



# Outlook for 2025 City Budget

Presentation to the Common Council

February 13, 2024

\*Attachment on Legistar File 81870 updated 2/13/24 to reflect the following changes: graph on Slide 16 updated with additional detail; table on Slide 35 updated to show correct dates for 2025 budget calendar

# Agenda

**Objective of today's presentation:** Establish a common understanding of the structural deficit, limitations on the City budget, and potential options for balancing the budget in 2025.

- Review of the information series on the 2025 budget outlook
  - Part 1: Budget Foundations
  - Part 2: The Structural Deficit
  - Part 3: Expenditure Strategies
  - Part 4: Revenue Strategies
- Next Steps
- Q&A

# Updated Budget Website

<https://www.cityofmadison.com/finance/budget/2025-budget/2025-budget-outlook>



## Information Series on the 2025 Outlook

The Finance Department recorded a four-part series to explain the fundamentals of the City’s budget and options for closing the budget deficit. One goal of the series is to provide a general understanding of the overall City budget as a first step, followed by an explanation of what has been termed the “structural deficit”. This informational series is a first step toward deciding on an approach to balancing next year’s budget.

### Part 1: Budget Foundations

- Understanding the City’s fund structure & main components of the operating budget
- [Presentation](#) PDF | [Recording](#) | [Summary](#) PDF

# Information Series on the 2025 Budget

## **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

# Part 1: Budget Foundations

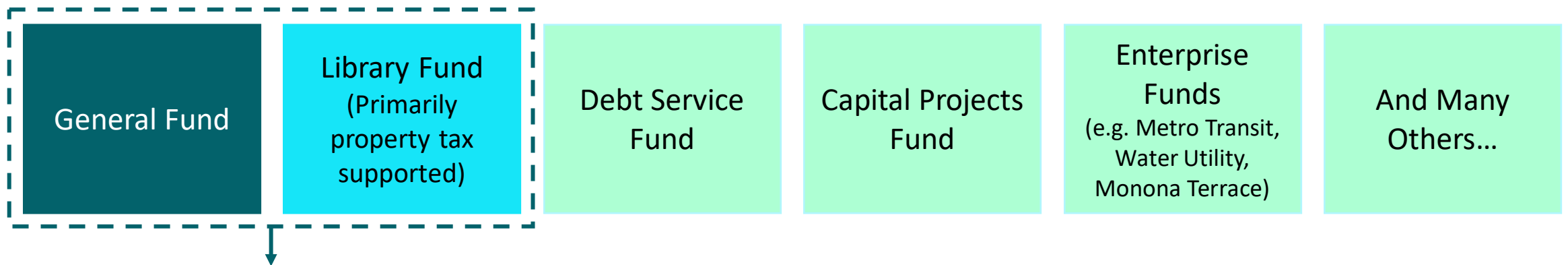
## Takeaways:

- The General Fund is the focus of the Budget because property taxes are the main revenue source
- The City is heavily reliant on property taxes as its primary revenue source
- Personnel and Debt Service are the largest expenses categories; Public Safety and Health is the largest functional area

# Funds Overview: General Fund

A **Fund** is a sum of money segregated for specific activities.

