

# Capital Budget Borrowing Targets

---

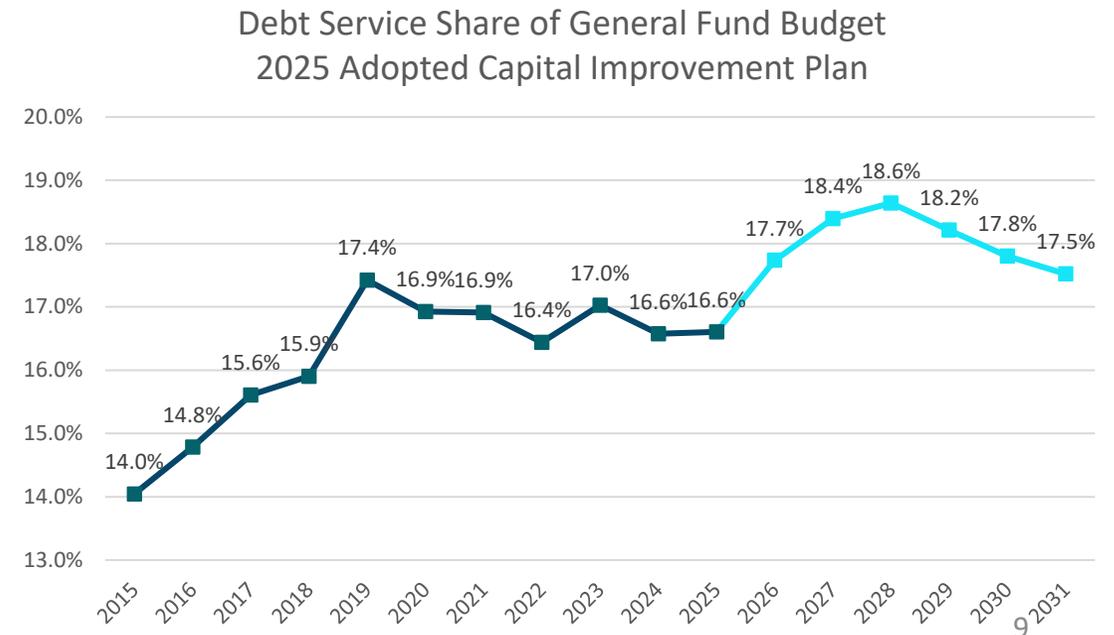
# Considerations for Setting a Borrowing Target

## Bond Rating

- Madison's general obligation debt has the highest rating from Moody's Investors Service – Aaa. This rating ensures the lowest possible interest cost.
- Factors in the rating include overall debt burden, level of operating reserves, strength of the local economy and the city's financial management.
- The city's debt, including pension and other post-employment benefit obligations, is considered moderate/high by Moody's.

