# 2025 and Long-Range City Budget Outlook

Presentation to City, Schools, County Collaborative Committee
July 10, 2024
City of Madison Finance Department

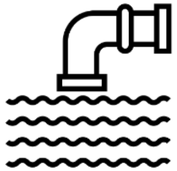
# Outline

- About the City Budget
- Current Situation
- How the City uses your tax dollars
- What the City has done so far to address the deficit
- What are our options?
    - What have we done so far?
    - Limitations on what we can do
    - What’s next?

# About the City Budget

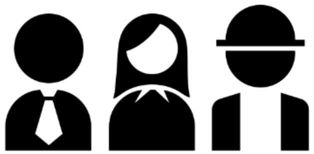
The City has two budgets: the **capital budget** and **operating budget**. Both are **planning documents** that outline and authorize how the City will spend money in the upcoming year.  Funds in the capital budget **cannot be transferred** for use in the operating budget.

## Capital Budget



- Funds physical infrastructure like roads, bike lanes, building improvements, and affordable housing.
- Investments ensure infrastructure is safe and advancing goals on climate change, housing, and other issues.
- Primarily paid for through borrowing.
- Special assessments, impact fees, user fees and federal and state grants also help finance capital projects.

## Operating Budget



- Pays for the daily services to City residents by paying salaries of City staff, funding community-based organizations, and other costs.
- Budget must be balanced (expenses = revenues).
- Primarily funded by property taxes.
- Charges for services, user fees, and federal and state aid also contribute to the budget.

# 2024 Operating Budget Facts

## $405.4 Million

Total 2024 General Fund Operating Budget

## 63% Personnel

Most of the budget pays for staff salaries and benefits. This includes police officers, firefighters, community development workers, and other staff who provide direct services.

## 71% Property Tax

Property Tax is the largest revenue source. Local revenues (16%), state aid (11%) and fund balance (2%) make up the rest.

# Current Situation:
# The City faces a serious structural deficit

## What is a structural deficit?

- A structural deficit is when projected expenses are greater than projected revenues, despite economic conditions. The cost to provide the same level of services next year is more than we think we will bring in through revenues.

## How much is the projected deficit for 2025?

- Currently, the deficit is estimated to be $22 million.

## Why are we in this situation?

### 1 Limited Revenues

- State of WI places strict limits on revenues, so revenues do not keep pace with inflation
- Madison receives less State Aid ($29/resident compared to statewide average of $142/resident)