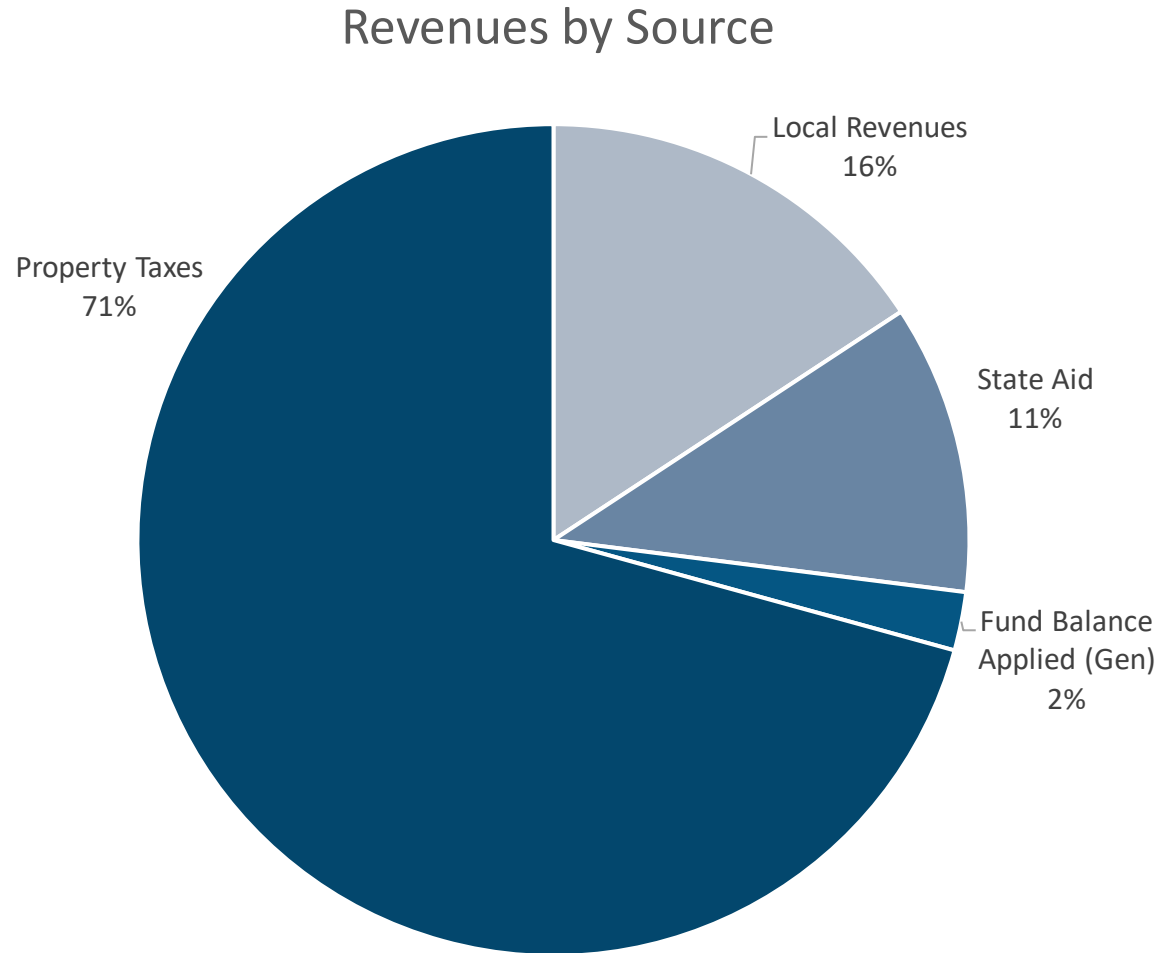
The **General Fund** is the City's primary Operating Fund. This Fund is the main focus of the City's budget because it is primarily supported by property tax revenues and pay for the cost of day-to-day City services. The **Library Fund** is also primarily supported by the property tax and is considered part of the General Fund for budget discussion purposes.



Collectively referred to as "General Fund" for discussion purposes

# Property Tax is more than 70% of Revenues

2024 General Fund Budget = \$405.4 million



- **Property Taxes:** Primary source of revenue for the operating budget; Accounts for 71% of total (\$286.5m)
- **Local Revenues:** Includes payments in lieu of taxes; transfers in from grant fund (ARPA); fines and forfeitures; licenses and permits; and other local taxes; Accounts for 16% of total (\$64.0m)
- **State Aid:** Includes shared revenue, general transportation aid and other state aid; accounts for 11% of total (\$45.7m)
- **Fund Balance:** Includes \$4m in lapsed funds from TID 25; Accounts for 2% of total (\$9.2m)

# 80% of Budget for Staff and Debt Service

(includes impact of Metro subsidy and Public Health contribution)

**Personnel** = \$253.9 million, 62.6%

- Pays for staff salaries and benefits

**Debt Service** = \$66.4 million, 16.4%,

- Pays back borrowing for capital projects

**Non-Personnel** = \$50.4 million, 12.4%

- Purchased services and supplies

**Other** = \$30.6 million, 7.6%

- General fund subsidy to Metro Transit (\$15.7 m), City's share of the joint City-County Public Health Agency (\$10.3 m), and the contingent reserve (\$2.7 m)

