



Outlook for 2025 City Budget

Presentation to Economic Development Committee

January 17, 2024

Overview

1. Budget Foundations

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

2. The Structural Deficit

- Internal and external factors driving the deficit

Part 1: Budget Foundations

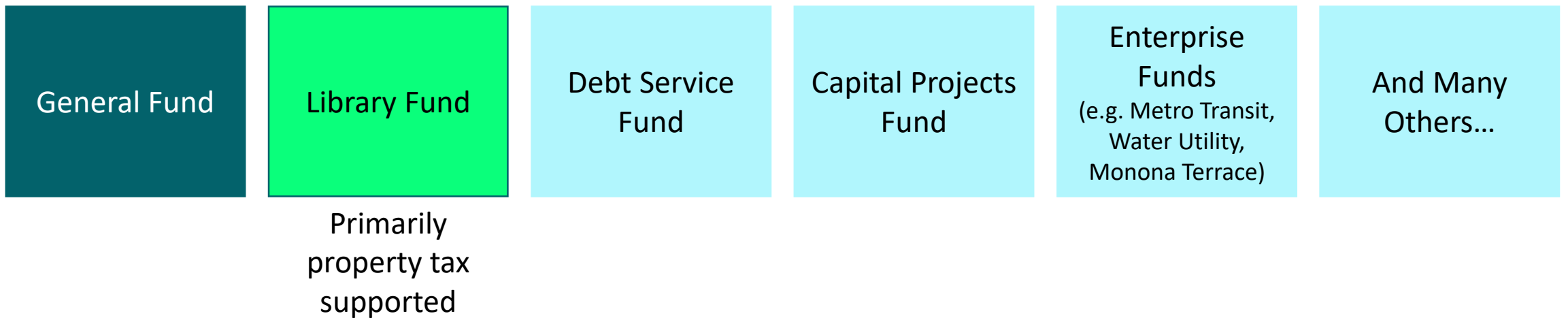
Takeaways:

- 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.



Funds Overview: All Other Funds

In contrast to the General and Library Funds, other Funds are supported by non-property tax revenue sources.

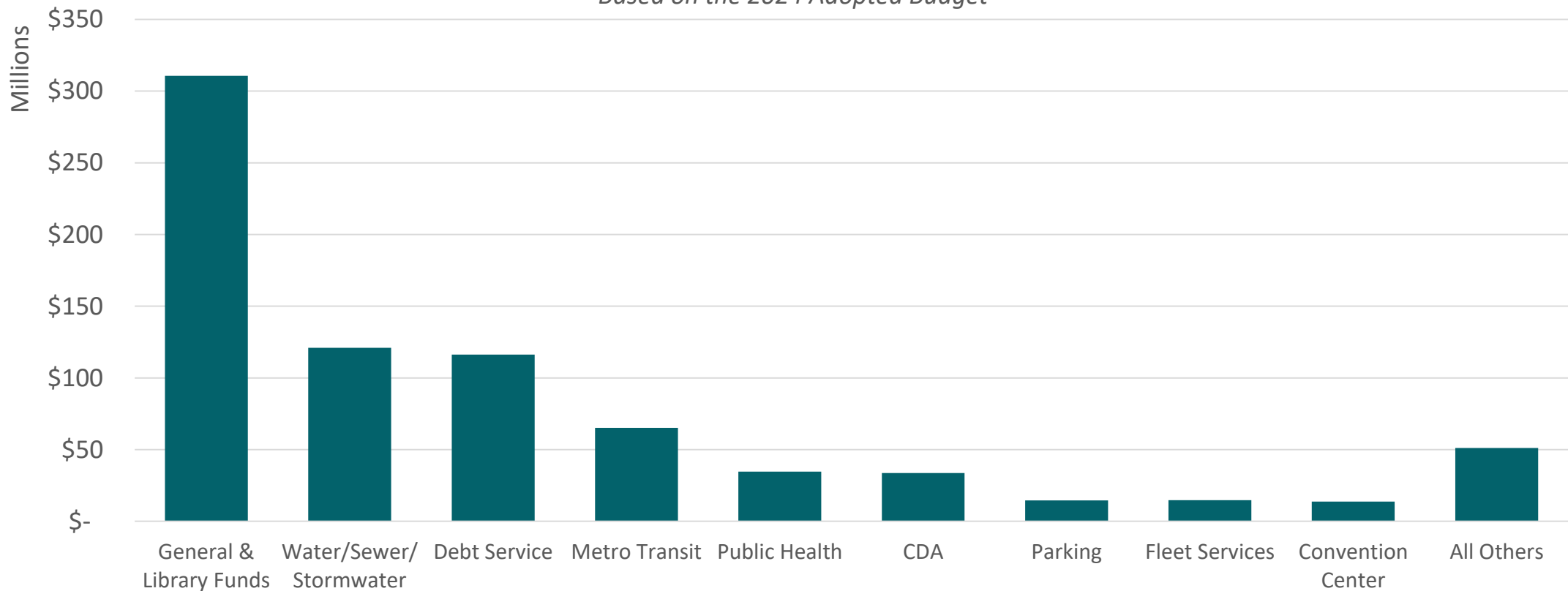
- Revenues raised by other Funds cover the direct and indirect costs of providing a service and are not used to generate a profit.
- Transfers from these funds are regulated and can only be used in specific circumstances.

