Outlook for 2025 City Budget

Information Series on the General & Library Fund Budget

Part 2: The Structural Deficit

Series Overview

Part 1: Budget Foundations

- Understanding the City's Fund structure & main components of the Operating Budget

Part 2: The Structural Deficit

- Internal and external factors driving the deficit

Part 3: Budget Balancing Strategies – Expenditures

- Impact of Debt Service and Personnel Costs

Part 4: Budget Balancing Strategies – Revenues

- Local Revenues, Special Charges, Property Tax

Additional topics to be determined

Part 2: Components of the Structural Deficit

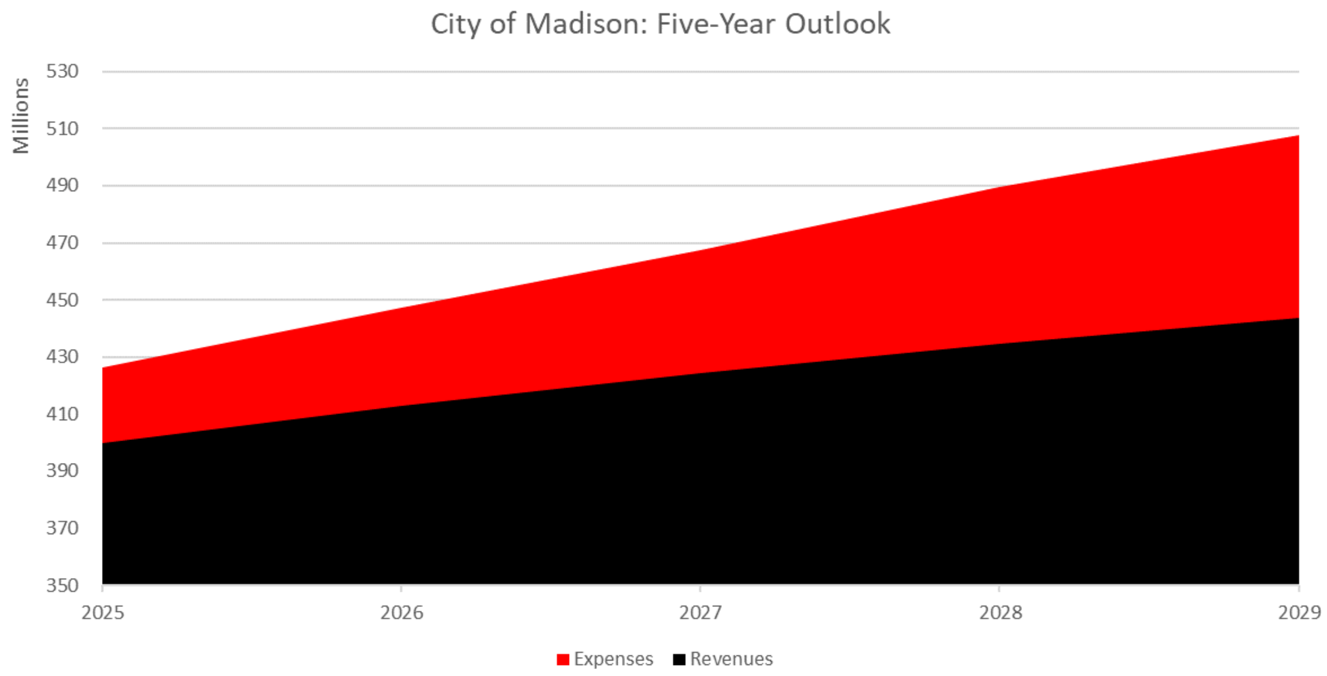
Takeaways:

- Revenues have not fully recovered from the COVID-19 pandemic
- The growth in expenses outpaces the growth in revenues
- Cost to Continue assumptions for personnel costs and recent State law requirements for Public Safety spending contribute to structural deficit

The City faces a persistent 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.
- Recent budgets have relied heavily on one-time federal funding for pandemic relief and use of the City's rainy day fund to close the gap.
- The City forecasts an **annual deficit of $27 million in 2025; without any action, deficit is more than $60 million by 2029**.