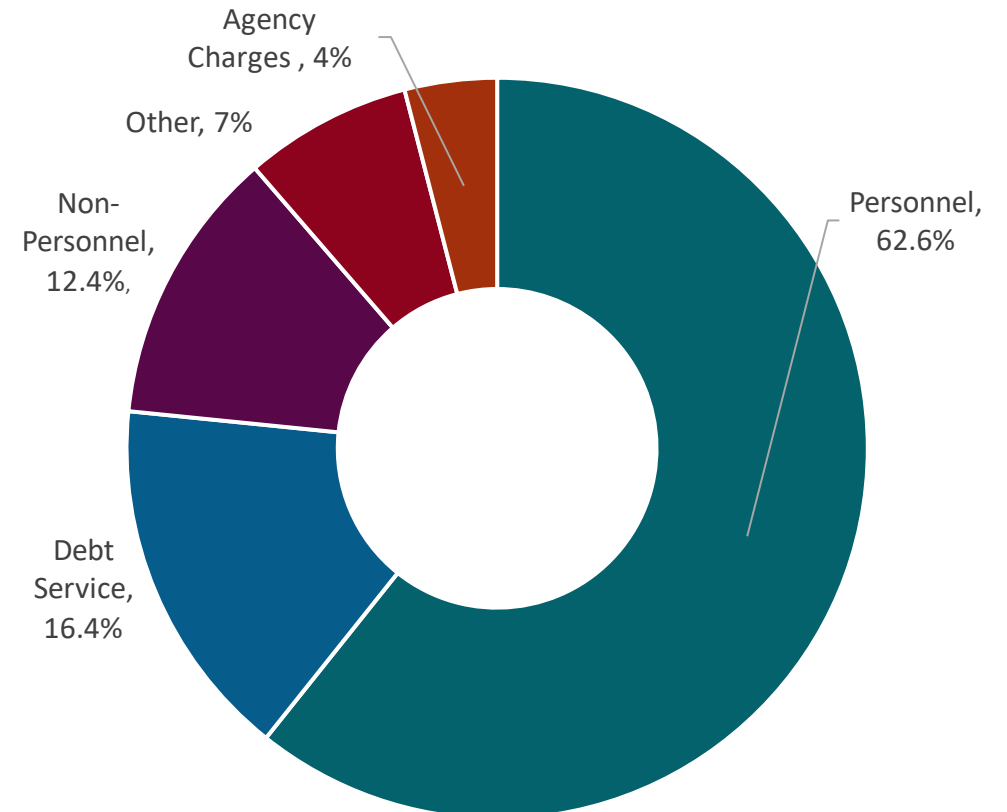
**Agency Charges** = \$16.8 million, 4.2%

- Inter-departmental billings and charges including Insurance, Workers Compensation, and Fleet Services

**Agency Revenues** = -\$12.8 million, -3.2%

- Charges for services, facility rentals, permits, and other sources that offset expenses

