Office of the Mayor
Satya Rhodes-Conway, Mayor
City-County Building, Room 403
210 Martin Luther King, Jr. Blvd.
Madison, WI 53703
Phone: (608) 266-4611 | Fax: (608) 267-8671
mayor@cityofmadison.com
cityofmadison.com

July 16, 2024

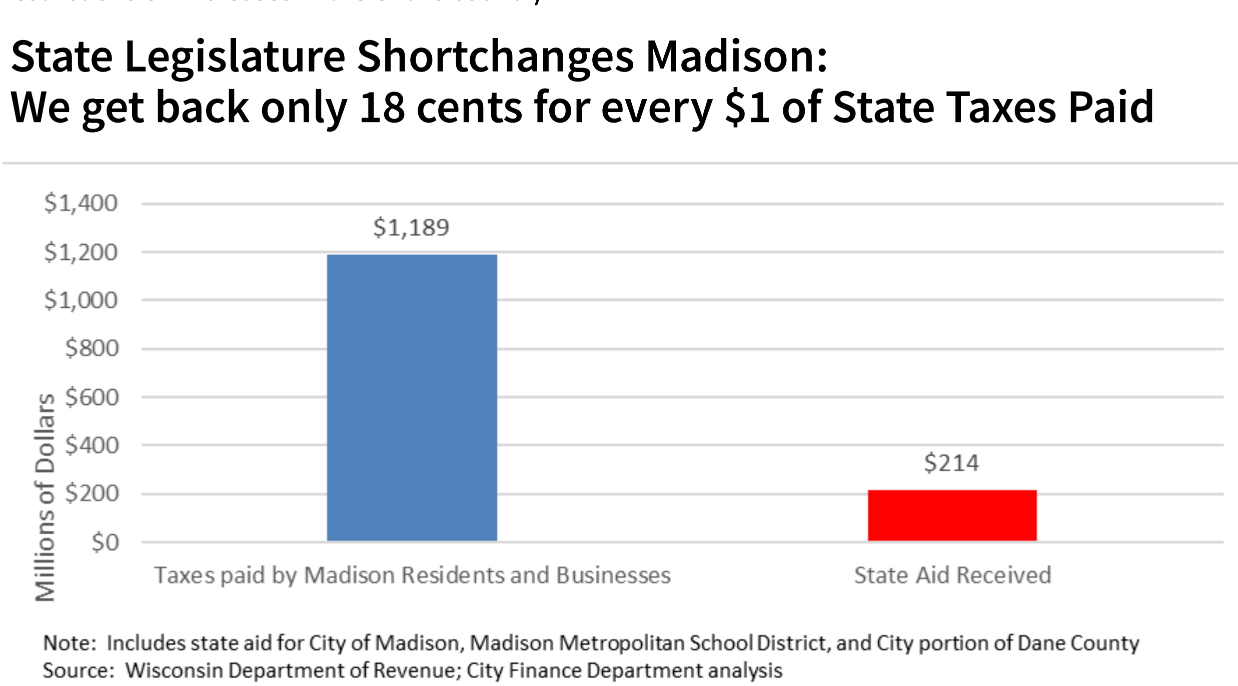
To: **Madison Common Council**

From: **Mayor Satya Rhodes-Conway**

Re: **Long term budget plan**

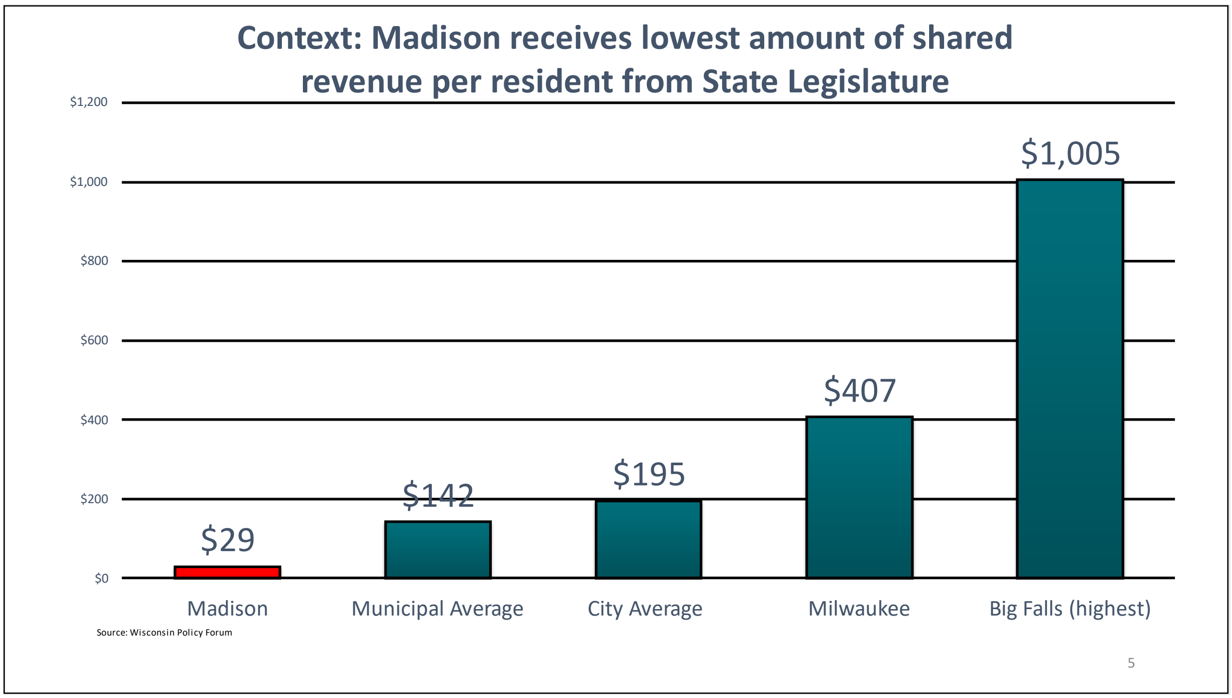
Introduction

As we have previously discussed, the City's structural deficit is the result of two basic dynamics: a rapidly growing city and harsh restrictions on revenue enacted by the State Legislature and former Gov. Scott Walker. Since 2011, the State Legislature has strictly limited the amount of revenues available to pay for City services. According to the independent Wisconsin Policy Forum, Wisconsin has the one of the tightest restrictions on increases in the entire country.



Despite being a primary driver of the state economy and contributing over $1 billion dollars in state taxes, Madison residents get back less than 20 percent (18 cents) for every dollar they pay in state taxes. And that includes state aid provided to the City, School Districts, and Dane County. I'll say it again because it is so hard to believe – we receive eighteen cents for every dollar in state income and sales taxes paid. It's not fair and it is why we don't have enough revenue to simply maintain current service levels to residents and businesses.

