher than the 2023 adopted budget. Assumptions:

- + \$9.4m: Levy increase
- + \$2.8m: Increase in shared revenue
- + \$1m: Increase in interest revenue
- - \$500k: Projected reduction in building permit revenue
- - \$12.3m: Removing one-time sources (\$6.9m TID; \$2m ARPA for shelter operations; \$3.4m Fund Balance for employee bonuses)

Gap = \$28.3 million

Cost to Continue Adjustments: Citywide Expenses (GF + Library)

Line Item	Assumptions
Personnel Costs	<p>\$19.0m increase in salaries and benefits</p> <ul style="list-style-type: none"> • Annualizes 5% GME increase phased in during 2023 (2% COLA; 2% catch up effective July 2023; 1% catch up effective October 2023) • Adds 3% increase for GMEs and protective service based on negotiated agreements • Adds 1% GME increase as a “catch up” • Includes 1% step and longevity increase • Annualizes positions funded for partial year in 2023 • \$2.6m placeholder for health insurance rate increases; \$1m placeholder for WRS rate increases (budgeted in Direct Appropriations)
Debt Service	<ul style="list-style-type: none"> • Adds \$4m placeholder for Debt Service
Elections	<ul style="list-style-type: none"> • Adds \$1.36m in Clerks budget for elections (\$1.1m election officials; \$283k supplies and postage)
Facilities & Utilities	<ul style="list-style-type: none"> • \$549,600 increase for higher gas (+15%), electricity (+5%), and water (+31%) costs
Fleet Rate	<ul style="list-style-type: none"> • \$532,600 Increase, primarily driven by personnel costs and higher depreciation
Insurance & Worker’s Comp	<ul style="list-style-type: none"> • \$322,800 Increase for Insurance; \$176,000 Increase for WC
Metro Subsidy	<ul style="list-style-type: none"> • \$12m Metro Subsidy (restore subsidy to 2022 levels and begin paying back reduction in 2023)

Approach for 2024: Leverage one-time funds and incorporate modest agency reductions

Starting Gap = \$28.4 million

<p>One-time funds = \$18.1m Remaining ARPA for government services (\$4.4m); TID surplus (\$6.7m); and Fund Balance (\$7.0m)</p>	<p>Other Sources = \$5.0m</p>	<p>Agency Reductions = \$5.6m</p>
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- Utilize remaining one-time funds while they are available
- Analyze other non-levy revenue sources and make adjustments to reflect trends (e.g. interest)
- Increase agency salary savings to reflect recent trends and reduce overall expenditures
- Fund general, library and fleet fund agencies at 99% of budget target as a starting point for fiscal year
- Begin planning for more significant changes in 2025

Expenditure Reductions: 1% increase in Salary Savings (all funds)

Context on Salary Savings

- “Salary Savings” is budgeting object used to reflect turnover and vacancies in an agency budget
- Historically budgeted at 2% of Permanent Wages
 - Simple Example: Perm Wages = \$100,000 | Salary Savings = (\$2,000) | Total Budget = \$98,000
- Last 3 years (2020-2023) averaged 7% savings; last 8 years (2015 – 2023) average 5% savings

Salary Savings in the 2024 Budget

- 2024 Base budget increases total salary savings from 2% of perm wages (\$5.2m) to 3% of perm wages (\$7.8m), which reduces overall expenditures and better reflects actuals
- Base budget also creates a tiered structure based on total FTE positions
 - 1 – 19 FTEs = 0%
 - 20 – 49 FTEs = 0.5%
 - 50 – 99 FTEs = 1.0%
 - 100 – 199 FTEs = 3.0%
 - 200+ FTEs = 4.0%

Expenditure Reductions: 99% Budget for General, Library, Fleet Funds

Context on 99% Budget Targets

- Agencies regularly underspend their budget; Amount varies by agency, but citywide average from 2019-2022 is 3.2%

General, Library, and Fleet Fund Agencies				
Unspent				
Year	Actual	Revised Budget	Appropriations	% Unspent
2019	\$231,816,905	\$237,191,257	\$5,374,352	2.3%
2020	\$241,552,493	\$251,971,804	\$10,419,311	4.1%
2021	\$245,074,975	\$256,014,594	\$10,939,619	4.3%
2022	\$253,493,790	\$264,111,357	\$10,617,567	4.0%
Grand Total	\$1,196,115,672	\$1,235,338,174	\$39,222,502	3.2%