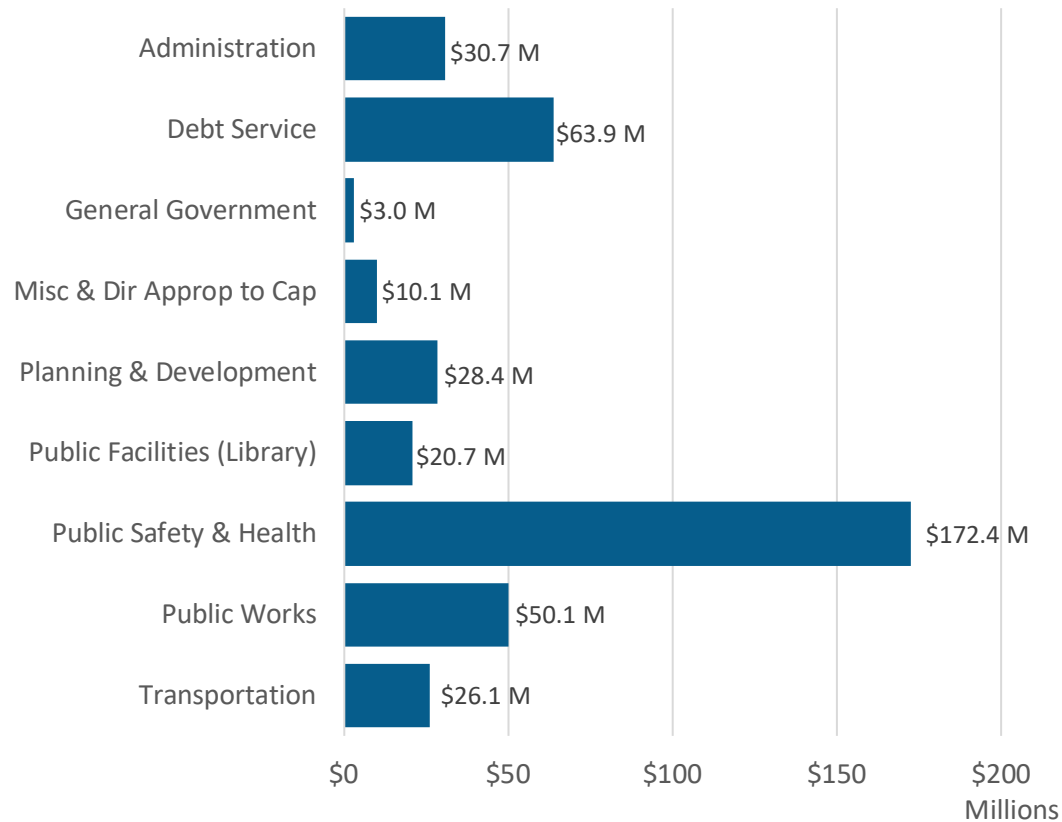
Expenditures by Type





# Public Safety & Health Agencies Account for Largest Share of Budget (42.5%)

2024 Adopted Operating Budget by Function



General Fund Budget

- Public Safety & Health accounts for the largest share of the budget (\$172.4 million; 42.5%).
- General Fund Debt Service (\$63.9 million, or 15.8%). Library Debt Service is in the Library Agency budget
- Public Works is the third largest functional area (\$50.1 million, 12.4%)
- Miscellaneous and direct appropriations to capital are centrally budgeted functions that address city-wide expenses, including contingent reserve

# 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%

# Takeaways

- **The General Fund is the focus of the Budget because property taxes are the main revenue source**
  - The City's budget is made of many Funds (Enterprise, Internal Service)
  - Other funds are paid through non-property tax sources, such as user fees
  - Transfers from other funds are highly regulated
- **The City is heavily reliant on property taxes as its primary revenue source**
  - Over 70% of the general fund operating budget is from property tax
  - State laws and limitations on local revenues create reliance on property taxes
- **Personnel and Debt Service are the largest expenses categories; Public Safety and Health is the largest functional area**
  - Personnel (salary and benefits) are a majority of expenses (63%), followed by debt service (16%)
  - Public Safety and Health is the largest functional area (43%); most of these costs are for Police and Fire