At $29 per resident, Madison receives less than 15% of the statewide average. Wisconsin's largest city, Milwaukee, gets 14 times the amount of shared revenue per resident than the state's second largest city, Madison. It is because of these disparities that we are unable to increase service levels as our City's population grows at the fastest rate in the state. If shared revenue had increased at the rate of inflation since 2003, Madison would be receiving nearly $20 million in 2024. If Madison received the per-resident average for Wisconsin cities, we would get $54 million, enough to close the budget deficit more than two times over.



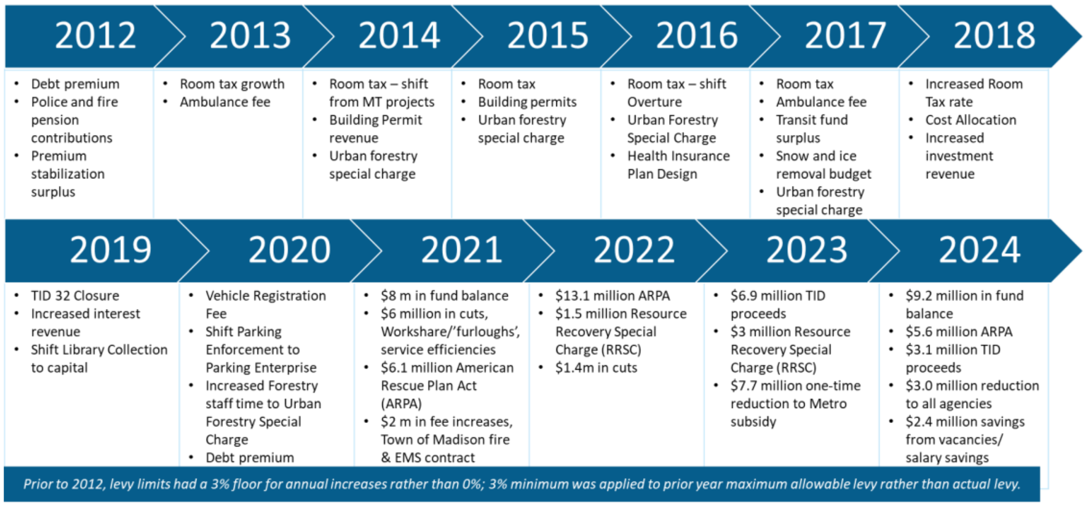
However, Madison is at the mercy of divisive politics at the state level, which has chosen to punish the state's largest cities for our politics by constraining our economy. Our ability to provide city services, supported by a vast majority of our residents, is fiscally impossible under the system created by former Gov. Scott Walker and the current leadership of the State Legislature. Wisconsin is sitting on a $3 billion surplus and yet communities around the state are forced, every year, to balance budgets with higher costs and stagnant revenue. Residents in Monona, Fitchburg, Middleton, Oregon, Maple Bluff, and communities across the state are confronting the same frustrating dilemma and feel the same pain.