Fund	Purpose	Primary Revenue Source
Enterprise Funds <i>Golf, Metro Transit, Monona Terrace, Parking, Sewer, Stormwater, Water</i>	Dedicated business-type activities	Fees charged to external users
Internal Service Funds <i>Fleet, Insurance, Worker's Compensation</i>	Dedicated internal service activities	Inter-agency billings
Other <i>Debt Service, Public Health of Madison and Dane County (PHMDC), Capital Projects, Tax Increment Districts, and more</i>	Funds set-aside for legal or other specific purposes	Various, including inter-fund transfers

General Fund Accounts for 40% of the City's Total Annual Budget

City All Funds Budget = \$775.6 million

Based on the 2024 Adopted Budget

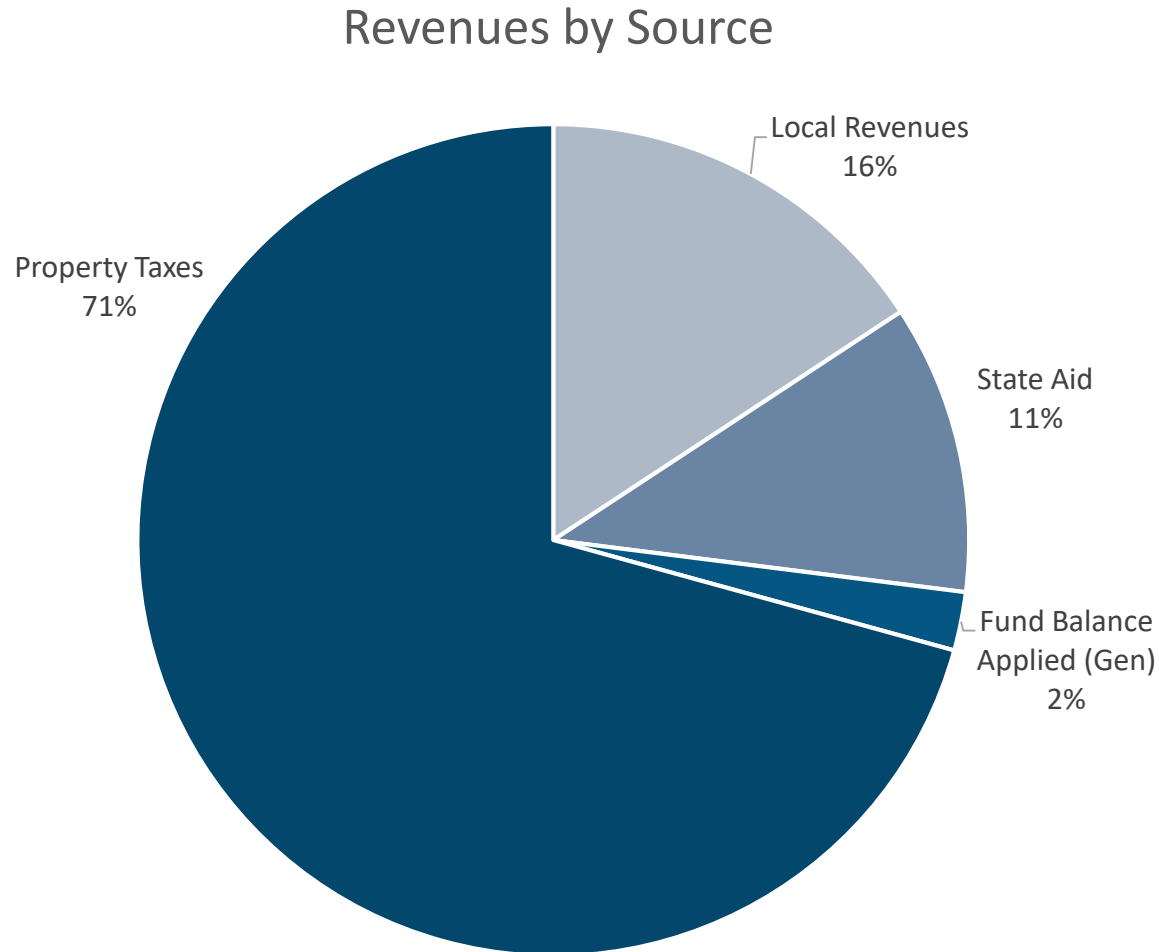


*General Fund (including Library Fund) totals exclude amounts transferred to other funds, e.g., Metro Transit, Public Health, Debt Service, etc.

**"All Others" includes Room Tax, Insurance, Capital Projects, TIDs, Grants, Insurance, Worker's Compensation

Property Tax is more than 70% of Revenues

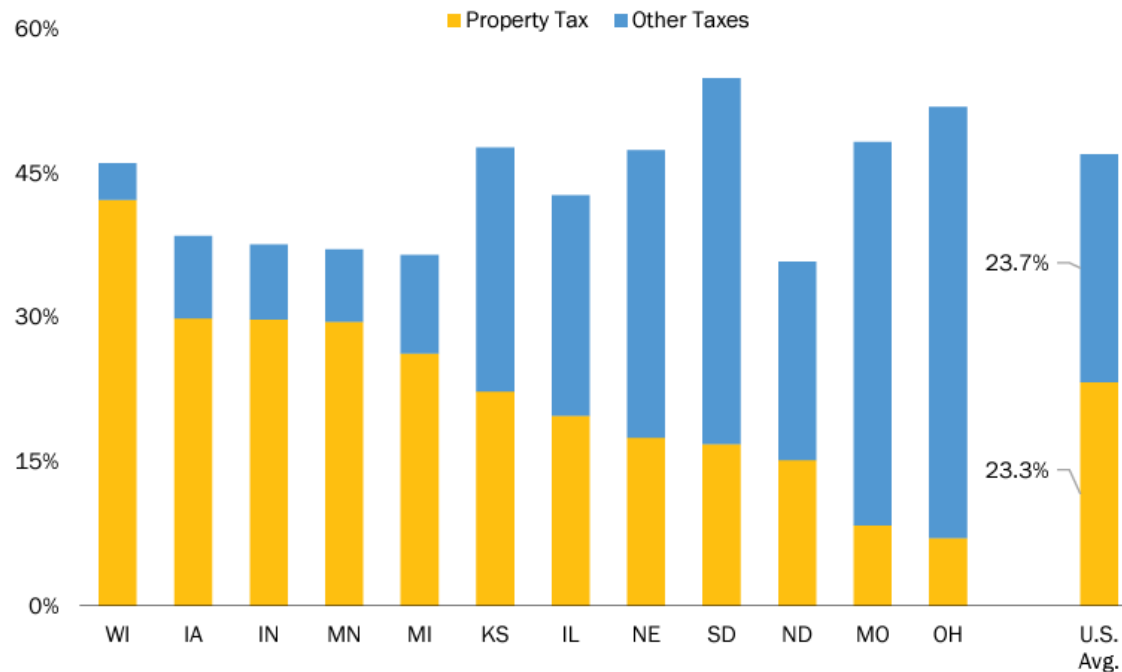
2024 General Fund Budget = \$405.4 million