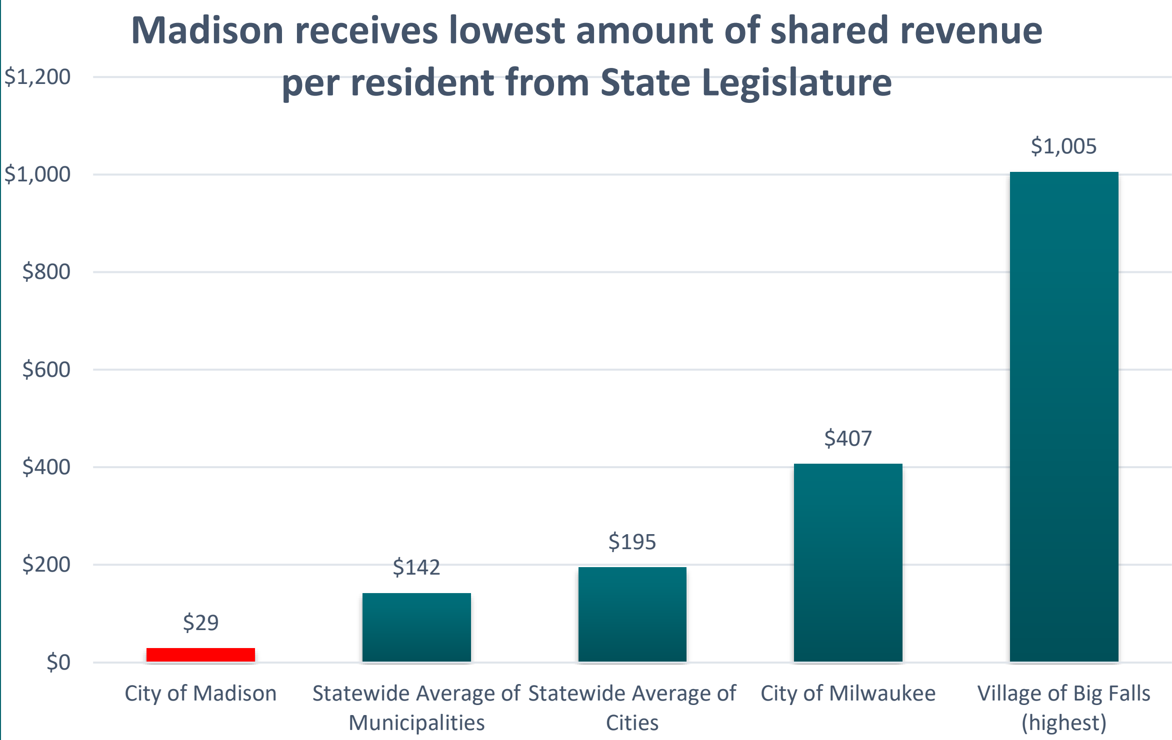
### 2 Increasing Expenses

- Annual increases for cost of living adjustments, higher healthcare costs, and inflation
- Expanding services to meet resident needs as the City grows (for example, maintaining emergency response times)

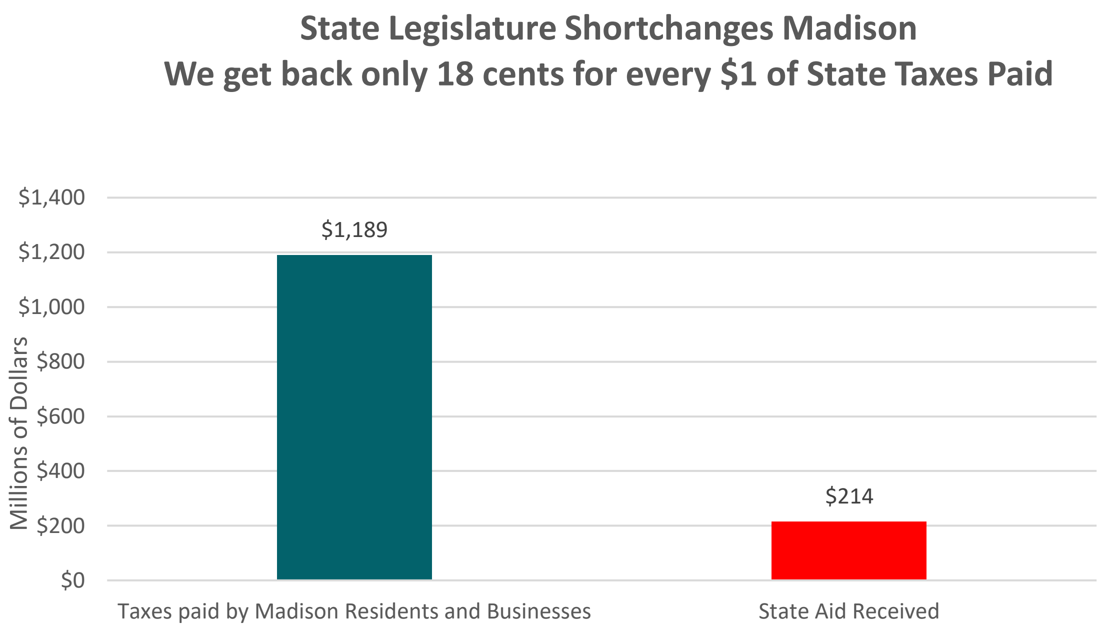
### 3 Impact of COVID Pandemic

- City revenues have not fully recovered from the pandemic – property taxes limited compared to county and state sales taxes
- Federal COVID relief funding helped with revenue losses in prior years, but this ends in 2024