Prior Budget Balancing Strategies

Allowable levy increases do not keep pace with cost growth

2012
- Debt premium
- Police and fire pension contributions
- Premium stabilization surplus

2013
- Room tax growth
- Ambulance fee

2014
- Room tax – shift from MT projects
- Building Permit revenue
- Urban forestry special charge

2015
- Room tax
- Building permits
- Urban forestry special charge

2016
- Room tax – Overture shift
- Urban forestry special charge
- Health Insurance Plan Design

2017
- Room tax
- Ambulance fee
- Transit fund surplus
- Snow and ice removal budget
- Urban forestry special charge

2018
- Increased Room Tax rate
- Cost Allocation
- Increased investment revenue

2019
- TID 32 Closure
- Increased interest revenue
- Shift Library Collection to capital

2020
- Vehicle Reg Fee
- Shift Parking Enforcement to Parking Enterprise
- Increased Forestry staff time to Urban Forestry
- Debt premium

2021
- $8 million from fund balance
- $6 million in cuts / Workshare / service efficiencies / "furloughs"
- $2 million in fee increases / TOM fire/EMS contract

2022
- $13.1m in one-time ARPA funding
- Anticipating $1.5m revenue from Sorting Special Charge
- $1.4m in cuts

2023
- $3m Sorting Special Charge
- $5m-$10m remaining ARPA funds and TID 25 proceeds
- Explore other revenue options

Prior to 2012, levy limits had a 3% floor for annual increases rather than 0%; 3% minimum was applied to prior year maximum allowable levy rather than actual levy.

