



Reviewing and Adopting the 2022 Capital & Operating Budgets



Presentation to the Common Council Executive Committee (CCEC)
Tuesday, August 24: 4:30pm

Agenda

1. Overview of the City Budget Process

- Operating & Capital Budgets
- Annual Timeline
- Budget hearings and Finance Committee/ Council Roles
- Limitations on the Budget

2. Budget Hearings and Amendment Process

- What to Expect
- How to prepare
- Amendment Process
- Example Scenario

3. Appendix A. Challenges Facing the City Budget

- Impact of COVID-19
- Structural Deficit

Part 1. Overview of the Budget Process



Budget 101, Timeline and Council Role, Limitations

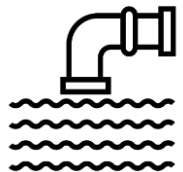
Budget 101

The City has two budgets: the **capital budget** and **operating budget**. Both are **planning documents** that outline and authorize how the City will spend money in the upcoming year.

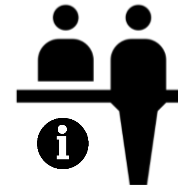
Capital Budget



- Funds physical infrastructure like roads, bike lanes, building improvements, and affordable housing.
- Investments ensure infrastructure is safe and advancing goals on climate change, housing, and other issues.
- Primarily paid for through borrowing. Special assessments, impact fees, user fees and federal and state grants also help finance capital projects.



Operating Budget



- Pays for daily services to City residents by paying salaries of staff, funding community organizations who deliver services on behalf of the City, and other costs.
- Funding ensures residents have access to core city services.
- Primarily funded by property taxes.
- Charges for services, user fees, and federal and state aid also contribute to the budget.

Annual Budget Development Timeline

(Capital + Operating)

Each year starts with a **“Cost to Continue”** projection. This is how much it would cost to provide the **same level of service** next year.

Council can **submit amendments** to the executive budget and has final authority to **approve the budget**.



Public Participation in the Budget Process:

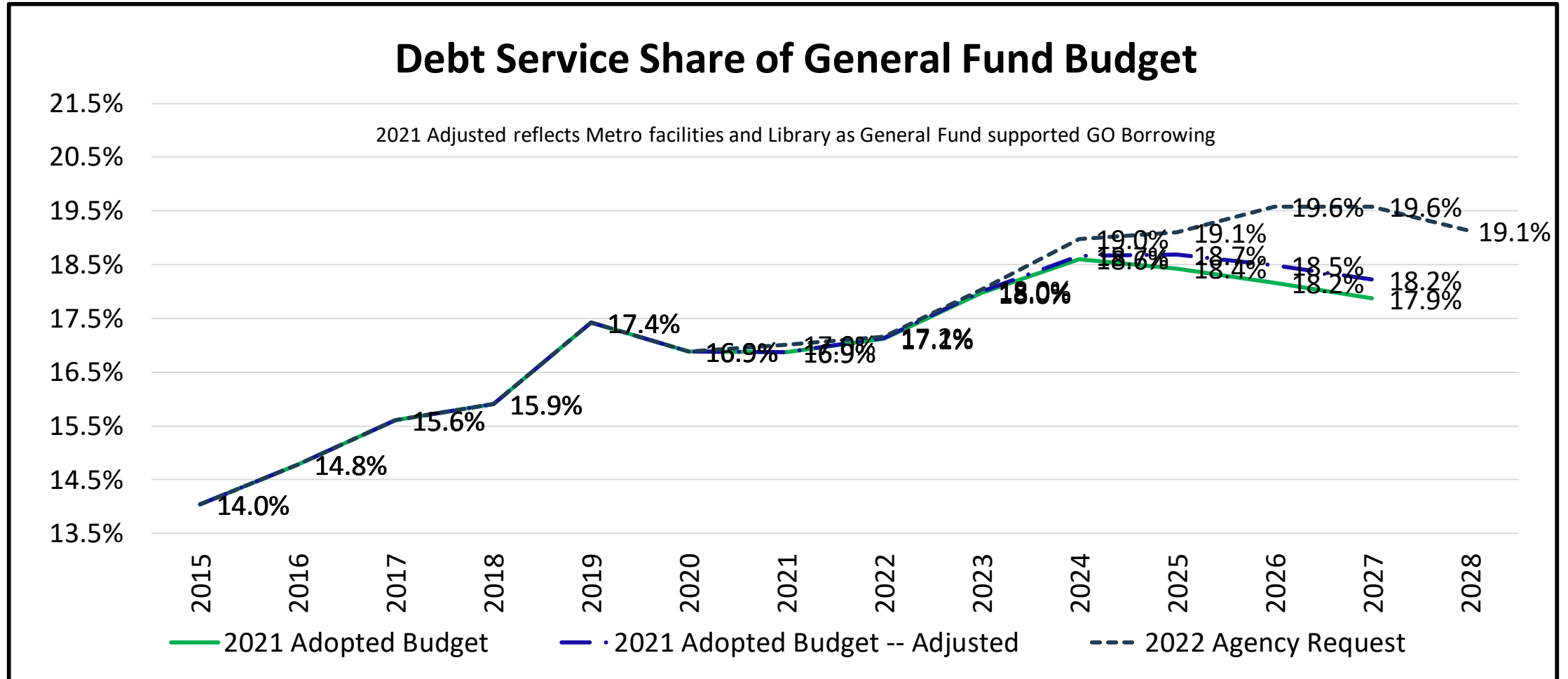
City staff frequently engage residents to understand service needs – through Neighborhood Resource Teams, resident surveys, participation in planning processes, and other approaches. This is a **key input** into budget priorities.

