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To: Department and Division Heads

From: Mayor Paul R. Soglin

Subject: 2018 Capital Budget Instructions and Target

While our new President and Congress are planning tax cuts for the wealthy and budget cuts for the neediest, local government is again left with ensuring roads are built, jobs are created, and people and businesses can thrive. There is no vision at the national level for ensuring America's greatness. Indeed, the short-sighted in Washington are considering eliminating one of the few measures in the tax code that helps build our infrastructure – the tax-exemption for municipal bond interest. In the absence of prudence and foresight from our country's leaders, we at the local level will forge ahead with rebuilding our nation's infrastructure with the limited tools at our disposal.

In Madison, we pay for much of our infrastructure with the property tax. As such, we must find a balance between the very real infrastructure demands of our community – safe roads, adequate community services, and continued economic growth – and the ability of our residents and businesses to pay those costs in the absence of a meaningful federal and state role in financing infrastructure investments.

Our current Capital Improvement Plan is heavily focused on large projects in the next three years. These include a new police station for $10 million, a new fire station for $6 million, a new library for $10 million, and a $30 million renovation of a 90-year-old landmark federal courthouse turned Municipal Building so that it can be a safe and productive environment for City staff and residents.

These projects have serious implications for our property tax payers and overall City budget. The cost to operate the new police and fire stations will add $1.5 million to the 2018 operating budget. These costs cannot be accommodated within the state mandated property tax limits without affecting other City programs. Projected debt service for capital projects could lead to a tax increase on the average value home of more than 5% on the December 2017 property tax bills. This is nearly twice the rate of inflation. The share of the budget for debt service also continues to rise well beyond our historical 12.5% target, particularly in the short-term due to the large number of facilities projects scheduled for construction in the next three years. (see graph below). This will affect our ability to fully fund the operating budget.

With this in mind, as part of the 2018 planning process, I am continuing to emphasize analyzing outcomes of projects and programs funded through the capital budget, with a top priority for projects that help promote upward mobility and racial equity for Madison residents. Measuring the success of our capital investments is critically important as we are faced with difficult choices ahead. Toward that end, you should adhere to the following policies and targets in developing the proposed 2018 capital budget for your agency:

- Limit the overall general obligation bonding authority for your agency to the amounts included in the capital improvement plan (CIP) adopted as part of the 2017 capital budget. Agencies should not request additional general obligation debt for facilities projects that are at or beyond the planning and design stage. Agencies should look to delay projects currently planned for 2018 through 2020 to later years and eliminate low priority projects. Base funding for on-going capital programs (e.g., Pavement Management in Major Streets) added to the CIP in 2023 should be consistent with 2022 amounts.

- Prioritize the projects within your agency numerically and provide an explanation for the project priority. Projects that extend the life of or replace existing infrastructure should be given higher priority over new facilities and projects that increase operating costs. This information will allow us to be strategic as we make decisions to finalize the 2018 CIP. As you review and prioritize projects, you should also seek to analyze projects from an upward mobility and racial equity perspective. These priority lists will be used to determine projects slated for elimination or deferral in lieu of reduction plans.

- With the exception of community-focused projects (libraries and neighborhood centers), no new projects should be added to the 2018 Capital Budget or the 2019 to 2023 CIP. Agencies should seek to shift projects from 2018-2020 to 2021-2023 and beyond. Supplemental budget requests will not be accepted.

- Review projects scheduled for 2018 in the current capital improvement program and seek to appropriately allocate funding to the years the costs will realistically be incurred. Projects are often implemented over multiple years due to timing of site acquisition, planning and design considerations, regulatory approvals, and construction timetables. As was mentioned above, agencies should seek to defer projects to later years to the extent practicable.

I look forward to working with you and the Finance Department in the coming weeks on this important task.