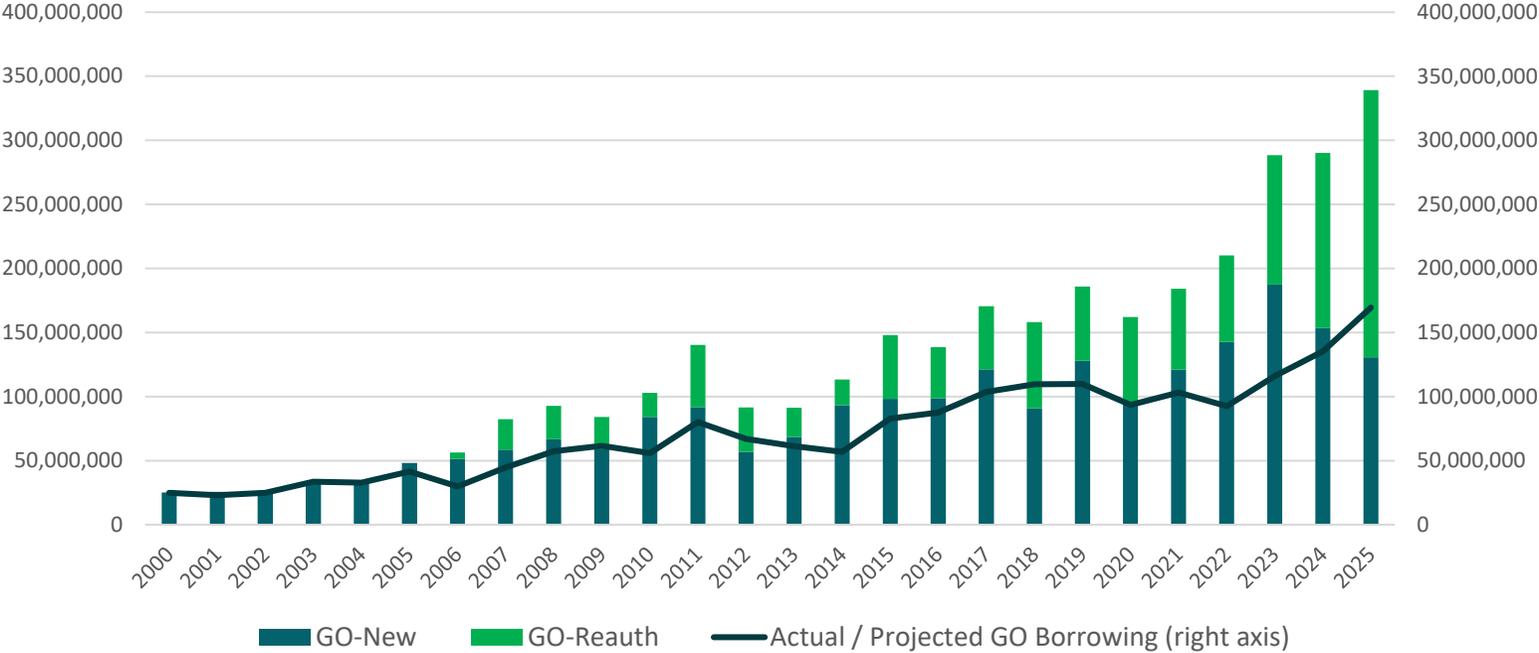
## Debt Service Share in Operating

- 2015: Debt Service = 14.0% of GF Budget
- 2025: Debt Service = 16.6% of GF Budget
- 2028: Debt Service = 18.6% of GF Budget



# Actual borrowing is significantly lower than budget authority

Authorized/Unissued Borrowing Continues to Increase  
Adopted Capital Budgets  
2000 to 2025



- Actual GO borrowing is consistently less than budget authority
- Since 2000, average borrowing = 69% of authorized budget; since 2013 = 55% of authorized budget
- Amount is determined through borrowing exercise conducted over the summer, prior to the debt sale

# Interaction Between Capital Budget Borrowing and Operating Deficit

- **Most capital projects are partially or wholly supported by general obligation debt issued by the City.**
  - GO borrowing includes general fund (GF) and non-GF sources (e.g. Stormwater, TIF).
  - There are some benefits to borrowing from non-GF sources, but this borrowing is still backed by the full faith and credit of the City. Guidance on borrowing limits applies to both GF and non-GF borrowing.
- **Reducing debt service does not address the structural deficit.**
  - Debt service is excluded from levy limit calculations, which is based on net new construction.
  - Reducing debt service will not increase the allowable levy for operations.
- **Reducing debt services does lower allowable total property tax.**
  - Debt service is added back in to levy limit based on amount borrowed in current year (ex. 2026 debt service in levy limit = 2025 borrowing = 2025 adopted capital budget).
  - Reducing debt service will lower total tax bill for residents.