# Madison is Shortchanged by State Legislature




Source: Wisconsin Policy Forum




Note: Includes state aid for City of Madison, Madison Metropolitan School District, and City portion of Dane County
Source: Wisconsin Department of Revenue; City Finance Department analysis

# Current Budget Gap
## (General and Library Funds)

### Expenditures = $431.4 million

Total expenses are $26.0 million (6.4% ) higher than 2024 adopted budget. Major changes:

- + $14.5m: Salary + benefits increases
- + $2.7m: Metro subsidy increase
- +$500k: PHMDC subsidy
- + $5m: Placeholder for GF Debt Service
- + $1.47m: Citywide Purchased Services increases for technology costs (software maintenance contracts, PCI compliance, and credit card processing fees)
- - $1.22m: Adjusts expenses for odd-year election cycle

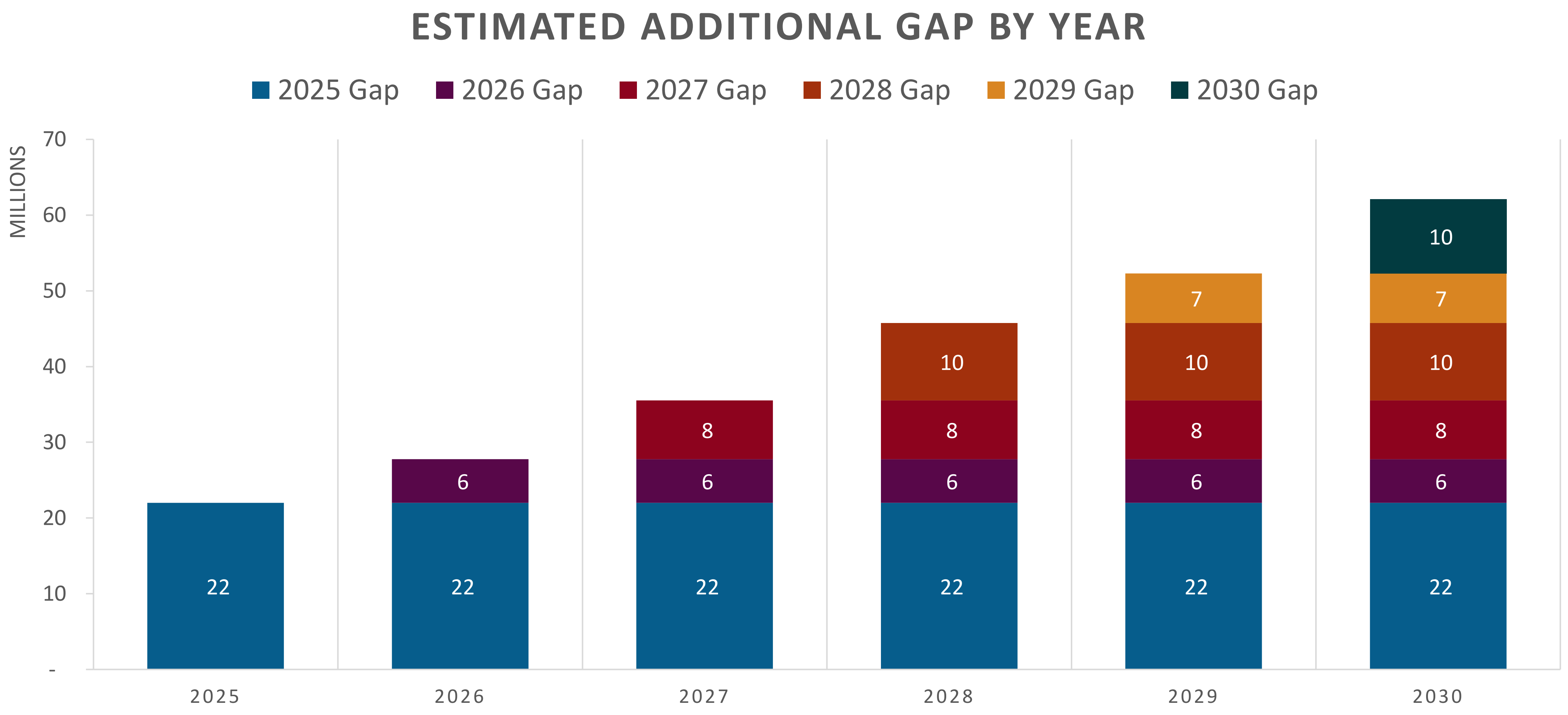
### Revenues = $409.4 million

Total revenues are $4.0 million higher than the 2024 adopted budget. Assumptions:

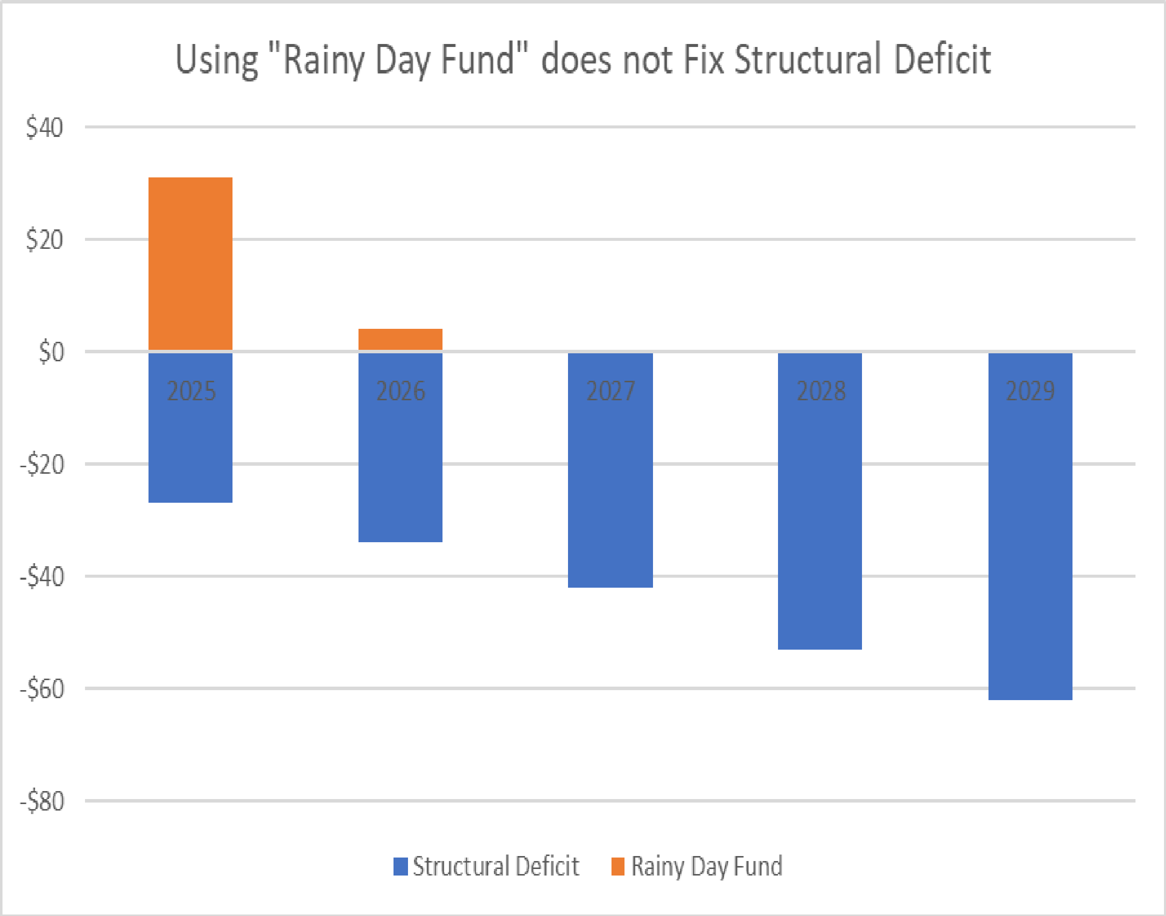
- + $12.6m: Levy increase
- + $6.0m: Increase in interest earnings
- + $1.0m: Increase in ambulance conveyance fees
- - $17.9m: Removing one-time sources ($9.2m fund balance, $5.6m ARPA, $3.1m TID)