Members of the public can also participate in the budget by providing **public testimony** at budget hearings in the fall.

Limitations on the City Budget: Capital

- 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.
- The Wisconsin Constitution limits general obligation debt to 5% of equalized value – Madison was at 1.7% in 2020 (up from 1.3% in 2011)
- Madison's debt per capita has increased from \$2,040 in 2011 to \$3,408 in 2020 (67%); debt as a share of personal income has increased from 4.39% in 2011 to 5.11% in 2020 (16%).
- Debt service as a share of the operating budget has increased from less than 12% in 2011 to 17% in 2021.

Debt Service Share of General Fund Budget – 2022 Agency Request



Limitations on the City Budget: Operating

- Nearly 75% of the city's General Fund budget is supported by property taxes; state law sets the allowable increase in the property tax ("Levy Limits")
- State law also sets the allowable increase in the General Fund budget ("Expenditure Restraint").
- Annual operating budget must be balanced (revenues = expenses)
- Executive budget presented to Council will be balanced – usually includes a set-aside for Council amendments.
- If the Finance Committee or Common Council propose amendments to increase funding for specific programs or agencies in excess of the allowable increase, there must be corresponding reductions to balance the budget
- Note that the operating budget includes debt service for capital investments – increases to the capital budget will effect future operating budgets

Town of Madison

- Town attachment includes one-time and ongoing costs starting in 2022
- Currently in discussions with the Wisconsin Department of Revenue regarding options to accommodate these costs within Levy Limits and Expenditure Restraint limits.
- Capital and Operating budgets will include costs for essential services such as elections, trash and recycling pick up, and public safety

Part 2. Budget Hearings & Amendment Process



What to expect, How to prepare, Considerations

What to expect from the 2022 budget

- Projecting an **\$18 million operating deficit** due to a combination of continuing pandemic impacts and the structural deficit (see Appendix A for details on these challenges)
- Agencies recently submitted operating requests, including proposals for potential budget reductions
- City needs to prioritize, create efficiencies, and sometimes make hard choices on what to cut to balance the budget
- Despite this challenging climate, there is continuing focus on racial equity and social justice (RESJ). This year, agencies were asked to explain how their services advance RESJ goals.
- Beginning in 2023, the City will start implementing Results Madison – focusing the city’s budget on service outcomes and results that our residents expect.

