



Outlook for 2025 City Budget

Information Series on the General & Library Fund Budget

Part 3: Expenditure Strategies

Series Overview

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

Additional topics to be determined

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

The City Operating Budget Must be Balanced

- By law, the operating budget must be balanced (Revenues = Expenses)
- The Executive Budget submitted by the Mayor to Common Council is balanced
- Finance Committee and Common Council may amend the budget, but the final budget must be balanced

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***

Example: Reducing Debt Service

reduces total levy increase but does not increase allowable levy

Actual Levy Limit Calculation for 2024 Budget

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	<u>170,172,778</u>	<u>116,324,921</u>	<u>286,497,699</u>
Difference	3,468,195	8,338,308	11,806,503

If Debt Service was \$1 million lower (\$7 million reduction in borrowing in 2023 capital budget)

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	<u>170,172,778</u>	<u>115,324,921</u>	<u>285,497,699</u>
Difference	3,468,195	7,338,308	10,806,503

Same as Actual table above

\$1m less than Actual table above

Reducing debt service lowers total levy but does not change allowable levy for operations

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%

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 rd party transport, and more (\$717,000)

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*

Considerations for Position Reductions

- Position reductions may result in layoffs of existing staff
- Layoff process defined by either collective bargaining agreements or city employee handbook
- Generally, seasonal and hourly employees laid off first followed by permanent staff with lowest tenure
- Employees in eliminated positions may have ability to bump to similar positions if incumbent has less seniority
- City must pay unemployment costs of laid off employees

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