**Gap = $22.0 million**

# Long-Range Outlook



# 2023 General Fund Results




- City finished 2023 with revenues exceeding expenditures by $31 million:
  - Rapid increase in interest rates boosted investment income
  - Staff vacancies much higher than usual due to strong labor market and retirements.
  - Lifted “Rainy Day Fund” to 21% of budget – minimum target is 15% of budget

- Budget Outlook
  - Staff vacancy rate is slowing
  - 2024 budget already reflects savings from staff turnover
  - Interest rate impacts are short-term
  - “Rainy Day Fund” is one-time funding
  - Structural deficit is occurring every year.

# Where do my property tax dollars go?

## 1. Taxes levied on real property

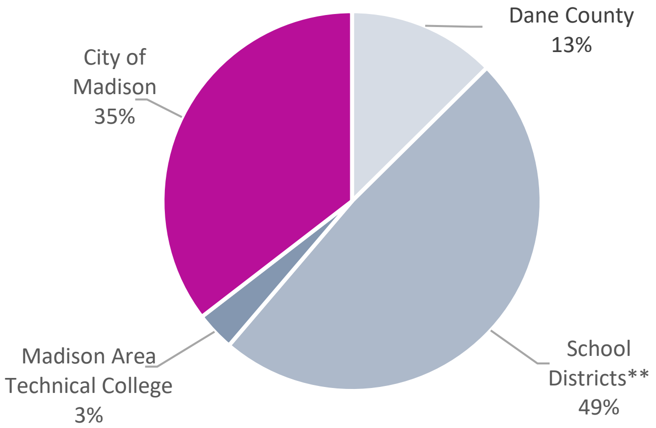
**$424,400**

Average Value Home

**$8,600**

Taxes on an average value home (TOAH), *excluding* state tax credits

## 2. Taxes distributed across four taxing jurisdictions




**35%**

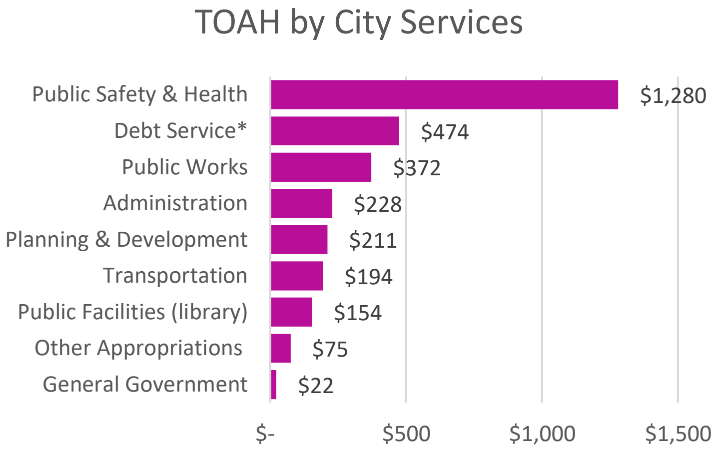
City share of total property tax

**$3,010**

TOAH for City services

**School district amount reflects total levy for all 8 districts within City boundaries

## 3. Property taxes pay for core city services




**$1,280 (42%) Public Safety**

Police, Fire & EMS, Public Health

**$372 (12%) Public Works**

Streets (pick up garbage, clear snow, etc.); Parks (programs, maintenance); Engineering

*Debt Service is calculated separately from the overall levy. It impacts property taxes but does not contribute to the city's operating deficit.