As a result, the City has had to close deficits in every City budget since 2011. The City has done many things to balance its budget over the past 13 years: increasing the amount that employees pay for their pensions and health insurance, increasing existing fees, cutting expenses, finding efficiencies, limiting hiring and creating new special charges. With belt tightening, workforce efficiencies, new fees, soon-to-be depleted federal pandemic aid, and other one-time measures we have avoided major disruptions in city services for the past decade. But Madison has exhausted all but two paths moving forward: an austerity budget we can't afford; or a voter-approved property tax referendum that could be easily avoided under a less draconian State Legislature.

Increased interest rates and higher staff vacancies have resulted in a modest increase in the City's general fund balance, or "Rainy Day Fund." While this increase can and will absolutely be part of the solution to the budget gap, it is one-time funding and spending it down will do nothing to address the structural deficits occurring every year or to solve the City's long-term budget situation.

What has the City done so far?

Madison has faced a budget deficit **every year** since the State imposed strict levy limits in 2011. The problem is bigger in 2025 than before because of the lasting impacts of the pandemic and end of federal recovery funds.



The 2025 Budget

Knowing that we were almost out of options, we undertook a series of conversations that began immediately after the 2024 budget was adopted last November. First, the Finance Department developed a comprehensive information series on the budget. This was followed-up by in-depth briefings of the Council in February and March of this year. In April, the Council adopted values, priorities, and guiding principles for developing a budget that is balanced in the long-term using the very limited options allowed by the State Legislature.

The Council established the following values and priorities for the City budget (Legistar #82456):

1. Maintaining services for residents.
2. Preventing layoffs or furloughs of city staff who deliver those services.
3. Maintaining wage parity for general municipal employees.
4. Meeting the needs of a growing city.
5. Choosing the most progressive revenue options that consider housing affordability for residents.

With these values and priorities as a foundation, the Council provided the following guidance for developing the 2025 budget:

1. Evaluate service levels, staffing and fiscal impact when developing budget requests.

2. Seek ways to increase efficiencies in operations.
3. Develop language for a property tax referendum for some or all of the projected budget deficit, as well as options to replace existing non-property tax revenues, for consideration by voters at the November 5, 2024, general election.
4. Prepare contingency plans if voters do not approve the referendum.
5. Develop a multi-year plan to address the on-going structural deficit, including revenue options allowed under state law.
6. Consider the overall level of borrowing in the capital budget to help reduce the rate of growth in property taxes.
7. Develop a community engagement plan.

Each of these elements has, as much as possible, been incorporated into the City's budget development. To address the first two criteria, the City is implementing the Results Madison initiative, which is a strategic framework intended to align city services with the outcomes that matter most to Madison residents. As part of this process, City agencies are currently in the process of developing performance measures related to the services and activities they provide. City agencies are also audited on a 5-year cycle for review of internal controls and identification of ways to improve efficiency. Finally, all City agencies have been instructed to provide 1% reductions over their cost-to-continue budget to encourage continued savings and asked to identify potential service reductions of at least 5% of their budget.