2024 Budget Balancing Strategies

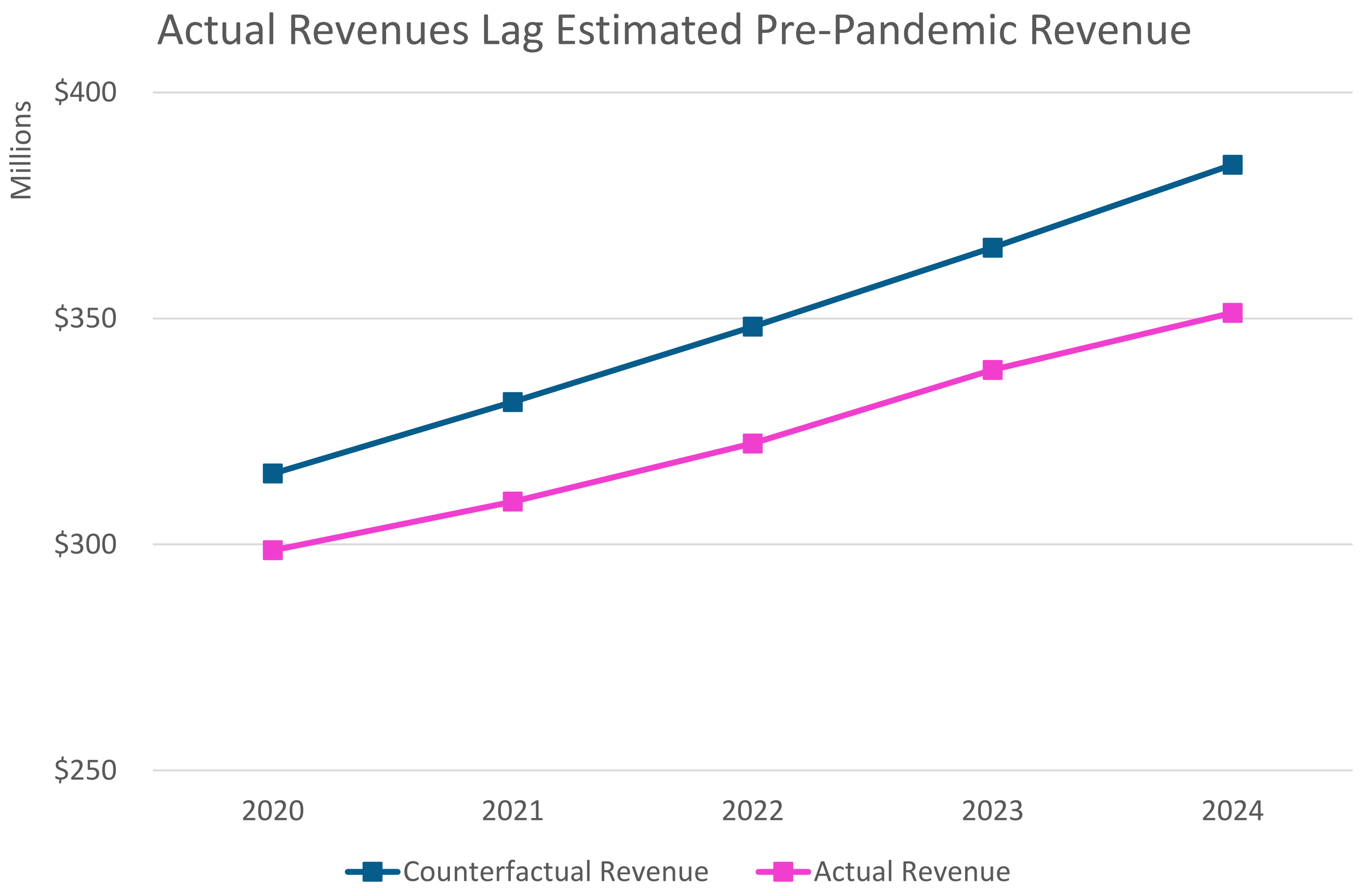
On-Going -- $6 million

- 1% Across the Board Reductions -- ***$3 million***
  - Over the past 5 years, agencies have underspent their authorized budgets by about 4% annually.
  - Agencies will address the reductions primarily by holding positions vacant
- Higher "Salary Savings" -- ***$2.4 million***
  - Turnover in positions due to departures and retirements generates savings
  - Sliding scale – very small agencies have no salary savings
  - Largest savings is 4% of salaries – based on multi-year analysis
- Room Tax for Zoo and Olbrich Gardens -- ***$0.6 million***