# Part 2: Components of the Structural Deficit

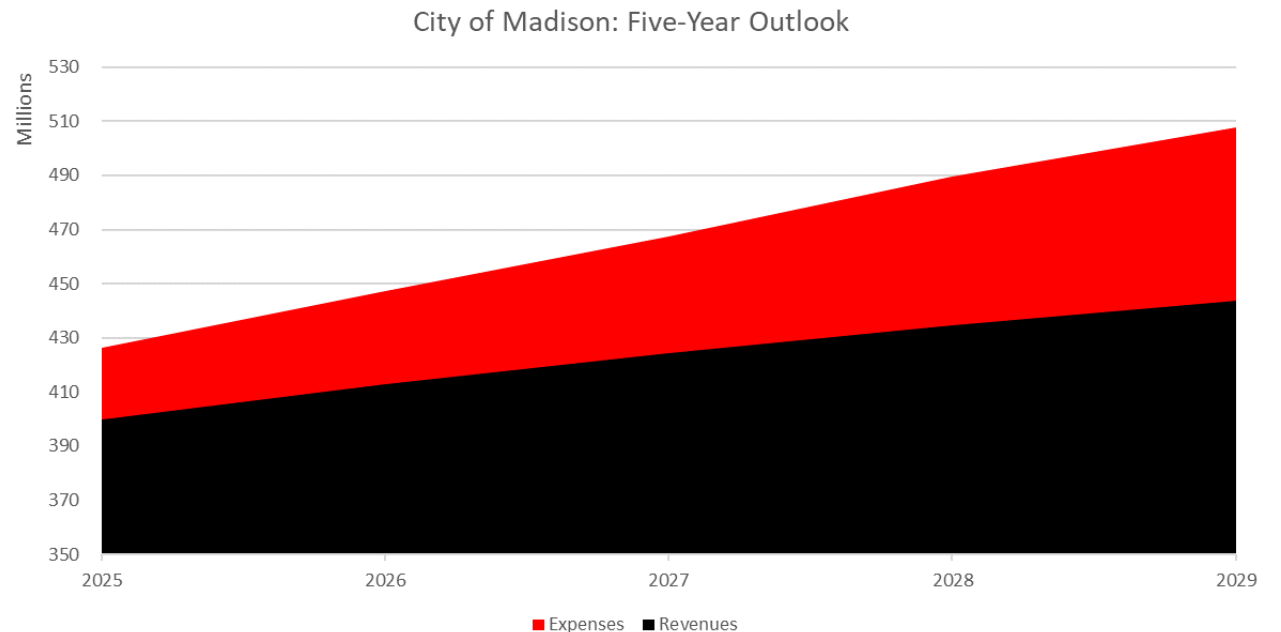
## Takeaways:

- 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.**



# 2024 Budget Balancing Strategies

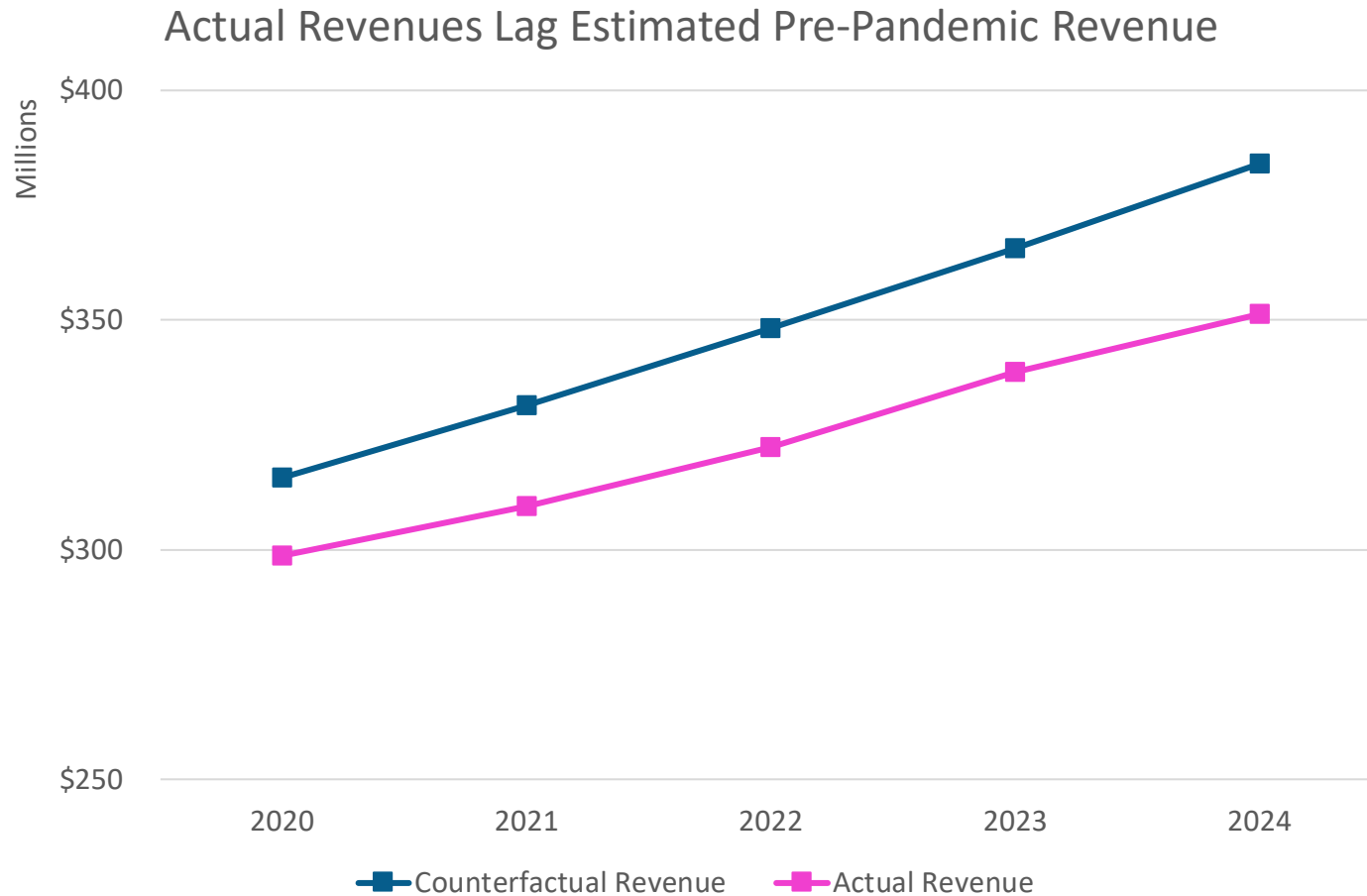
## ***On-Going – \$6 million***

- 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

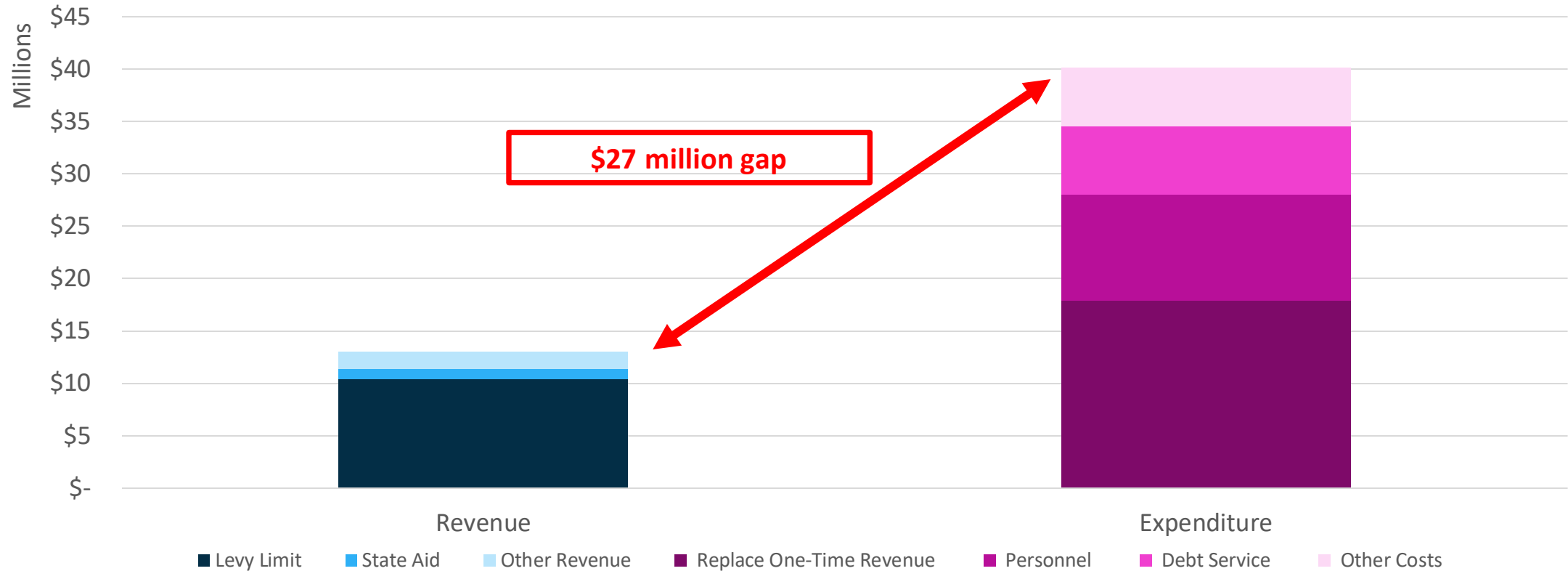
# Lasting Impact of COVID-19 Pandemic on City Revenues