How to Prepare for the Capital Budget Hearings

The executive capital budget and executive summary will be published [online](#) by 8/31/21, with a limited number of paper copies available to alders. The book will be **200+ pages**. Here are a few key items to look for as you review:

- **Executive Summary:** Summarizes big picture approach and investments by element
- **Variance Tables:** Outlines changes to CIP from prior year – shows where funds have been added or where projects have been deferred
- **Horizon List:** Includes projects that meet a clear community purpose but are not fully planned to the level of being included in the CIP
- **Agency Budgets:** Details funding for specific projects and programs. Each agency page will include a narrative description of major changes, tables and graphs showing funding by source over the CIP period, and narrative description of projects
- **Glossary:** Defines specific terminology

Detailed Timeline for 2022 Budget Hearings

Capital

Operating

1.	Mayor Introduces Executive Budget	<ul style="list-style-type: none">• August 31, 2021	<ul style="list-style-type: none">• October 5, 2021
2.	Finance Committee (FC) Hearings	<i>Agencies present budget; alders have opportunity to ask questions</i>	
		<ul style="list-style-type: none">• September 13 & 14	<ul style="list-style-type: none">• October 11 & 12
3.	FC Amendment Week	<i>Alders submit requests to budget analysts; analysts review and publish amendments</i>	
		<ul style="list-style-type: none">• September 20 – 22• Alders submit by Weds., Sept. 22 at 12pm• Analysts publish by Fri., Sept 24 at 12pm	<ul style="list-style-type: none">• October 18 – 22• Alders submit by Weds., Oct. 20 at 12pm• Analysts publish by Fri., Oct 22 at 12pm
4.	FC Vote on Amendments	<i>Amendments are taken up in the order presented; can sometimes be taken out of order</i>	
		<ul style="list-style-type: none">• September 27	<ul style="list-style-type: none">• October 25
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">• November 1 – 5• Alders submit by Weds., Nov. 3 at 12pm• Analysts publish by Fri., Nov 5 at 12pm	
6.	City Council Adoption	Three CC meetings to vote on amendments and adopt budget	
		<ul style="list-style-type: none">• November 9, 10 & 11	

Amendment Process:

Who? What? When? Where? Why? How? (1 of 2)

Why submit an amendment?

The amendment process is an opportunity for the City Council to engage in the budget process and propose changes in the executive budget, typically an increase or decrease to an existing project or program.

Who can submit an amendment?

Any alder can propose an amendment.

- FC members can submit an amendment during FC process or CC process
- Non-FC members can request the Council President introduce an amendment during FC amendment week or wait until CC amendment week

What information should be included?

When submitting an amendment, alders should include, at minimum, the following: 1) the agency, 2) the program, project or service, and 3) a brief description of the proposal.

When is the deadline?

You can start submitting amendments any time after executive budget is introduced. Typically, amendments are submitted after agency hearings. In order to have enough time to analyze and publish requests in advance of the vote, we ask alders to follow these deadlines:

- FC Capital: Wednesday, September 22 at 12pm
- FC Operating: Wednesday, October 20 at 12pm
- CC Capital + Operating: Wednesday, November 3 at 12pm

Amendment Process:

Who? What? When? Where? Why? How? (2 of 2)

Where & How

Similar to last year, the process will be completely digital/ online.

do I submit my requests?

- Alders submit requests to budget analysts via email (will provide email contacts)
- Analysts will complete financial analysis of the requests and send draft back to alder for approval
- Alder approves draft
- Optional: Alder circulates the amendment for co-sponsorship
- Analysts finalize amendment packet, email all alders, and publish online (<https://www.cityofmadison.com/finance/budget/2022>)
- Amendments will be taken up in following FC/ CC meeting. Typically taken in order in packet (alphabetical by agency name), though some items may be taken out of order.

2021 Capital Budget: Adopted Common Council Amendments

Amendment # 8

Agency: Traffic Engineering Page #: 145
 Project: Public Safety Radio System Project #: 10420
 Sponsors: Mayor Rhodes-Conway, Alder Abbas, Alder Carter

Amendment

Increase the annual funding for the Public Safety Radio program by \$100,000 annually (\$600,000 over full CIP). The increase will be funded by GO Borrowing. Additional funding will be used for annual hardware equipment purchases.