One-Time – $18 million

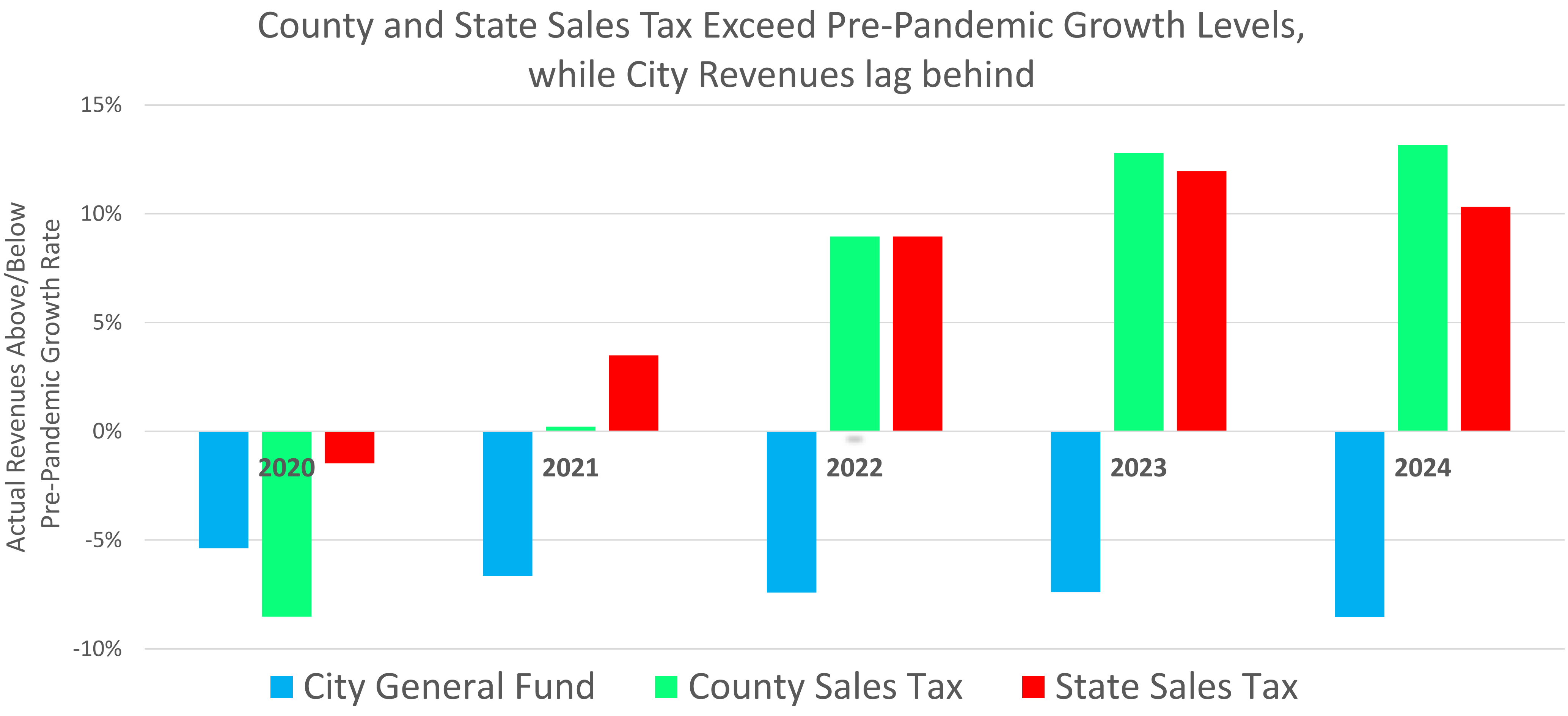
- American Rescue Plan Act –-- ***$5.6 million***
  - City received $47 million
  - $23m allocated to community needs
  - $24m allocated to maintaining services
  - 2021 to 2024
- City Share of Surpluses in Closed Tax Increment Districts --***$3.1 million***
  - Tax increment districts close periodically
  - Large surpluses are rare
- City Fund Balance ("Rainy Day Fund") -- ***$9.2 million***
  - Balance has increased due to one-time revenues and underspending.
  - City Reserve Target – 15% or more of expenditures