- **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)

“Wisconsin municipalities depend on the property tax more than their peers in any other Midwestern state” (Wisconsin Policy Forum, 2019)

Figure 1: Wisconsin Relies Most on Property Tax in Midwest
Property Tax & Other Taxes as Share of Municipal Revenue, 2015



Sources: Willamette University, U.S. Census Bureau

- In most states, cities have local sales and/or income tax authority.
- In Wisconsin, the state collects income and sales taxes and “shares” it with cities.
- “Shared revenues” reduced between 2003 to 2011. Increase in recent state budget well below inflation since 2000.
- State has focused aid to local governments through school aid (“two-thirds” goal).
- **Result** -- city budgets are much more reliant on property taxes than peers in other states.

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)

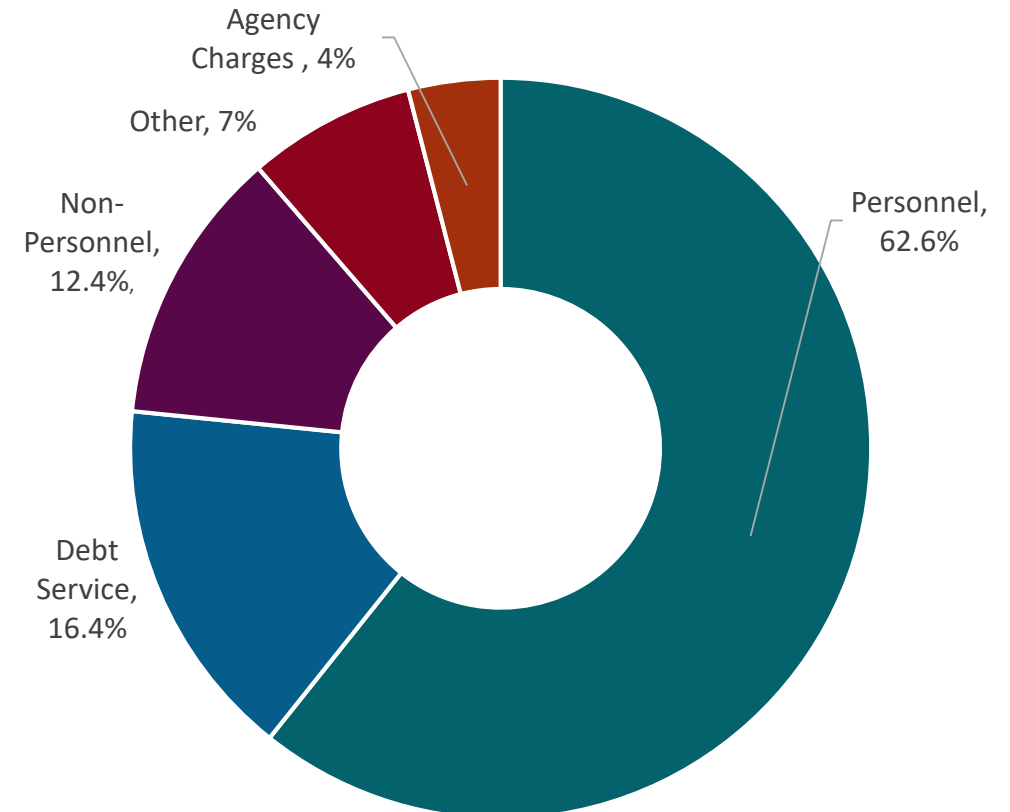
Agency Charges = \$16.8 million, 4.2%

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

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

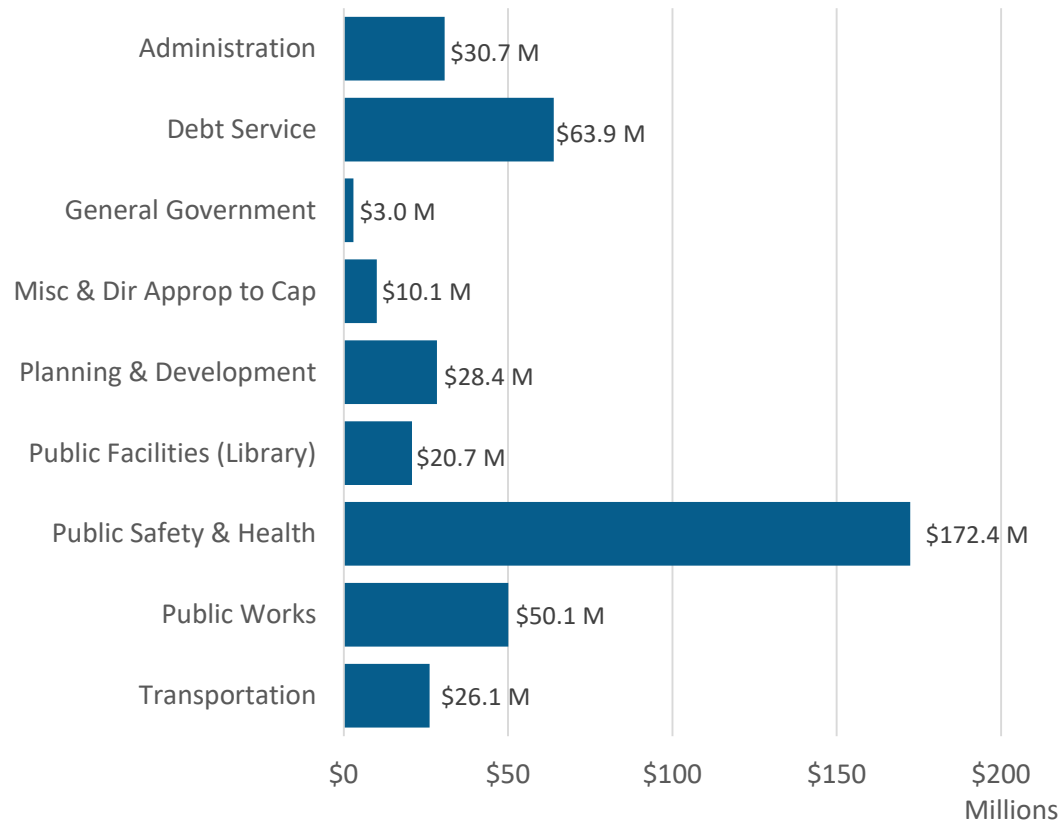
- Charges for services, facility rentals, permits, and other sources that offset expenses

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

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

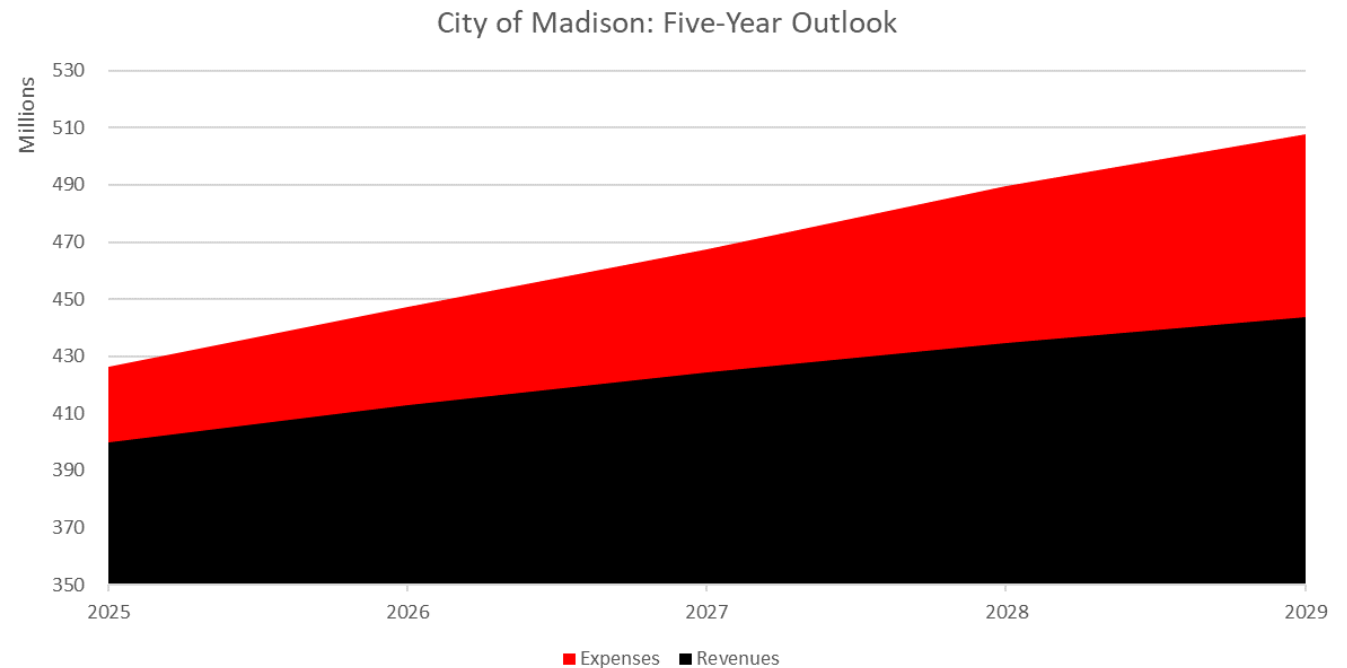
Takeaways:

- 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.**



Prior Budget Balancing Strategies

Allowable levy increases do not keep pace with cost growth

2012	2013	2014	2015	2016	2017
<ul style="list-style-type: none"> • Debt premium • Police and fire pension contributions • Premium stabilization surplus 	<ul style="list-style-type: none"> • Room tax growth • Ambulance fee 	<ul style="list-style-type: none"> • Room tax – shift from MT projects • Building Permit revenue • Urban forestry special charge 	<ul style="list-style-type: none"> • Room tax • Building permits • Urban forestry special charge 	<ul style="list-style-type: none"> • Room tax – Overture shift • Urban forestry special charge • Health Insurance Plan Design 	<ul style="list-style-type: none"> • Room tax • Ambulance fee • Transit fund surplus • Snow and ice removal budget • Urban forestry special charge
2018	2019	2020	2021	2022	2023
<ul style="list-style-type: none"> • Increased Room Tax rate • Cost Allocation • Increased investment revenue 	<ul style="list-style-type: none"> • TID 32 Closure • Increased interest revenue • Shift Library Collection to capital 	<ul style="list-style-type: none"> • Vehicle Reg Fee • Shift Parking Enforcement to Parking Enterprise • Increased Forestry staff time to Urban Forestry • Debt premium 	<ul style="list-style-type: none"> • \$8 million from fund balance • \$6 million in cuts / Workshare / service efficiencies / “furloughs” • \$2 million in fee increases / TOM fire/EMS contract 	<ul style="list-style-type: none"> • \$13.1m in one-time ARPA funding • Anticipating \$1.5m revenue from Sorting Special Charge • \$1.4m in cuts 	<ul style="list-style-type: none"> • \$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