# Capital versus Operating Expenses

## Allowable Capital Expenses per [MGO 4.02\(6\)\(c\)\(3\)](#):

1. Land purchases and improvements >\$3,000; or
2. Projects requiring the borrowing of money including, but not limited to construction or reconstruction of public utilities, streets, sidewalks, storm and sanitary drainage facilities; or
3. New construction and construction of buildings >\$5,000; or
4. Major alterations to buildings/ facilities which are not routine repairs and which substantially enhance the value of a structure or change its use; or
5. Original equipment or motor vehicle purchases >\$20,000 in cost and having a life expectancy of 10+ years, unless, for new capital projects, the repayment term of the debt coincides with the useful life of the asset; or
6. Such other capital outlays as the Mayor and Common Council shall designate.

- City ordinance defines allowable capital expenses. Focus on tangible assets (e.g. land, buildings vehicles).
- Capital budget proposals should **not** include:
  - Routine maintenance
  - Software licenses/ Software as a Service (SaaS); some technology implementation costs can be capitalized, but subscriptions/ licenses should not be included in capital requests
  - Programmatic expenses (e.g. events related to a project)
- Agencies should scrutinize the capitalization of staff time to ensure costs are related to eligible capital expenditures/ creation of a capital asset.

# Note on Software Costs

- Previously, we have allowed charging some software costs to capital projects. Historically, this involved charging the 1<sup>st</sup> year of software costs to capital then moving expenses to the operating budget for subsequent years.
- New accounting standard issued by the Governmental Accounting Standards Board (GASB 96) creates new requirements for “Subscription-Based Information Technology Arrangements” (SBITAs), which encompass most software.
- GASB 96 fundamentally treats annual subscription costs as a lease that should be funded on a pay-as-you-go basis, not debt financed.

<b>Software costs that CAN be capitalized</b>	<b>Software costs that CANNOT be capitalized</b>
<ul style="list-style-type: none"><li>• Most costs for initial implementation (e.g. configuration, coding, testing, other costs to put the subscription asset into service)</li><li>• Most costs for substantial modifications to an existing SBITA software (e.g. adding a new module)</li></ul>	<ul style="list-style-type: none"><li>• Subscription/ license costs</li><li>• Ongoing storage fees</li><li>• Migration costs to move to the cloud</li><li>• Training, support, and other maintenance costs</li></ul>

# Note on Software Costs

- If your project includes a technology component, you should **not** include the cost of software licenses or other recurring expenses in your capital project.
- If you have a question about whether certain costs are eligible to be capitalized (e.g. implementation), contact the Finance Department.
- If you currently have enterprise-wide software in your capital budget, or plan to pay for software with non-borrowing sources in the capital budget, contact the Finance Department to discuss.
- The Operating Budget process will include steps to identify and budget for software costs.
  - Agencies should identify recurring license costs for *current* software as part of Cost to Continue in April. Cost to Continue will not address new technology/ new requests.
  - Finance is planning to allocate funding in Direct Appropriations to cover mid-year requests that are not included in agency's base budget.
  - Operating request guidance is TBD.

# Long-Range Facilities Planning

- PCED / Finance / Engineering-Facilities joint effort.
- Engineering-Facilities outreach to agencies with questionnaire along with data from Planning.
- *Goal* – facility needs based on Planning data over a 5- to 20-year horizon.
- *Request* – agencies engage with Engineering-Facilities when contacted.
- *Timeline* – have plan ready for development of 2027 capital budget (i.e., by March 2026).
- *Agencies in CCB* – developing an RFP for a “Total Cost of Ownership” analysis which will serve as a starting point for long-range facilities options.
- *Public/Private Opportunities* – Identifying City assets for joint development; USDOT grant for transit-oriented development and TIFIA loans.

# Major Facilities Projects – Key Interactions

- 2026 Capital Budget will continue to reference and explain upcoming major project interactions:
  - *Park / Badger* – CDA Housing, Public Health, Fire Department, Police Department
  - *Fish Hatchery Rd* (former TOM Town Hall) -- Police South District and Evidence Storage
  - *Potential Sale of Sayle Street* – future disposition of that facility along with Parking Enforcement needs
  - *Homeless Shelters* – permanent facility and disposition of temporary facility
  - *Far West Public Works Facility* – timing moved up in 2025 capital budget