Lasting Impact of COVID-19 Pandemic on City Revenues

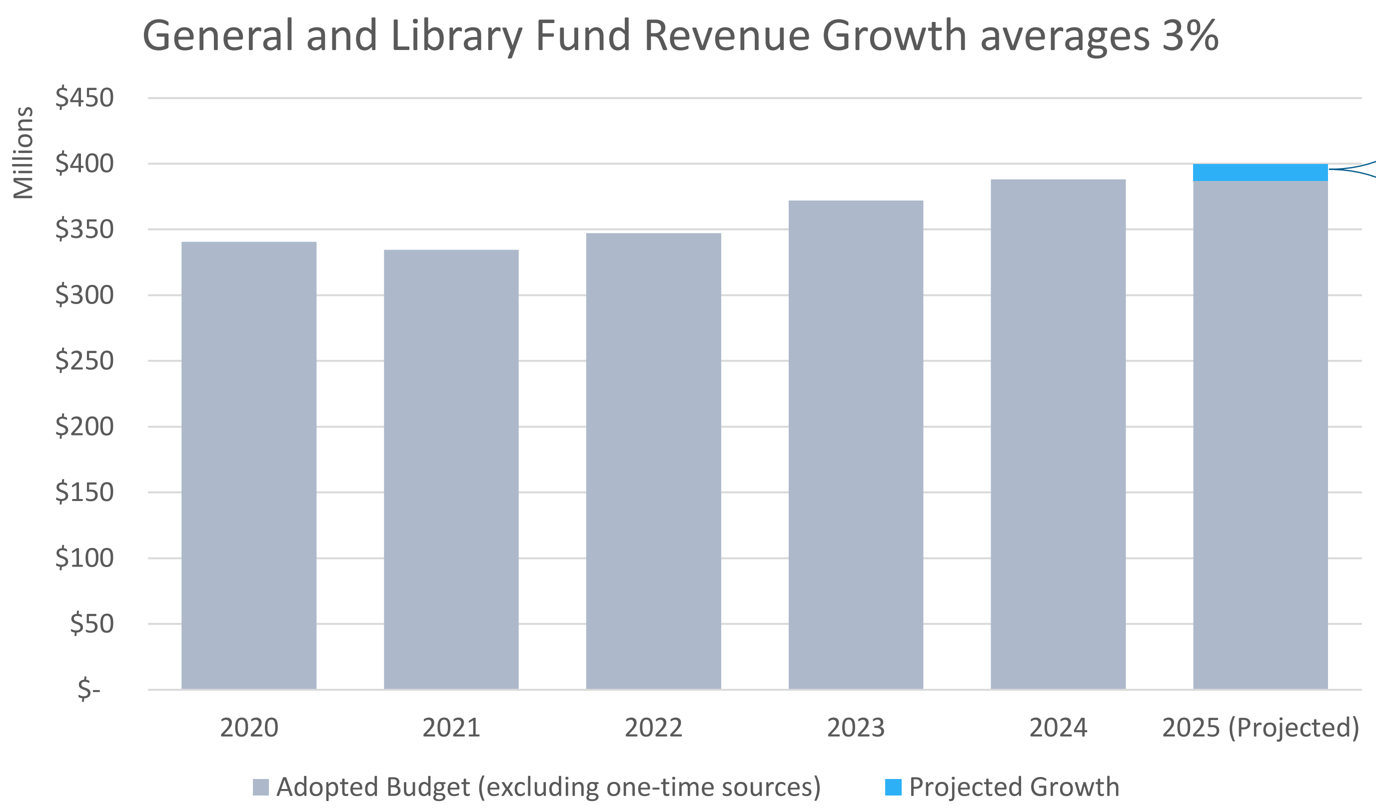


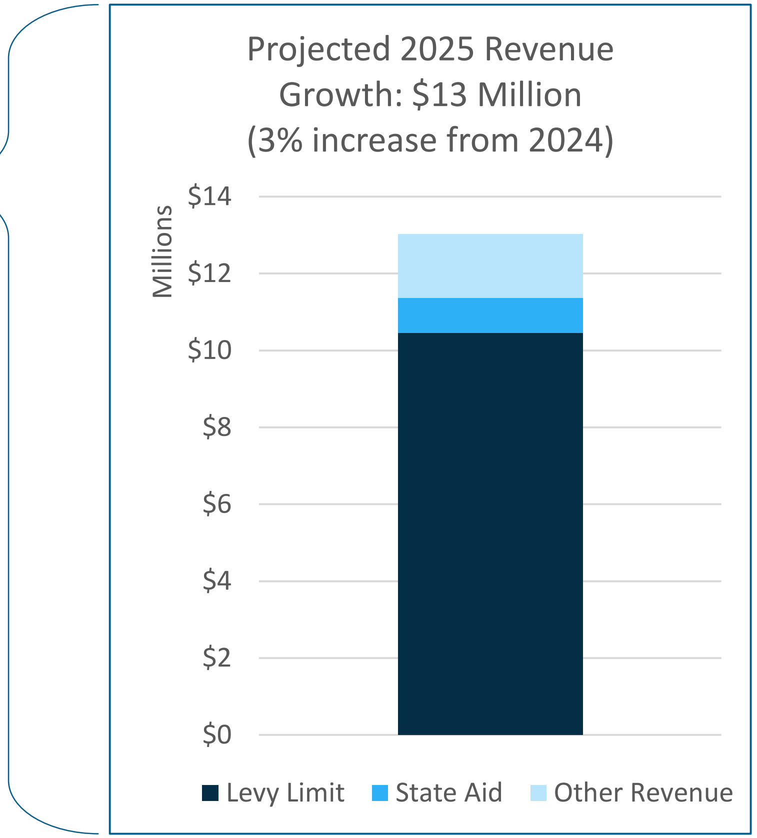
- Pre-Pandemic revenue is based on U.S. Treasury methodology for estimating revenues.
- 2024 Budgeted Revenues are $33 million (9%) less than pre-pandemic trends.
- Despite strong economic growth, state limits on property taxes are less connected to economic recovery than other revenue sources (e.g. sales tax)