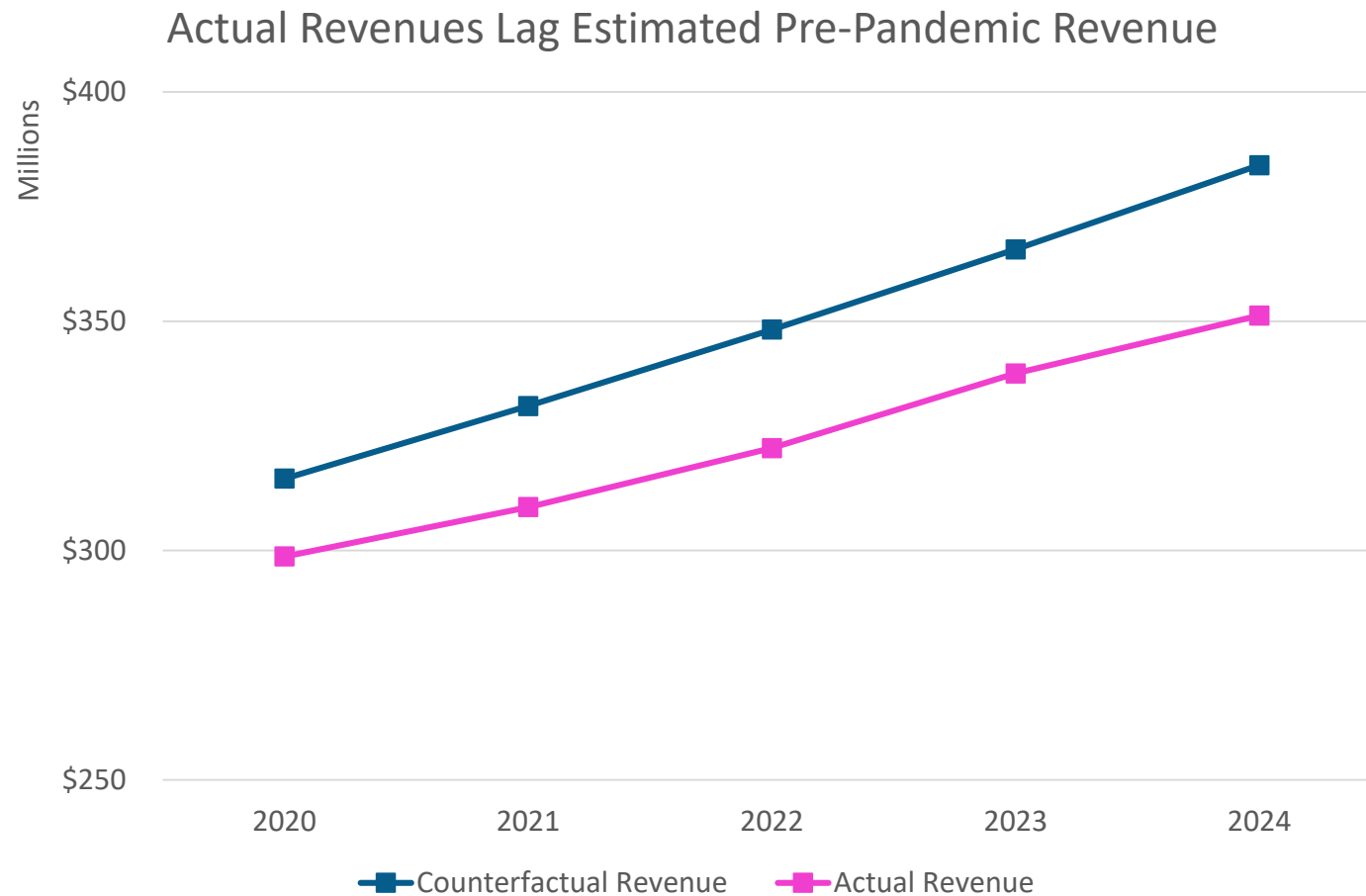
On-Going -- \$6 million

- 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

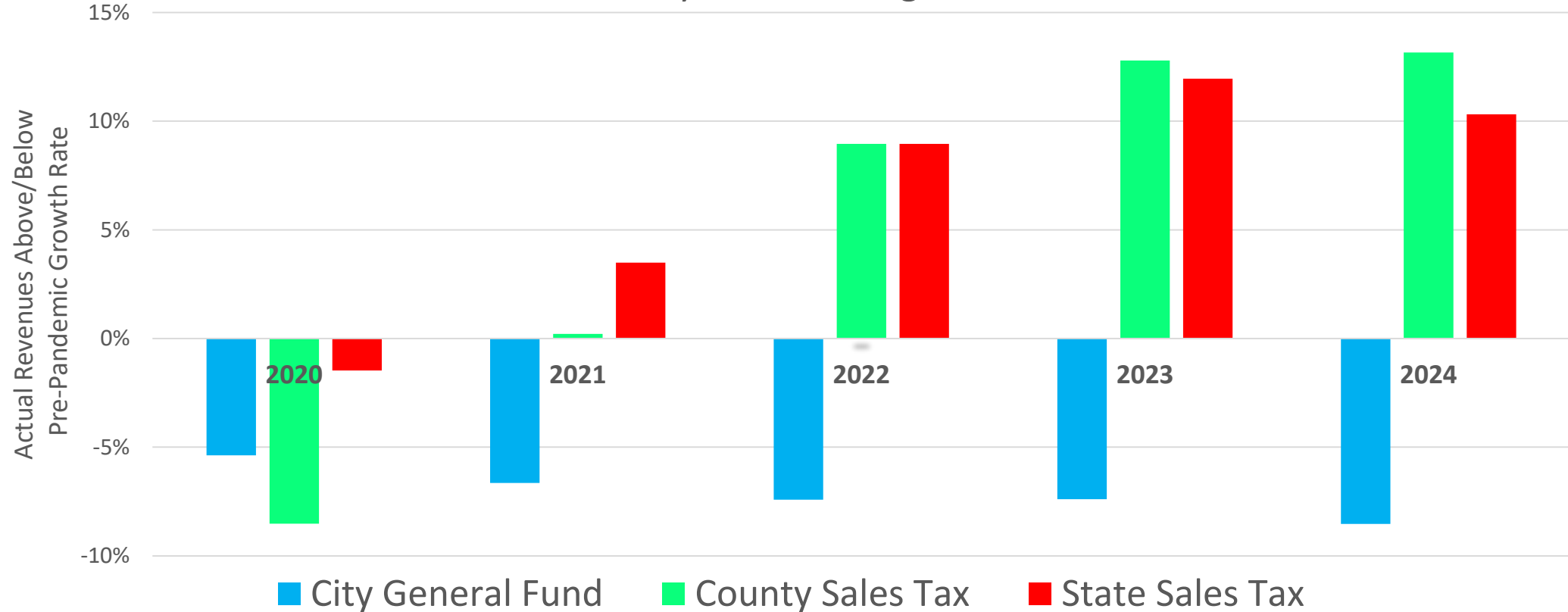
Lasting Impact of COVID-19 Pandemic on City Revenues



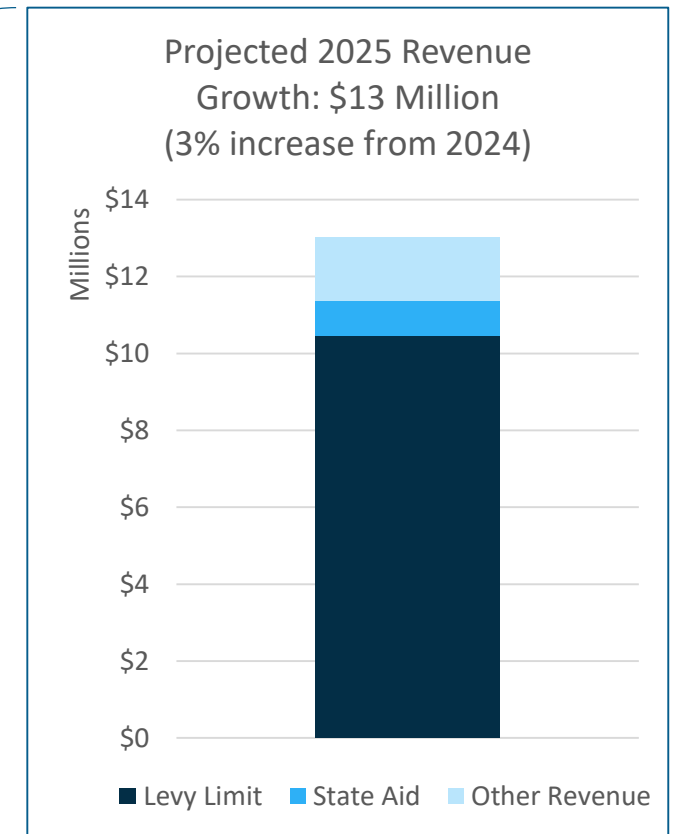
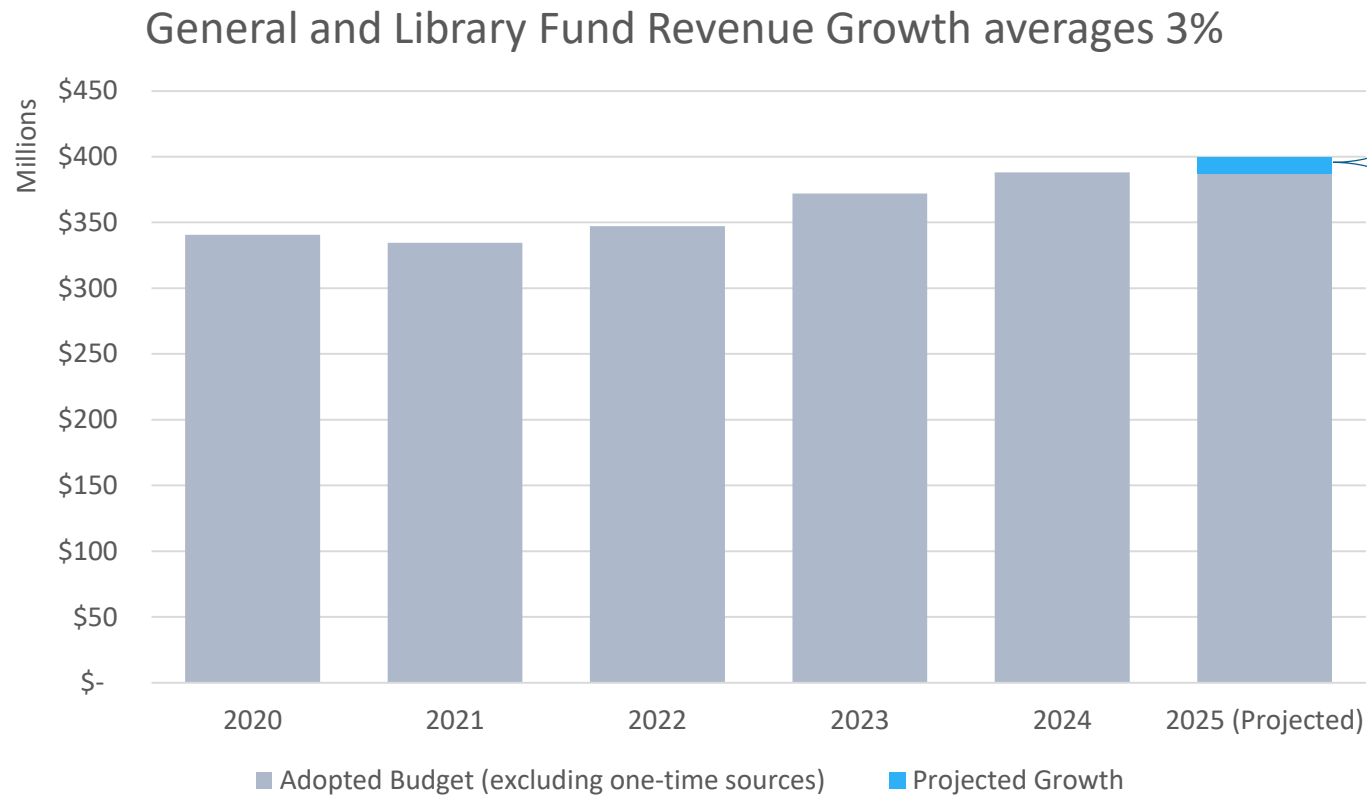
- Pre-Pandemic revenue is based on U.S. Treasury methodology for estimating revenues.
- 2024 Budgeted Revenues are \$33 million (9%) less than pre-pandemic trends.
- Despite strong economic growth, state limits on property taxes are less connected to economic recovery than other revenue sources (e.g.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

