



# Outlook for 2025 City Budget

Information Series on the General & Library Fund Budget

Part 3: Expenditure Strategies

# 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 3:

## Budget Balancing Strategies – Expenditures

### Takeaways:

- Common Council is legally required to pass a balanced operating budget
- Reducing Debt Service has a limited effect on structural deficit due to levy limit exemption on debt
- Options for reducing expenditures includes reducing personnel costs or rolling back new initiatives, which would have significant operational impacts

# The City Operating Budget Must be Balanced

- By law, the operating budget must be balanced (Revenues = Expenses)
- The Executive Budget submitted by the Mayor to Common Council is balanced
- Finance Committee and Common Council may amend the budget, but the final budget must be balanced

# Ways to Balance the Budget

- Revenues

- Create new special charges
- Increase existing local revenues
- Increase property tax (“levy”) through voter referendum

- Expenditures

- Reduce all/most agencies by same percentage
- Roll back new programs
- Cut positions/services
- Reduce employee compensation

Projected 2025 Gap = \$27 million

# Impact of Debt Service on Expenditures

- City cannot cut debt service on already issued debt; otherwise will default
- Levy Limit Calculation
  - Increases prior year levy by net new construction factor, ***excluding debt service***
  - Adds debt service for upcoming year based on amount borrowed in current year (ex. 2025 debt service in levy limit = 2024 borrowing = 2024 adopted capital budget)
- Interaction between Levy Limit and Debt Service
  - Less debt service ***does*** lower allowable total property tax
  - Less debt service ***does not*** increase the allowable levy for operations
  - Debt service paid from other funds (e.g., Stormwater projects) helps the operating budget by creating allowable levy that does not need to be used for debt service
  - ***Reducing borrowing in the capital budget does not address the structural deficit***

# Example: Reducing Debt Service

reduces total levy increase but does not increase allowable levy

## Actual Levy Limit Calculation for 2024 Budget

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	<u>170,172,778</u>	<u>116,324,921</u>	<u>286,497,699</u>
Difference	3,468,195	8,338,308	11,806,503

## If Debt Service was \$1 million lower (\$7 million reduction in borrowing in 2023 capital budget)

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	<u>170,172,778</u>	<u>115,324,921</u>	<u>285,497,699</u>
Difference	3,468,195	7,338,308	10,806,503

Same as Actual table above

\$1m less than Actual table above

Reducing debt service lowers total levy but does not change allowable levy for operations

# Madison's Spending in Context

*Comparison with 35 largest Wisconsin Cities (over 20,000 in population)*

	Per Capita	Rank	Average	Median	% of Average
Health and Human Services	\$249	1	\$36	\$15	698%
Other Transportation (e.g., Transit)	\$82	2	\$20	\$10	421%
Culture and Education (e.g., Libraries)	\$98	7	\$73	\$73	133%
Debt Service	\$311	11	\$299	\$266	104%
Law Enforcement	\$300	12	\$311	\$283	96%
Fire/EMS	\$239	14	\$219	\$221	109%
Conservation and Development (e.g., housing and forestry)	\$59	15	\$50	\$48	118%
Solid Waste Collection and Disposal (includes recycling)	\$95	15	\$97	\$85	98%
All Highway and Transportation	\$285	16	\$293	\$257	97%
General Government	\$140	20	\$142	\$122	99%
Parks and Recreation	\$133	20	\$151	\$138	88%
Highway Maintenance and Construction	\$203	25	\$274	\$235	74%
Operating/Capital/Debt Service Spending	\$1,932	8	\$1,729	\$1,778	112%
Total Spending and Other Financing	\$2,355	3	\$1,729	\$1,778	136%



# Cost of Living Increases and key initiatives have added over \$25 million to budget since 2021

	2021	2022	2023	2024
Cost of Living (COLA) increases = \$18.4 Million	3.75% Police and Fire Increases (\$2.7m)	1% COLA for GMEs (\$1.5m)	2% for all employees and additional 1% for GMEs (\$6.3m)	6% for GMEs and 3% for protective service (\$7.9m)
New Positions = \$5.4 million	7 new positions, including Office of the Independent Monitor and 4 community paramedics (\$525,000)	33 new positions including 6 PD officers and 4 streets workers to serve Town of Madison, 3 DCR community connectors, and 10 firefighters to reduce overtime (\$2.8 million)	21 new GF positions including CARES expansion, Fire EM Coord., Parks Volunteer Coord., 10 Public Works laborers, City share of PH reproductive health positions (\$1.6 million)	7 new GF positions, including civilian EMS trainer, traffic engineer, DCR investigator and multiple shared positions with enterprise agencies and PH (\$452,000)
New Initiatives = \$2.2 million	Establish CARES program and Office of Independent Monitor, expand CDD Street Outreach (\$781,000)	Ongoing Town of Madison attachment costs and other expenses (\$102,000)	Expand CARES, CDD young adult employment contracts, Parks Alive, and more (\$587,000)	Includes shelter operations, CDD contract increases, PD 3 <sup>rd</sup> party transport, and more (\$717,000)

# Expenditure Reductions in Context

## ***How much is \$27 million in the operating budget?***

### Compared to an Agency Budget

- Entire Streets Division general fund budget (\$27million)
- Most PCED Agency Budgets (Building Inspection, CDD, EDD, Planning, Office of Director = \$28.4 million)
- Most administrative agency budgets (Assessor, Attorney, Civil Rights, Clerk, EAP, Finance, HR, IT = \$30.7 million)

### As a Percentage of Total Budget

- 8% reduction of the total budget, excluding debt service (\$338 million)
  - *Each 1% = \$3.4 million*
- 15% reduction of the total budget, excluding debt service and public safety (\$177 million)
  - *Each 1% = \$1.8 million*

### Compared to Positions and Salaries

- 270 general & library fund positions
  - *10% of positions including public safety*
  - *20% excluding public safety*
- 9% reduction in salaries
  - *Each 1% reduction in pay = \$3 million (including Police and Fire)*
  - *Excluding Police and Fire, each 1% reduction in pay = \$1 million*

# Considerations for Position Reductions

- Position reductions may result in layoffs of existing staff
- Layoff process defined by either collective bargaining agreements or city employee handbook
- Generally, seasonal and hourly employees laid off first followed by permanent staff with lowest tenure
- Employees in eliminated positions may have ability to bump to similar positions if incumbent has less seniority
- City must pay unemployment costs of laid off employees

# Takeaways

- **Operating Budget must be balanced (Revenues = Expenditures)**
  - Executive budget submitted by Mayor is balanced
  - Common Council may amend budget, but amendments must be balanced
- **Reducing Debt Service has a limited effect on structural deficit due to levy limit exemption on debt**
  - City cannot cut debt service on already issued debt; otherwise will default
  - Less debt service lowers allowable total property tax but does not increase the allowable levy for operations
  - Reducing borrowing in the capital budget will not have a meaningful impact on the operating budget deficit
- **Options for reducing expenditures includes reducing personnel costs or rolling back new initiatives, which would have significant operational impacts**
  - \$27 million in expenses represents large, significant cuts to existing staffing and services
  - Recent budgets have included COLAs to meet contractual obligations and achieve wage parity, and have funded new initiatives and priorities such as CARES