# How are my property taxes calculated?

1. **Property is assessed based on sales and other factors**

| | $ in billions | | |
|---|---|---|---|
| Total Assessed Value | 2023 | 2024 | % Change |
| Madison Metropolitan School District | $ 33.3 | $ 37.8 | 13.6% |
| City of Madison | 37.4 | 42.4 | 13.5% |
| Dane County | 37.4 | 42.4 | 13.5% |
| Madison College | 37.4 | 42.4 | 13.5% |

**$424,400**
2024 Average Value Home

**$376,900**
2023 Average Value Home

**12.6%**
Value increase from 2023 to 2024

2. **Taxing jurisdictions set property tax levy based on state law limitations and other factors**

| | $ in millions | | |
|---|---|---|---|
| Property Taxes Levied, including TIF | 2023 | 2024 | % Change |
| Madison Metropolitan School District | $ 347.4 | $ 372.6 | 7.3% |
| City of Madison | 287.6 | 301.4 | 4.8% |
| Dane County | 96.6 | 107.2 | 11.0% |
| Madison College | 28.2 | 28.2 | 0.2% |
| | $ 759.8 | $ 809.5 | 6.5% |

**$810 million**
Total property tax levy

**6.5%**
Increase over prior year

Notes:. MMSD boundary is not contiguous with City of Madison boundary; eight school districts overlap City of Madison boundary. Tax calculation includes school tax credit, lottery credit and first dollar credit

3. **Property tax levy divided by total assessed value = tax rate**

| Tax Rates | 2023 | 2024 | % Change |
|---|---|---|---|
| Madison Metropolitan School District | 1.04% | 0.98% | -5.57% |
| City of Madison | 0.77% | 0.71% | -7.66% |
| Dane County | 0.26% | 0.25% | -2.23% |
| Madison College | 0.08% | 0.07% | -11.67% |
| less State School Tax Credits | -0.16% | -0.19% | 13.38% |
| Net Tax Rate | 1.98% | 1.83% | -7.76% |

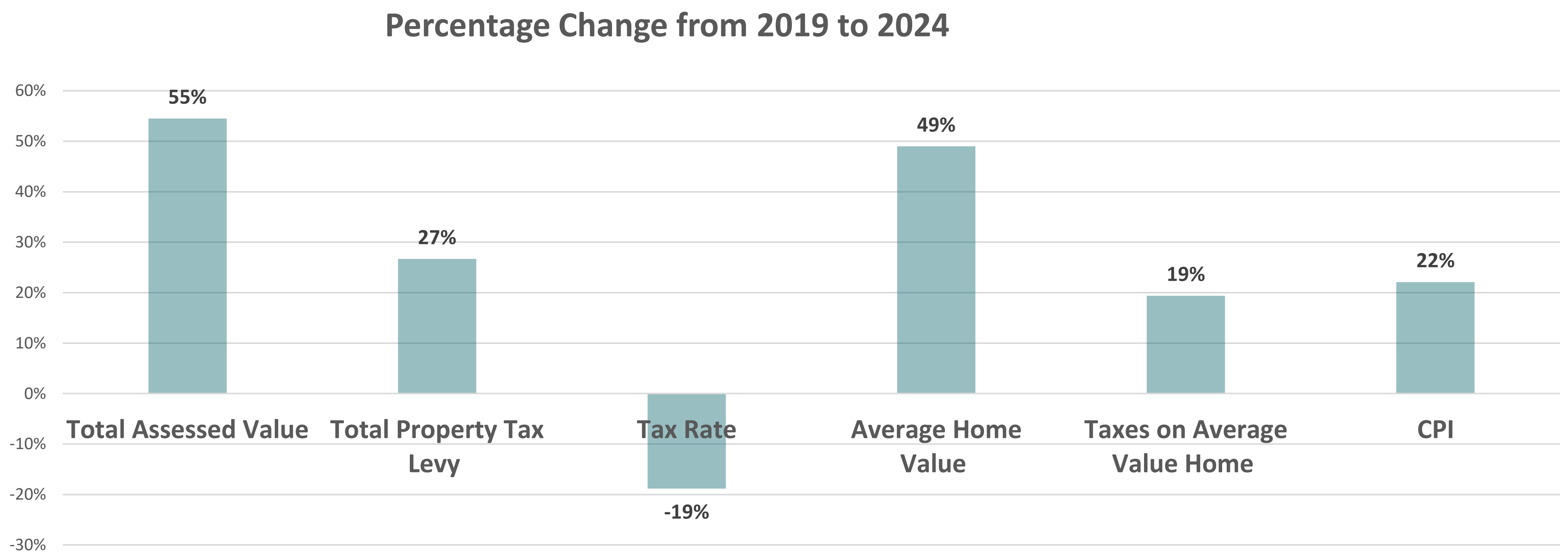
**$7,757**
2024 Tax on Average Value Home, net of state tax credits