- 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)

# 2025 Budget Deficit = \$27 million

\$27 million Gap to Fund Cost-to-Continue Current Services





# 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

# 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

# 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***

# 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) <sup>22</sup>

# 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*

# 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



# Part 4: Budget Balancing Strategies – Revenues

## Takeaways:

- Madison was shortchanged by 2023 State Aid Legislation
- There are a limited number of non-property tax revenues
- There are tradeoffs and equity considerations to increasing user fees and/or pursuing a property tax referendum

# Madison's Revenues in Context

*Madison received the lowest increase per capita in Shared Revenue in recent state budget.*

	Per Capita	Rank	Average	Median	% of Average
Federal Aid	\$249	2	\$78	\$45	320%
General Property Taxes	\$928	4	\$694	\$663	134%
Fines, Forfeitures, Penalties	\$19	6	\$13	\$10	146%
Total Taxes	\$1,133	6	\$906	\$855	125%
All Other State Aids	\$59	8	\$51	\$33	117%
Total Intergovernmental Revenue	\$432	9	\$348	\$306	124%
Charges for Service	\$124	10	\$119	\$98	104%
Licenses and Permits	\$41	11	\$45	\$36	91%
Tax Increments (TIF)	\$131	14	\$159	\$121	83%
Total State Aid	\$176	23	\$256	\$240	69%
Shared Revenue (includes municipal, utility, exempt property and expenditure restraint aid)	\$71	25	\$151	\$143	47%
State Highway Aid	\$46	26	\$55	\$53	84%
General Revenues	\$1,815	5	\$1,540	\$1,507	118%
Total Revenues and Other Financing	\$2,529	1	\$1,900	\$1,853	133%

# City has limited non-property tax revenues

- Local Revenues
  - Charges for services (e.g., ambulance fees)
  - Licenses and Permits (e.g., building permits)
  - Fines and Forfeitures (e.g., parking violations)
  - Other (e.g., room taxes, investment earnings)
- Total local revenues = \$55 million
  - \$27 million would require about a 50% increase in all local revenues

# Special Charges

- State law allows the implementation of special charges to pay for the cost of specific services for which a “broad-based” public benefit can be identified.
- New fees for garbage collection, snow removal, fire protection, street sweeping, or storm water management do not result in net new revenue if those services were paid by the levy in 2013. If previously paid by levy, state law requires reduction in allowable levy equal to the new revenue.
- City currently has two special charges: urban forestry, resource recovery (recycling)
- Other Possible Options:
  - Transportation: Traffic Engineering, Streets Division street maintenance, Engineering, Metro subsidy (up to \$30 million)
  - Library: up to \$20 million
  - Parks: up to \$15 million
- Each \$1 per month per resident raises \$1 million in revenue
- \$27 million = \$27 per month or \$324 per year per resident.
- The total Municipal Services Bill is \$85/month (\$1,025/year); adding \$27 million in special charges would increase the bill by nearly one-third.

# Property taxes

- Increase above levy limit requires voter approval
- Referendum ballot requires Council approval
- In even numbered years, referendum must be held at either Spring or Fall primary or general election
- Referendum allows one-time and on-going levy increases
- Increase is limited to a fixed dollar amount, not a percentage of levy each year – in other words, its share of the budget decreases each year
- \$27 million = additional \$284 on average value home or about 9% additional increase above levy limit; equal to 3.7% additional on total tax bill for average value home