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

County and State Sales Tax Exceed Pre-Pandemic Growth Levels, while City Revenues lag behind



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

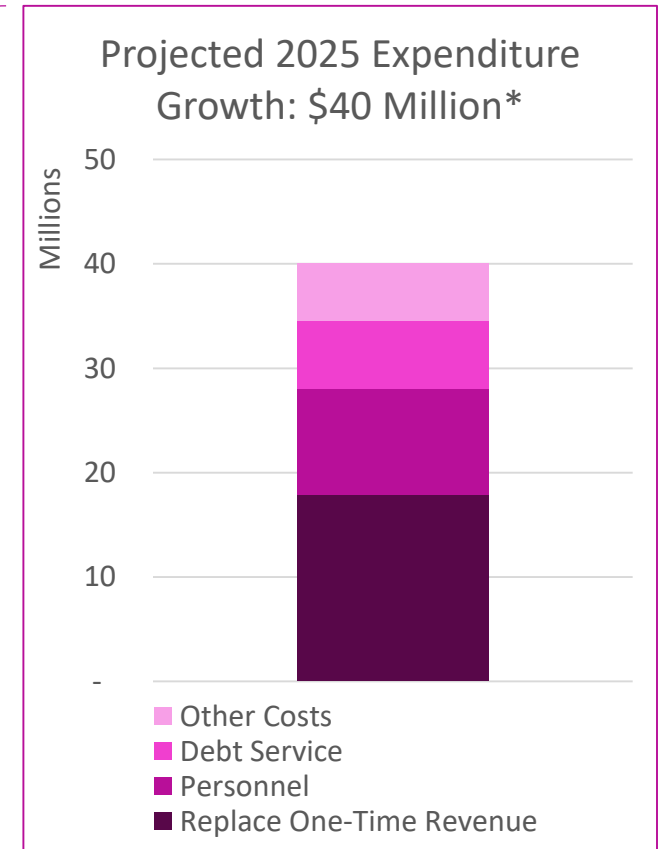
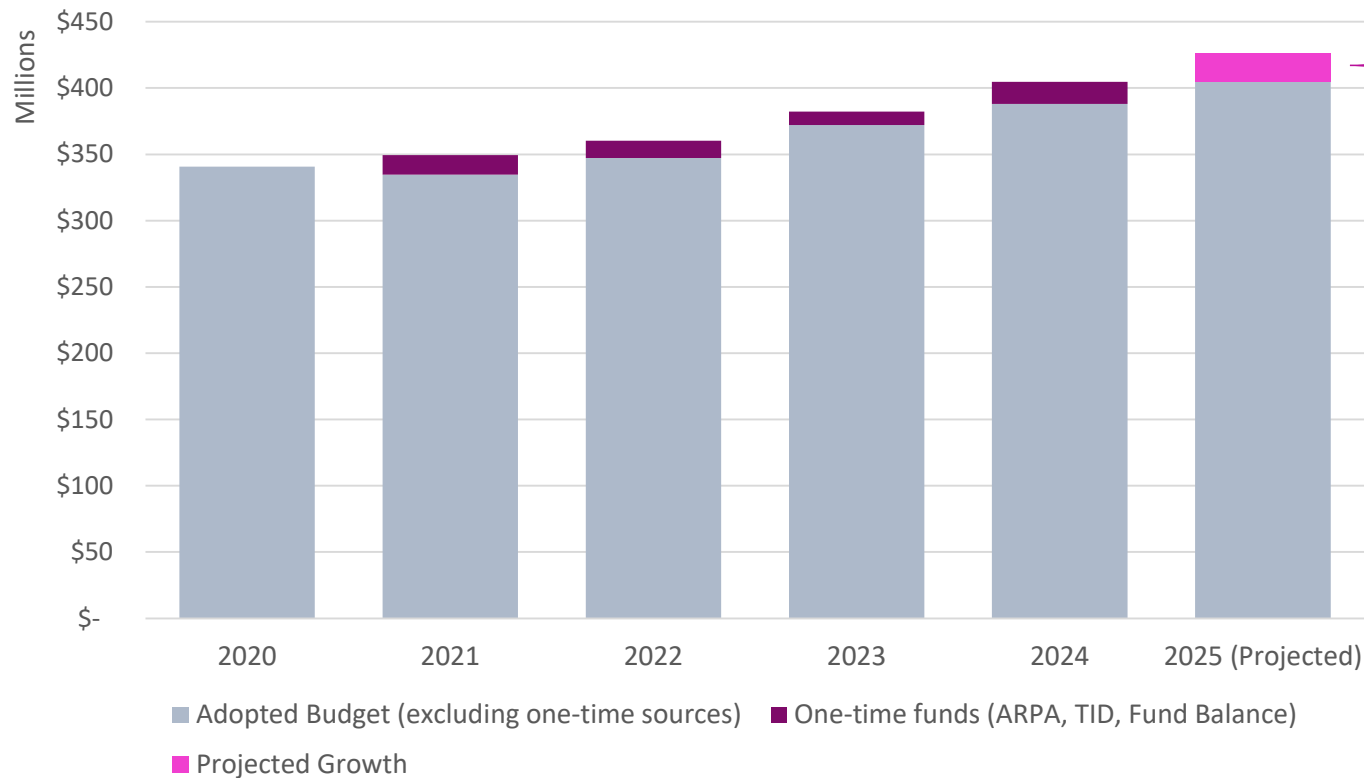