Property taxes less connected to economic recovery than County and State Sales Tax



Local Revenues Projected to Increase by $13 million (3%) in 2025

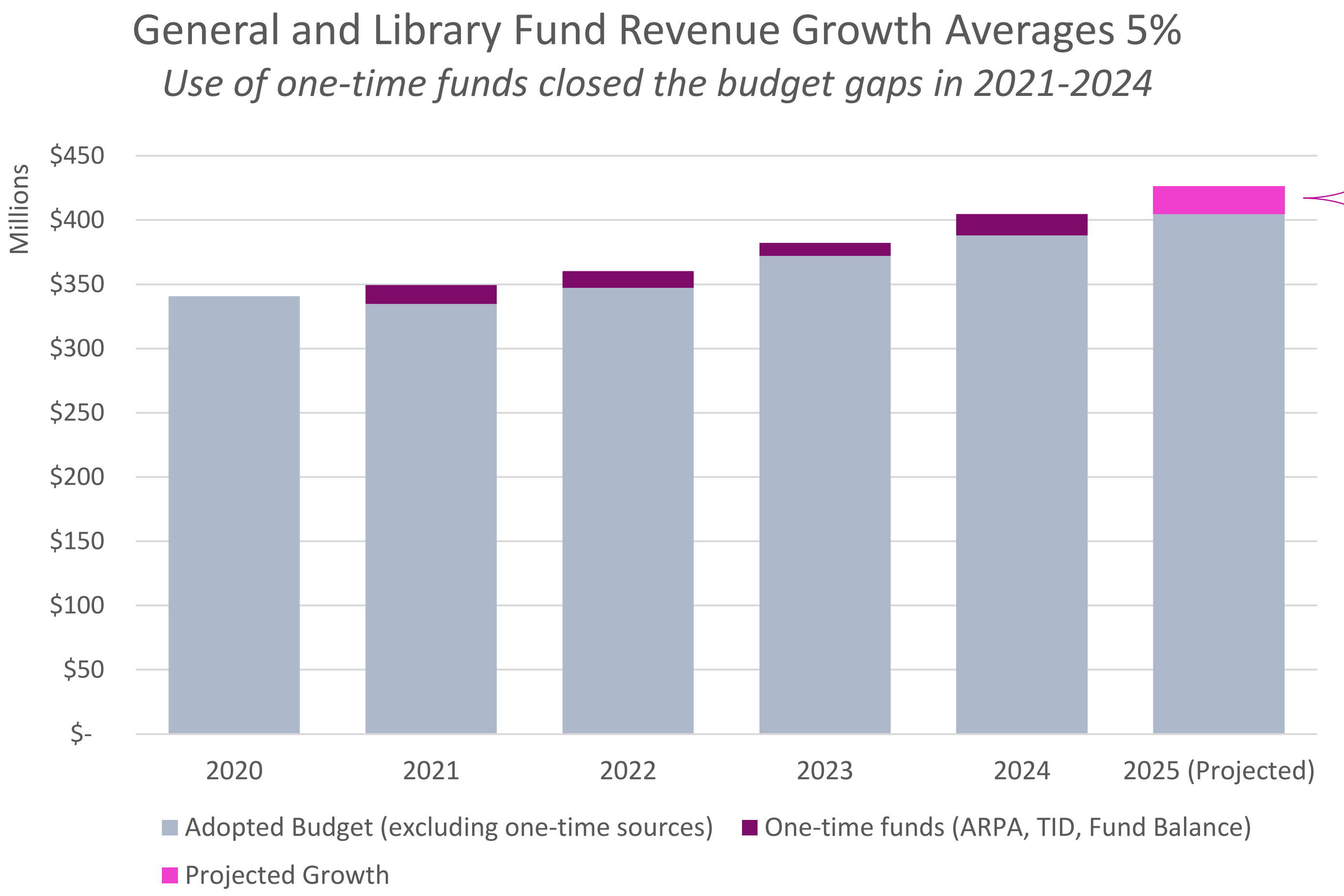


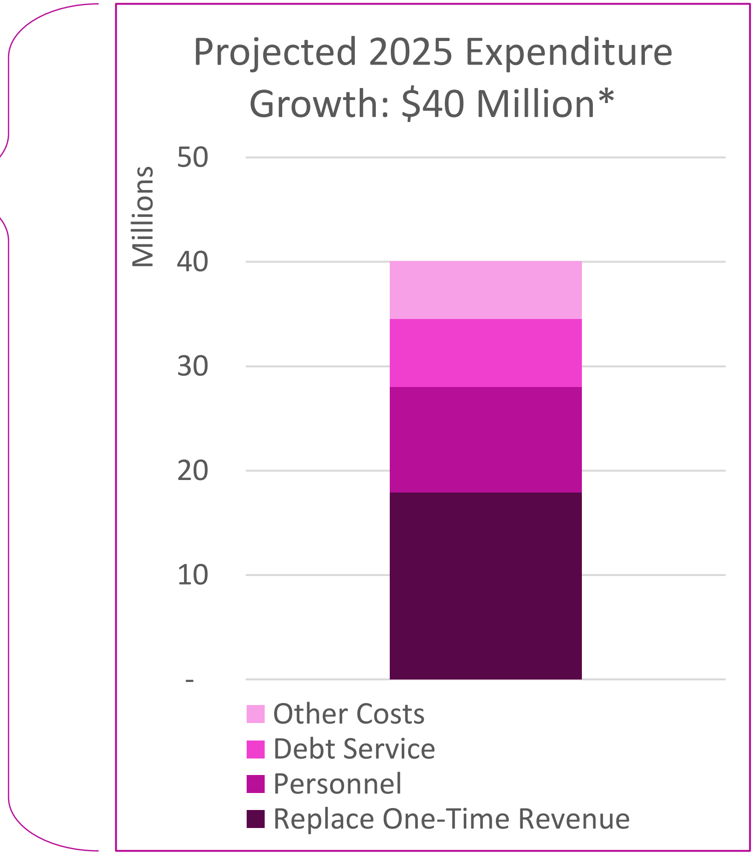


Factors Limiting Revenue Growth

- 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.
- Cities in Wisconsin need the approval of the State Legislature to raise revenues. For example, many cities around the country have a sales tax. Wisconsin law does not authorize a sales tax for cities, with the exception of Milwaukee.
- Restrictions on other sources make City revenues heavily reliant on property taxes, particularly residential property taxes.
- State Aid has not kept pace with costs. Madison received lowest per capita increase from 2023 State Shared Revenue Legislation.

Rising Expenditures and Replacing One-Time Revenues Projected to Cost Additional $40 million