# Tradeoffs between increasing revenues through property tax vs. fees/ charges

	Property Taxes	User Fees and Charges
Who pays	Taxable properties	All properties, both taxable and tax-exempt
Equity considerations	<p>Taxes calculated as a flat percentage of value; more tax paid by higher value properties</p> <p>More regressive than progressive income tax (i.e., higher rates as income increases), but more progressive than flat fees</p>	<p>Fees assessed per property at a fixed amount</p> <p>Lower income property owners pay larger share of income for the fee than higher income property owners – most regressive revenue type</p>
Relief for payers	<p>State constitution uniformity clause prevents differential property tax rates or targeted property tax relief programs on the tax bill</p> <p>There are some limited State tax credits and City programs for assistance</p>	<p>City can provide relief to households</p> <p>Relief programs include MadCAP, which offsets a portion of the cost of municipal services fees and charges for low income households, and ambulance fee waiver</p>

# Takeaways

- **There are a limited number of non-property tax revenues**
  - The City receives \$46 million from State Aid. On a per capita basis, the City receives less than most other large cities, and received the lowest per capita increase from the 2023 State Aid Legislation (Act 12)
  - The operating budget includes \$55 million in local revenues, which includes charges for services, licenses and permits, fines and forfeitures, and other source (e.g. Room Tax)
  - Increasing existing fees and/ or implementing new special charges are some options for closing the budget gap; some of these changes would require additional studies to determine the cost of services
- **There are tradeoffs and equity considerations to increasing user fees and/or pursuing a property tax referendum**
  - Another option to increase revenues is to pursue a property tax referendum, which would require approval by voters.
  - There are tradeoffs between pursuing revenue increases through user fees versus charges, including differences in who pays, how amounts are calculated, and potential relief to payers. These tradeoffs should be evaluated to make a policy decision on the budget.

# Next Steps



# Closing the \$27 million gap will likely require multiple strategies

- Closing the budget gap solely through expenditure reductions would require drastic actions that would cut back services to residents and have significant operational impacts (Part 3)
- At the same time, closing the budget gap solely through revenue increases will also have impacts on residents and taxpayers; issues related to equity and affordability must be considered (Part 4)
- Deciding on a path forward will require evaluating tradeoffs between strategies and may require taking multiple approaches

## • 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

# Next Steps

- Continued discussions with the Council on March 5
  - Discussion of values, priorities and possible paths forward
- Possible legislation to set direction for 2025 budget development
- Finance Department will develop various scenarios to help policymakers understand tradeoffs and assist with decision-making

# 2025 Budget Timeline

	<b>Capital</b>	<b>Operating</b> <small>*Request period subject to change</small>
<b>Kick-Off Meeting</b>	Tuesday, March 19 11:00am	*Monday, June 17 11:00am
<b>Agency Requests Due</b>	Friday, April 19	*Friday, July 19
<b>Agency Briefings with Mayor's Office</b>	May 10 – 17	*August 6 – 14
<b>Executive Budget introduced to Common Council (CC)</b>	Tuesday, September 10	Tuesday, October 8
<b>Finance Committee (FC) Briefings</b>	September 16 – 17	October 14 – 15
<b>FC Amendment Meeting</b>	Monday, September 30	Monday, October 28
<b>CC Amendment Week</b>	October 28 – November 6	
<b>CC Budget Adoption Meetings</b>	November 12 – 14	

# Operating Budget Cost to Continue

- **March 25 – April 12:** Agency staff and budget analysts independently complete cost to continue analysis
- **April 15 – April 26:** Agency staff and budget analysts meet to discuss and finalize cost to continue adjustments; Budget staff finalize citywide adjustments
- **April 29 – May 10:** Budget team compiles citywide cost to continue estimates and refines budget gap numbers; present update to Finance Committee or Common Council prior to budget kick-off in June

# Questions?

- Review the 4-Part Budget Info Series:
  - <https://www.cityofmadison.com/finance/budget/2025-budget/2025-budget-outlook>
- Alders and members of the public may email Finance Department with follow up questions:
  - [citybudget@cityofmadison.com](mailto:citybudget@cityofmadison.com)
- Alders may reach out to Christine and Dave to schedule 1:1 discussions on budget:
  - Christine Koh, Budget Manager: [ckoh@cityofmadison.com](mailto:ckoh@cityofmadison.com)
  - Dave Schmiedicke, Finance Director: [dschmiedicke@cityofmadison.com](mailto:dschmiedicke@cityofmadison.com)
- We may develop supplemental materials (FAQs, additional presentations) to address specific questions and concerns