While the financial fundamentals for the City's capital investments remain strong, as reflected in the highest possible rating on the City's general obligation debt from Moody's Investors Service (Aaa), which ensures the lowest possible interest cost, we have taken steps to address guideline 6 ("Consider the overall level of borrowing in the capital budget to help reduce the rate of growth in property taxes"). This year's capital budget strongly discourages agencies from requesting any additional general obligation borrowing (the kind that contributes to the cities debt burden). In order to be funded, any new requests must demonstrate how they improve the lives of residents who have been historically marginalized and address systemic disparities, reduce greenhouse gas emissions and promote climate resilience, and align with other long-range planning efforts.

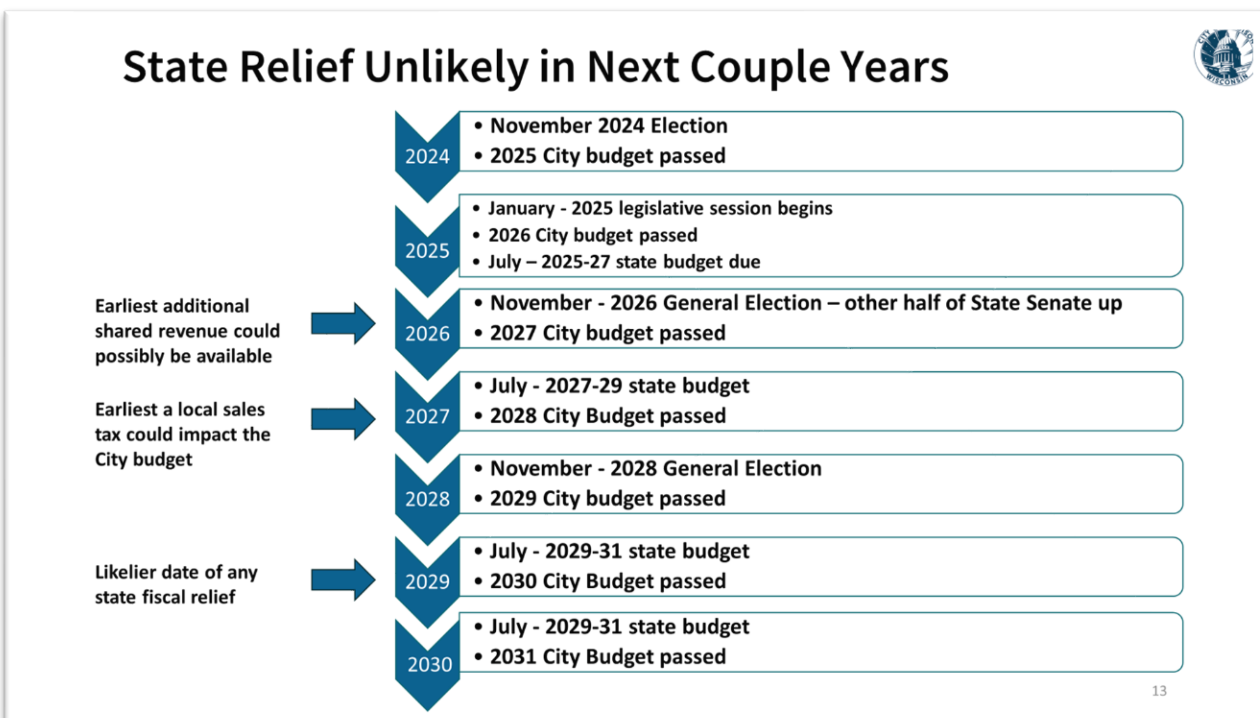
All of these efforts have been guided throughout by extensive community engagement (#7). This began as described above almost as soon as the 2024 budget was complete and include the Finance Department's comprehensive information series on the budget that was presented via a series of in-depth briefings of the Council in February and March of this year. The Council then spearheaded a series of in-person and virtual community budget conversations that were attended by hundreds of residents and generated scores of questions for City staff. We plan to continue this dialogue throughout the fall with continued public budget events and opportunities for community engagement.

Finally, this memo and the accompanying presentation to Council outline "a multi-year plan to address the on-going structural deficit, including revenue options" as well as "contingency plans if voters do not approve the referendum" (criteria 4 and 5). Language for a potential property tax referendum (#3) will be reviewed during the presentation and is being introduced tonight as part of the consent agenda.

A Responsible Long-Term Plan

As should by now be clear, the ultimate solution to the constant structural deficits faced by all Wisconsin cities has to originate at the state level in the form of returning more of cities' own tax revenues to them in the form of shared revenue, allowing localities to tax themselves via a local option sales tax, or other relief (e.g., finally having state-owned properties like the UW and the Capitol to pay their fair share for the services they receive from the city or allowing municipalities to share transit costs via regional transit authorities). It is important to be realistic about the timeline on which such relief could occur, however.

