



# Information Series on the 2025 Outlook

## Part 2 – The Structural Deficit

In the Structural Deficit presentation, the goal is to provide general background on the persistent gap between the City’s cost to continue current services and the allowable growth the City’s revenues, along with the limited array of revenue options, under state law. This gap has been in place for over a decade and was made worse by the economic effects of the recent pandemic. Federal fiscal relief funding and other City funding helped maintain City services over the past few years. But these were short-term measures – longer-term action is now necessary to address the deficit.

### ***The Structural Deficit***

As discussed in Part 1 of this series, a structural deficit is an on-going gap between the costs-to-continue current services to City residents and the growth in revenues that is allowed under Wisconsin law. Costs-to-continue current services include assumptions of employee wage adjustments and fringe benefit cost increases, additional positions to provide the same level of services as Madison’s population continues to grow, annual principal and interest payments for bonds and notes issued to finance the City’s capital projects (“debt service”), and the impact of inflation on supplies and purchased services. Examples of supplies costs include fuel and equipment; examples of purchased services costs include critical technology maintenance agreements and contracts with non-profit organizations to provide community services on behalf of the City. The estimated gap between costs-to-continue current services and allowable revenues for 2025 is \$27 million. Without any action, that deficit will grow to over \$60 million by 2029, depleting the City’s reserves, undermining the City’s finances, and threatening core city services.

The City’s structural deficit has been an on-going issue in each budget since 2011. In that year, the State Legislature adopted very strict limits on the authority of cities (and other local governments) to increase property taxes. The Legislature also cut state aid to local governments (“shared revenue”) in that year, further increasing the reliance of Wisconsin cities on the property tax. According to the Wisconsin Policy Forum, the reliance on the property tax to finance services provided by Wisconsin cities is the highest among Midwestern states. Wisconsin finances local government services through a combination of local property taxes and “sharing” of sales and income taxes collected by the state. Under this model, Wisconsin cities have very few local general revenue options and are under strict control by the State for the funding necessary to provide services to residents.

Madison has used many of the limited options allowed under state law to help maintain funding for current services in each year’s budget starting since 2011. Some of the measures used to balance the budget include increases in certain charges and fees, such as the ambulance fee, building permits, room taxes, vehicle registration fees, and special charges for city-wide services, such as forestry management. Costs have also been managed through higher employee contributions to benefits and modest across-the-board reductions to agency budgets.

### ***Impact of the Pandemic on City Budget***

The economic effects of the pandemic were swift and wide-reaching. For example, City room taxes fell by nearly two-thirds in 2020 compared to 2019. Similar declines in revenue occurred in the City’s Parking Utility and the Monona Terrace Convention Center. While Dane County and the State of Wisconsin also

experienced falling sales tax collections, those collections bounced back very quickly once the pandemic ended and actually exceeded the pre-pandemic trends by over 10%. In contrast, Madison’s revenues remain nearly 10% (\$33 million) below pre-pandemic trends because Madison’s limited revenue options under state law do not allow it to benefit from the recent economic recovery to the same extent as the County and State.

### ***Projected Deficit for 2025***

Allowable property tax and other revenue growth under state law is expected to add \$13 million in revenues to the City’s budget in 2025. However, the City’s on-going commitments, including replacing \$18 million of one-time federal and local funding used to balance the 2024 budget, along with \$22 million needed to fund the cost of maintaining current services to residents, total \$40 million next year. As such, the gap between revenues and commitments is \$27 million.

Options for addressing the deficit are made more complicated by a new state law that requires a “maintenance of effort” for local police, fire, and emergency medical services. These provisions require that funding for law enforcement officers, fire fighters and emergency medical services personnel, as well as the number of those staff employed and service levels must be maintained at least at the same level as, or greater than, the previous year. If these maintenance of effort requirements are not met, state “shared revenues” allocated to Madison will be cut by 15% (equal to \$1.2 million).