New Budget Efficiencies Object in Target

- General, Library, and Fleet fund agencies will receive a budget target that reflect 99% of their cost to continue budget to capture regular underspending within agency budgets
- New object (51510 – Budget Efficiencies) added to capture underspending and help balance the budget; Additional details in following section

Structural Deficit & Long Range Planning

- One-time funding and expenditure reductions will help close 2024 budget gap without significant cuts to service levels
- Preliminary projections estimate a 2025 budget deficit of \$32 million, steadily increasing up to \$56 million in 2029
- Need to continue scrutinizing expenses, service levels, and revenue options to close the structural gap
- Finance department will begin working with agencies on long range planning efforts on budget

Budget Guidance

Budget Guidance:

99% Base Budget (General, Library, Fleet)

- Agencies will receive a base budget consistent with the cost-to-continue current services.
- The budget target for all General, Library, and Fleet Fund agencies will be 99% of cost-to-continue levels. Base budgets include a 1% Budget Efficiencies Object that reduce net expenditures.
- Department heads will be expected to manage to the 99% budget throughout the 2024 fiscal year. Strategies to meet this target can include keeping vacant positions open longer and carefully reviewing supplies and purchased services spending.

Note: The Object for Budget Efficiencies (51510) is within the Salaries Major. Agencies can manage savings through other accounts, but the amount will show up in salaries.

An agency can opt out of the 99% budget if they identify an ongoing, targeted 1% reduction for review and approval.

Budget Guidance:

Cost to Continue Base Budget (Enterprise)

- All Enterprise Fund Agencies will submit operating budget plans consistent with current revenue projections for 2024.
- Agencies projecting revenue shortfalls for 2024 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. If a rate increase is proposed, agencies will need to explain the components of the increase and what efforts have been made to reduce expenses before increasing rates.

Budget Guidance:

Reallocations and Other Charges (All Funds)

- Agencies may reallocate funding across services so long as the changes are net neutral and do not increase the agency's overall expenditures.
- Agencies are encouraged to scrutinize their activities and use available data on services to prioritize funding. This includes examining whether there are programs or activities that can be phased out due to shifting needs. Proposals for cost reductions are very welcome.
- Agencies cannot propose changes to centrally calculated salaries and benefits, salary savings, and interdepartmental billings & charges (e.g. building use, fleet, insurance, workers compensation, and cost allocation plan charges). Additionally, agencies cannot propose new revenues that result from charging other agencies. Proposals to shift costs to other funding sources must be sustainable.

Note: Although net neutral changes are allowed, the following changes will require additional explanation in the Proposal form: 1) reallocations of \$10,000 or more at the Major and/or Service level and 2) personnel changes. Additional details on following slides.

Budget Guidance:

Personnel Requests (All Funds)

- All requests for personnel reclassifications or new positions must be detailed in the proposal form, even if net neutral. Agencies are expected to contact their Human Resources (HR) Analyst to discuss proposed personnel changes by the budget deadline.
- Personnel changes that must be noted in the proposal but do not require HR review include:
 - Updating the payroll allocation on an existing position (e.g. shifting allocations across org codes or funds); Agencies must submit separate allocation change worksheet for these changes
 - Changing the number of FTE positions for existing classifications (e.g. adding two SMO1s by reducing seasonal wages)
- Personnel changes that require HR review include:
 - Reclassifying or recreating positions that would typically require Common Council resolutions (excludes career ladder increases that do not require CC resolutions)
 - Adding new positions that do not exist in the current classification systems; Agencies must submit a draft job description for completely new positions

Budget Guidance:

Supplemental Requests

- Agencies may submit up to one (1) supplemental request to address citywide priorities or urgent needs. Before submitting a supplemental request, agencies should first examine whether they can address their needs through reallocations within the base budget or through the implementation of operational efficiencies, and be prepared to justify why this is not possible.
- Any supplemental requests must be accompanied by proposed performance measures that can be tracked to show effectiveness and impact of the new expenditure.

Note: Supplemental requests will be given preference if they 1) do not increase total FTE positions, 2) do not increase overall service levels, 3) can be scaled/phased in over time, and 4) demonstrate long term savings to operational costs.

Budget Guidance:

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.