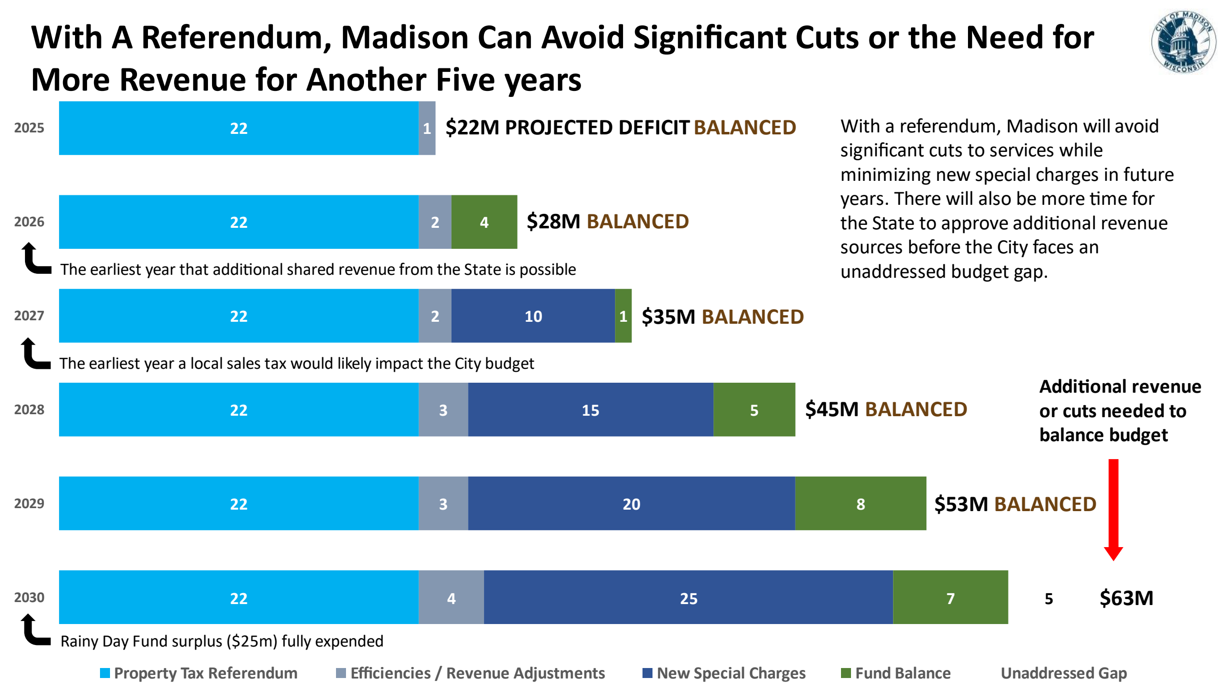
Even in the most wildly optimistic scenario, wherein the state legislature convened for the 2025 legislative session in January and immediately took action to provide relief to Wisconsin cities – something that is exceedingly unlikely to happen given that they just addressed shared revenue in the previous session and that there will very likely still be a conservative majority in control– such relief would not impact the City budget until the start of 2026. If that relief came in the form of a local option sales tax, it is likely that would require a local referendum (that has been the case in most proposals for granting Wisconsin cities a local option sales tax). In that case, the additional revenue would not impact the City budget until 2027. State action will presumably be more likely after the 2026 mid-term elections when the other half of the state senate holds elections under the lines established in 2024. In that case, shared revenue could come in the 2027 state budget and be available to the city in 2028, while a sales tax would not impact the City until 2029.