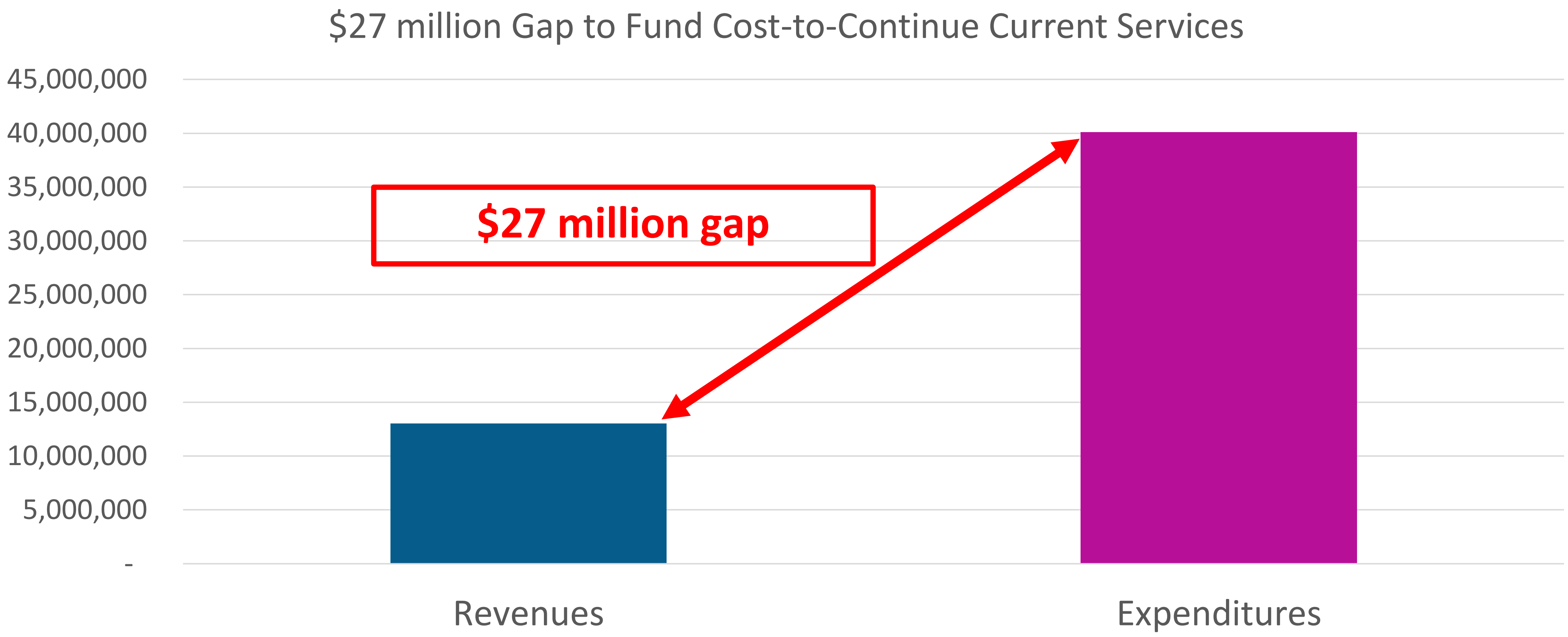


** $40 Million Increase =*
$22 Million cost to continue expenses
+ $18 Million to replace one-time revenues

Cost to Continue Expenditure Assumptions

- Pay Increase
  - All employees = 3% COLA (Police already bargained)
  - Fully fund July 2024 2% increase for general municipal employees
- Fringe Benefits
  - Health insurance rates up 6.5%
  - WRS rates – no change
- Staffing
  - 20 new positions to address population growth and service needs
  - Includes positions that were previously grant-funded and/or part of planned service expansions
- Metro and Public Health Subsidies
  - Grow at 4% to cover compensation and other increases
- Other Costs
  - Supplies and purchased services grow at 2.2% to cover inflation.
  - Debt service based on adopted 2024 Capital Improvement Plan and typical pace of debt issuance.

2025 Budget Deficit = $27 million



Recently Enacted State Law
Public Safety Maintenance of Effort (MoE)

New State Law requirement for Public Safety MoE adds pressure to cost to continue and limits options for reducing expenses in our largest agencies. Penalty for failure to comply is a 15% reduction in shared revenue (municipal aid) = $1.2 million

Police

At least one of the following remains the same or greater from previous year:

- Spending for employment costs of law enforcement officers
- Percentage of budget
- Number of FTE law enforcement officers employed

Fire and EMS

At least two of the following remains the same or greater from previous year:

- Spending for fire protective and emergency medical services
- Number of FTE firefighters and EMS employed
- Level of training and licensure
- Response times

Takeaways

- **Revenues have not fully recovered from the COVID-19 pandemic**
  - State property tax limits keep city from benefitting from recent economic recovery
  - County and State revenues have grown significantly, by comparison.
- **The growth in expenses outpaces the growth in revenues**
  - Maintaining current service levels requires meeting wage and cost inflation and population growth
  - Costs grow faster than revenues due to state limits on property taxes and other revenues
- **Cost to Continue assumptions for personnel costs and recent State law requirements for Public Safety spending contribute to structural deficit**
  - One-time pandemic relief funding ending.
  - Must maintain current police and fire staffing and service levels or risk losing state aid