Factors Limiting Revenue Growth

- 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

General and Library Fund Revenue Growth Averages 5%
Use of one-time funds closed the budget gaps in 2021-2024



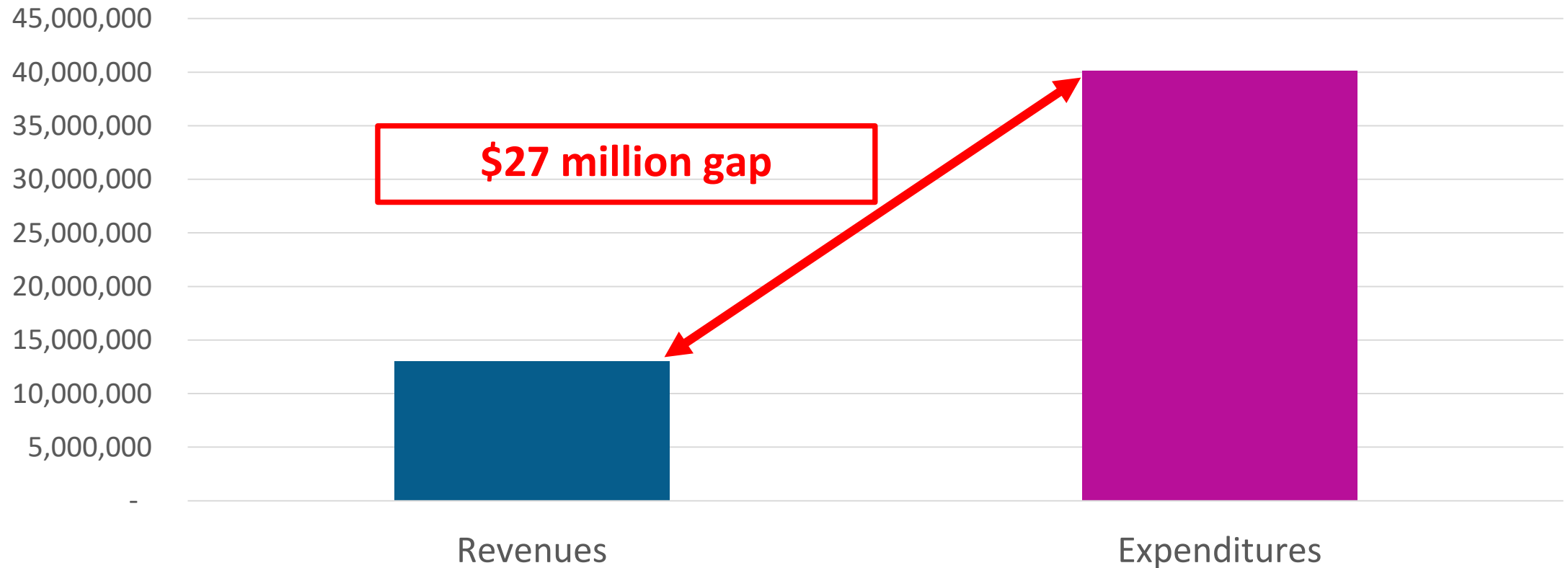
* \$40 Million Increase =
 \$22 Million cost to continue expenses
 + \$18 Million to replace one-time revenues

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

\$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