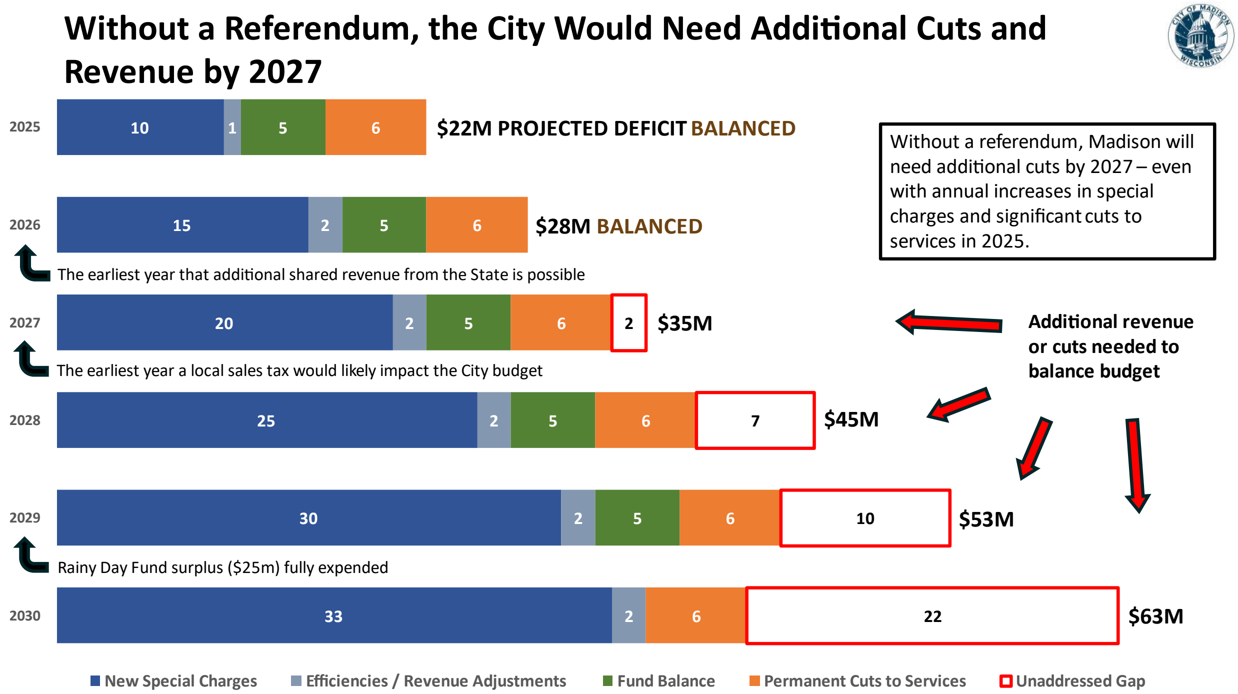
Even under relatively optimistic scenarios that account for changes in state legislative dynamics and assume a massive coalitional lobbying effort, the City must assume and plan for balancing budgets under the current draconian state restrictions for at least the next five years. Thus, guided by Council's priorities values, and guiding principles, we have worked to develop a responsible, long-term vision for the City budget avoids major cuts or having to increase taxes via referendum a second time, while we fight for a permanent solution to state-imposed structural deficits and continue to address the service needs and challenges of a growing city.

The major elements of our proposed plan

- A $22 million property tax referendum on the November 2024 ballot. That would amount to roughly $5 a month per $100K of home value, or about $20/month on the average home. The property tax is both the most progressive alternative available and the one that distributes the cost of running city government most broadly, to both residential and commercial properties across the city.
- Responsibly spending down the general fund balance (approximately $25 million) over 5 years to the recommended 15% (beyond which it would begin to impact the City's bond rating).
- Additional special charges starting in 2027 and gradually increasing to help close future budget gaps.
- Continued constraint on new city positions and further efficiency measures to continue to do more with less.
- No budget deficit or further cuts required until 2030.
- Escalated efforts to advocate for state relief.



The alternative is bleak. To balance the budget without a referendum, the City would need significant cuts in 2025 – we estimate roughly $6 million dollars, which equates to roughly 60 layoffs. The City would also need to begin to institute additional special charges this year, to the tune of an additional $10 million. And even with those measures, we would start seeing budget deficits again as soon as 2027 with no obvious way to fill them.



Conclusion

The State Legislature has systematically shortchanged our City and cities across the state. The only alternative they have left cities to pay for the services they provide is to ask residents to authorize an increase property tax – that is why so many cities across the state have been turning to that option. The budget outline above does so in the most responsible way possible, both avoiding massive cuts to City services such as police, fire, and libraries and also avoiding the need to return to voters to ask for yet another property tax increase. We want to thank all of you in advance as we move forward together to serve all of our City's residents in light of this failure of the State Legislature to adequately and equitably support its second largest and fastest growing City. We appreciate your leadership in this challenging process and know that together we will do our best for Madison.