Information Series on the 2025 Outlook

Part 3 – Expenditure Strategies

In this part of the series, the goal is to outline what is needed to pass a balanced budget (i.e., revenues = expenditures), the interaction of debt service with the state-mandated levy limit (reductions in debt do not result in a higher levy limit for operations), and options for reducing operating expenditures – in essence, balancing the budget entirely by cutting services.

Balanced Budget

The Common Council must enact a balanced budget each year. That means revenues must be equal to or greater than expenditures. The budget process starts with City agencies working with the Mayor to develop a balanced executive budget, which is then submitted to the Council for review and adoption. The Finance Committee and full Council may amend the executive budget, but the sum total of those amendments must still result in a balanced budget.

As discussed in previous parts of this series, the projected budget for 2025 currently has a $27 million deficit. That gap can be closed and the budget balanced either through more revenues, less expenditures or a combination of the two. Revenue options for closing the gap include special charges, increases in existing local revenues (e.g., charges for services, licenses and permits, etc.), and increasing property taxes above the maximum allowed by state law through a voter referendum. Expenditure options include across the board reductions to all or most city agencies, roll backs of recently enacted new programs, cuts to positions and the city services they support, and reductions to employee compensation.

Impact of Debt Service on Expenditures

Most capital projects are partially or wholly supported by general obligation debt issued by the City. Repayment of that debt ("debt service") is through a pledge of a property tax levy by the Common Council. Debt service cannot be reduced – to do so would put the City in default. A default would have a series of significant financial and reputational costs to the City, including lack of accessibility to financial markets and much higher interest rates on its debt.

Under the state levy limit law, debt service is a separate calculation in the overall formula. The property tax levy for operations is increased by a "net new construction" factor, and debt service for the upcoming year is added to that amount. Questions are often raised during deliberations on the budget regarding the City's capital budget and its connection to making more funding available for the operating budget. While lower debt service is good and reduces the impact on taxpayers, it does not provide more room under the levy limit to fund operations costs.

Current Expenditures

Comparing Madison's expenditures to other Wisconsin cities highlights our City's values, priorities and unique situation with regard to certain services. Madison ranks first among the top 35 Wisconsin cities in population (20,000 or more in population) for its spending on health and human services programs. It ranks second on transit costs, and 7th in culture and education spending per capita. All three of these rankings reflect both the City's priorities and the fact that in most Wisconsin cities, these services are provided by the county in which the city is located.

In most other functional areas (e.g., law enforcement, fire/emergency medical services, solid waste collection and disposal, general government, etc.), Madison is close to the average. Street construction and maintenance plus transit costs is at about the statewide average. Parks and recreation costs are about 12% below the statewide average per capita. Operating, capital and debt service costs rank 8th among Wisconsin cities, or about 12% above the statewide average per capita. Again, this ranking reflects both Madison's priorities and the types of services it provides in contrast to services that are often provided by the county in other cities.

Closing the Current Budget Gap by Cutting Expenditures

No matter how it is framed, closing the budget gap by cutting $27 million from the budget would require extremely significant cutbacks in City services. To put that amount in different and very general contexts, at the agency level, $27 million is equal to the Streets Division budget. The entire Planning, Community, and Economic Development budget (including Building Inspection, Community Development, Economic Development, Planning, etc.) totals about $28 million. All of the administrative agencies (Assessor, Attorney, Civil Rights, Clerk, EAP, Finance, HR, and IT) total about $30 million. From a percentage of the budget perspective, $27 million is equal to an 8% across the board reduction to all agencies (excluding debt service). If public safety agencies (Police and Fire) are excluded, as they are essentially required to be by state law, that percentage increases to a 15% reduction to every other City agency.

Over 270 current staff positions would need to be eliminated to achieve $27 million in expenditure reductions. That's equal to nearly 10% of all City positions – and if Police and Fire are excluded, that percentage increases to almost 20% of all other City staff. If the Council chooses to close the budget gap by reducing staff compensation rather than position reductions, the compensation (salary and fringe benefits) of all General Fund-supported positions would have to be cut by nearly 10% to achieve $27 million. If public safety agencies are excluded, that percentage reduction increases nearly three-fold. A change of that magnitude – cutting staff compensation by nearly one-quarter – would clearly have a massive impact on the City's ability to recruit and retain talent, if it was even possible to achieve.

Reducing positions would almost certainly result in mass layoffs of existing staff. That layoff process is defined through collective bargaining agreements and city ordinances, and is usually a seniority-based system, with seasonal and hourly employees laid off first, followed by the most recently hired employees; departments would have relatively little discretion as to which employees would be let go. Staff with more seniority may be able to bump into similar positions held by less senior staff. Layoffs come with significant financial cost – the City must pay unemployment costs of laid off employees – and a service cost – investments in training, skill building and experience are lost and services to City residents are directly impacted. No matter how layoffs are apportioned, they would result in significant reductions to City services, and the Council would have to make tough decisions about what services would no longer be provided to our community. For example, would the City close library branches or reduce hours at all branches? Would the City scale back neighborhood centers or violence prevention efforts? These and many other trade-offs would have to be considered.

The impacts described above are at a very large scale and are meant to explain the equivalent of $27 million in the context of the overall General Fund budget. Any final path forward would need to balance community values, equity considerations, and service priorities with employment market realities and the need to have City staff with the skills and experience necessary to deliver those services to City residents. There are also multiple reduction options that could be considered – including elements of programs and varied approaches in reducing employee compensation.