**$7,468**
2023 Tax on Average Value Home, net of state tax credits

**3.9%**
Tax increase from 2023 to 2024

***Assessed value of a property multiplied by tax rate = property taxes owed***

# Comparing Assessments and Taxes




Notes:
Total property tax levy includes TIF levies
Tax rate is net of school levy tax credit and reflects the Madison Metro School District
Taxes on average value home include state school levy, first dollar and lottery credits
CPI is for December 2018 to December 2023

# 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.  Some of the major actions taken to balance the budget include:

- **Employee compensation** – increased employee contributions to police and fire pensions and health insurance for all employees.
- **Spending cuts** – $6 million in reductions in 2024 budget
- **Room tax** – rate increase from 9% to 10% in 2018 (only 30% can be used for general purposes)
- **Ambulance fees** – multiple rate increases since 2011
- **Vehicle Registration Fee** -- $40 fee established in 2020 to help fund City’s contribution to transit operations.
- **Special Charges** – created to pay for urban forestry and resource recovery (recycling)
- **American Rescue Plan Act (ARPA)** – one-time funding to help maintain current service levels during COVID pandemic.
- **“Rainy Day” Fund** – one-time funding to help maintain current service levels

# What options does the City have?

The operating budget must be balanced. How much we spend (expenditures) cannot be more than the money we bring (revenues).

## Reduce Expenditures

Closing the budget gap through cuts alone will have significant operational impacts and will result in less services to residents.

- Reduce all/most agencies
- Cut specific programs or services
- Cut positions (layoffs) or reduce employee compensation (for example, saving $22 million would require cutting 220 positions).

## Increase Revenues

The City's options for raising revenues are limited by the State. For example, we cannot levy a local sales tax or income tax.

- Create new special charges
- Increase existing local revenues (e.g. fines, fees)
- Ask voters to increase the property tax ("levy") through a voter referendum ($22 million = $240 annual taxes/ $20 per month on average value home)

# Other options and considerations

Solving the budget deficit will require **permanent** changes to **general fund** revenues and expenditures. The following options will not solve the deficit, but may be considered for policy reasons:

### One-time cuts or revenues

Expenditure Examples: holding positions vacant, furloughs:

- Any amount "saved" in 2025 will be added to the gap in 2026
- Potential for higher overtime cost

Revenue Examples: selling city land or buildings, using fund balance ("rainy day" fund)

- Funding is one-time and would not sustain ongoing operations

### Reducing debt service

- Debt service is excluded in the calculation for the allowable levy limit increase
- Less debt service ***does*** lower allowable total property tax
- **Less debt service *does not* increase the allowable levy for operations**

### Non-general fund budgets

- Increasing revenues within other funds (e.g.. utility rates, parking fees) will not help the general fund
- Reducing non-general fund expenses may lower user rates on the municipal service bill
- Transfers and subsidies to other funds (e.g.. Public Health, Metro) are regulated & complex; this should not be a primary strategy for reducing the deficit

# Budget Timeline and Next Steps

**1. Jan. – March:**

- ✓ Informational Series on Budget Deficit
- ✓ Common Council briefings

**2. April – July:**

- ✓ Council guidance resolution to express priorities
- ✓ Community engagement sessions
- ❑ Agencies develop budget requests based on guidance

**3. July – August:**

- ❑ Ongoing engagement with public and Common Council
- ❑ Council develops resolution on potential property tax referendum
- ❑ Mayor prepares executive capital and operating budgets

**4. Sept. – Nov.:**

- ❑ Public hearings on budget
- ❑ Agency briefings at Finance Committee
- ❑ Finance Committee & Common Council deliberations and amendments