Note: Agencies do not have to complete general RESJ questions on Service-level budget. RESJ questions will be targeted to explaining significant changes to base budget, personnel change, and supplemental requests.

Budget Guidance:

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.
- Analyze available data on current services and operations to inform your budget proposal. Data includes quantitative and qualitative information on the inputs, outputs, and outcomes of your services. Having clear service indicators and data on agency activities can help prioritize proposals and generate new ideas for improving operations.

Note: Agencies that have started the Results Madison data engagement are encouraged to examine service indicators to find opportunities for innovation. If you have not started the Results Madison data engagement, you can examine other indicators and sources of data.

Finance Committee & Common Council Engagement

Navigating the Budget Website

<https://www.cityofmadison.com/budget>

- Updated regularly at each phase of budget development
- Includes timeline for each phase
- Prior budgets linked at bottom of page

2024 Budget

[VIEW 2024 BUDGET](#)

Capital Budget

The capital budget provides funding for the City's major construction projects including building new facilities, improving our transit system, maintaining our roads and parks, and purchasing major equipment



Operating Budget

The operating budget provides money for running City departments and services. It pays for the day-to-day spending on employees and materials and supplies.



Detailed Timeline for FC and CC Hearings

Capital

Operating

1.	Mayor Introduces Executive Budget	<ul style="list-style-type: none"> September 5 	<ul style="list-style-type: none"> October 3
2.	Finance Committee (FC) Hearings	<i>Agencies present budget; alders have opportunity to ask questions</i>	
		<ul style="list-style-type: none"> September 11 & 12 	<ul style="list-style-type: none"> October 9 & 10
3.	FC Amendment Week	<i>Alders submit requests to budget analysts; analysts review and publish amendments</i>	
		<ul style="list-style-type: none"> September 13 – 20 Alders submit by Weds., Sept. 20 at 12pm Analysts publish by Fri., Sept 22 at 12pm 	<ul style="list-style-type: none"> October 11 – 18 Alders submit by Weds., Oct. 18 at 12pm Analysts publish by Fri., Oct 20 at 12pm
4.	FC Vote on Amendments	<ul style="list-style-type: none"> September 26 (Tues) 	<ul style="list-style-type: none"> October 23
5.	City Council Amendments	<i>City Council has the opportunity to propose amendments to capital and operating budgets</i>	
		<ul style="list-style-type: none"> October 30 – November 8 Alders submit by Weds., Nov. 8 at 12pm Analysts publish by Fri., Nov 10 at 12pm 	
6.	City Council Adoption	Up to three (3) CC meetings to vote on amendments and adopt budget	
		<ul style="list-style-type: none"> November 14, 15, 16 	

How to get involved

1. Review Agency Proposals

- Agency operating requests will be published by early August
- Read through transmittal memos and service-level proposals to understand agency priorities and major changes from prior year

2. Provide Input on Priorities to Mayor

- Mayor meets with alders to discuss priorities for executive budgets

3. Ask Questions

- Reach out to Finance staff with questions
- We will host “office hours” and info sessions on budget in September/ October

4. Participate in Briefings

- All alders encouraged to attend FC meetings where agencies present their budgets
- Capital: September 11 & 12 | Operating: October 9 & 10

5. Participate in Amendment Process

- Alders may submit amendments after the budget is introduced, either during the Finance Committee or Common Council deliberations

Amendment Process Tips

Engaging Agency Staff:

- Reach out to the impacted agency to discuss your amendment ideas; staff may have input on timeline, feasibility, and capacity needed to implement ideas
- Copy budget staff on communications with agencies so we are aware of potential amendments

Timeline:

- Alders can begin submitting amendment ideas any time after the budget is introduced – reach out early if you are planning an amendment
- Amendment ideas do not have to be fully developed by submission deadlines, but we do have to know you are planning to submit

Sponsorship:

- Any alder can submit an FC amendment
- Non-FC members must have an FC sponsor; Council president can be asked to courtesy sponsor
- If you have co-sponsors, be sure to include all sponsors in emails to budget staff so we can verify who is signed on to an amendment
- Amendments introduced at Common Council in November must have 2 sponsors

Community Engagement on Budget

- Finance Department will host two public, informational webinars on the budget in mid-October, after the release of the operating budget
- Alders are welcome to co-sponsor event and share with constituents
- If you have additional ideas for engagement, contact Christine Koh (ckoh@cityofmadison.com) to discuss