Amendment Amount

	2021	2022	2023	2024	2025	2026
GO Borrowing	100,000	100,000	100,000	100,000	100,000	100,000
Other		0	0	0	0	0
Total	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000

Amendment Impact

Debt Service \$70,338
 TOAH Impact \$0.75

Discussion

Analysis
 The Executive Budget increased funding for the Public Safety Radio program in both the operating and capital budgets.
 •Capital: \$1.0m added in 2023 to implement system redundancies avoiding potential outages
 •Operating: \$550k added to Traffic Engineering-Communications for annual software subscription costs to operate the system

These increases are intended to maintain the upgrades to this system that were completed in 2018.

This amendment increases annual capital funding for the Public Safety Radio program by \$100,000 for hardware and various equipment needed to maintain the system.

Operating Impact

Annual Impact: \$0

The proposed amendment has no impact on the operating budget; however, if additional capital funding is not included for these purchases operating costs will increase.

Result

Action: Adopt
Vote: Unanimous

Sample 2021 CC Amendment (Capital)

- Identifying Information
- *Amendment Description*
- *Amendment Amount:* by year & funding source; along with debt service assumptions
- *Analysis:* Background on the project including prior inclusion in the CIP
- *Operating Impact:* Operating costs associated with completed project
- *Result:* Outcome of vote

Scenario: Considerations for Proposing a New or Expanded Capital Project



1. Idea for an Amendment

The process starts when an Alder has an idea to amend the budget.

For example, an alder may want to expand affordable housing funding or add a new park shelter.



2. Vet the Idea and Evaluate Considerations

Many agencies have strategic plans that guide their work and lay out a timeline for projects. Project ideas may already be scheduled for a future year, or agencies may have higher priority needs to address plans.

Questions to consider when developing an amendment:

- *Is this project in an existing agency work plan?*
- *Is this project on the horizon list?*
- *Does the agency have capacity to implement?*
- *Are there operating budget impacts?*

Agency staff and budget analysts can help answer these questions. Reach out to staff **early in the process** to allow time for follow up on specific ideas.



3. Finalize and Submit

After reviewing various considerations, you may want to adjust your original idea based on information gathered in step 2.

You should work with the budget analyst team to finalize your amendment by the given deadlines.

Budget Team Contact Information

- Budget team contact information and agency portfolios are posted in Employeeenet: <https://www.cityofmadison.com/employeeenet/finance/budget>
- You can also contact Christine Koh, Budget and Program Evaluation manager at ckoh@cityofmadison.com

Budget Staff & Portfolios

Betsy York, Budget Policy Analyst

- Fire
- Police
- Public Health
- Municipal Court
- Debt
- Library
- Mayor
- Common Council
- Misc Appropriations
- Workers Comp/Insurance
- Finance/Treasurer

Steph (Stephanie) Mabrey, Budget Policy Analyst

- Engineering
- Sewer
- Stormwater
- Water
- Landfill
- Fleet
- Streets
- Parks/Golf (Impact Fees)
- Assessor
- Clerk

Brent Sloat, Budget Policy Analyst

- PCED Office of the Director
- Building Inspection
- CDD
- CDA Housing
- CDA Redevelopment
- EDD (TIF)
- Planning
- Monona Terrace
- Room Tax
- IT

Ryan Pennington, Budget Policy Analyst

- Metro
- Traffic Engineering
- Parking Utility
- Transportation
- General Fund Revenue
- Human Resources
- Employee Assistance Program
- Civil Rights
- Attorney



Questions?

Appendix A. Challenges Facing the City Budget



Impact of the COVID-19 pandemic; structural deficit

Challenge 1: The Pandemic's Impact on the City Budget

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).

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

Strategies for Addressing Budget Shortfalls

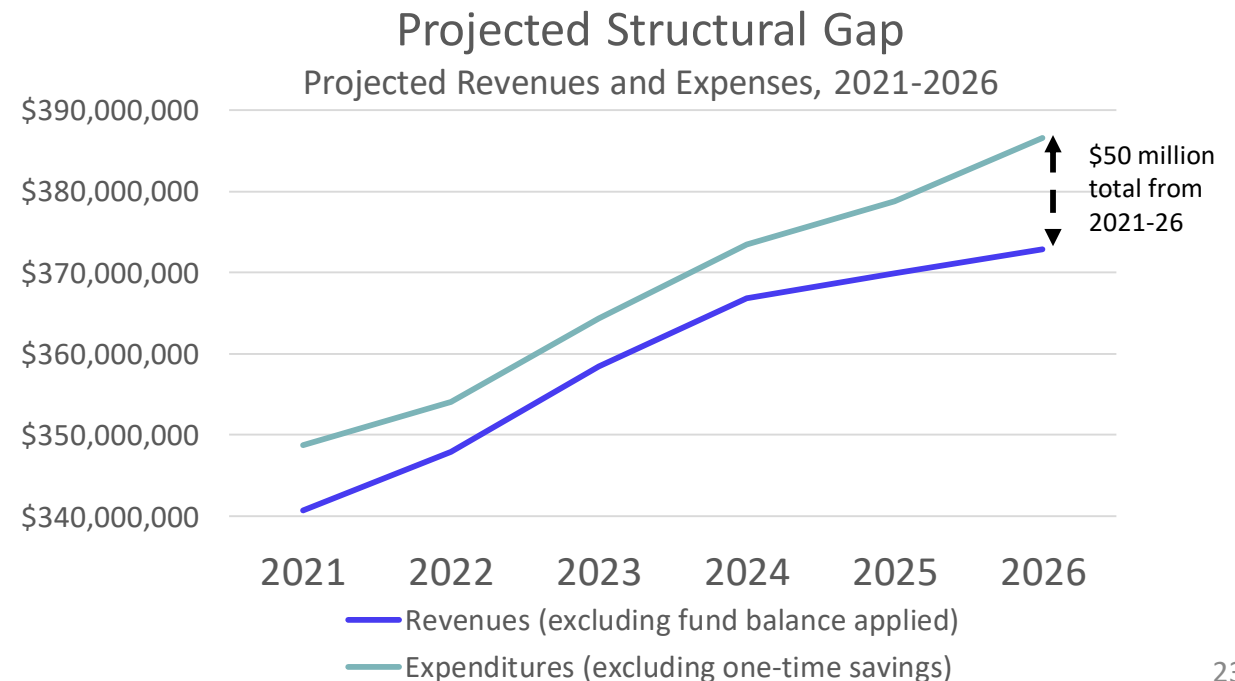
The City took many measures to reduce costs in response to the pandemic, while prioritizing health and safety.

- Reduced hours of many City staff through Workshare Program
- Delayed hiring vacant positions
- Reduced conferences, training, and mileage expenses
- Reduced equipment and supplies
- Reduced some public services (e.g. reducing library hours and overnight schedule for snow removal)
- Total reductions in 2021 = \$3.8 million in permanent and one-time cuts

Challenge 2: Ongoing Structural Deficit

In addition to pandemic impacts, the City is facing a structural deficit. A **structural deficit** is when projected expenses are greater than projected revenues, despite external economic conditions.

- In other words, the **cost to continue** (provide the same level of service each year) is more than what we think we will bring in through taxes and other revenue.
- Despite a strong economic recovery, the City forecasts a **total deficit of \$50 million** between 2021 and 2026.



Underlying Factors Driving the Deficit

State Legislature Limits City Revenues

- Cities in Wisconsin need the approval of the State Legislature to raise revenues. For example, many cities around the country have a sales tax; WI law does not authorize a sales tax for cities.
- Restrictions on other sources make City revenues heavily reliant on property taxes, particularly residential property taxes.
- The State Legislature controls the growth of local property taxes through a “levy limit”. As a result, revenues do not keep pace with the cost of services to the public.
- State Aid has not kept pace with costs -- state revenue to cities in 2021 is nearly \$100 million **lower** than it was in 2003.
- Last month, the State Legislature cut transit aid to Madison in half.

Local Service Needs Continue to Expand

- Population is growing at ~1%/year = greater need for services, greater array of service
 - Includes things like community services, expanding bus services, libraries, public health and safety, etc.
- Personnel costs account for 61% of the operating budget (general and library funds)
- Cost drivers
 - Competitive wages (e.g., longevity bonuses, education stipends, wage equity in the wake of Act 10).
 - Annual increases in health insurance and retirement contribution costs
- Keeping pace with cost of living for city staff and non-profit organizations