



# Outlook for 2025 City Budget

Discussion with the Common Council

March 5, 2024

# Agenda

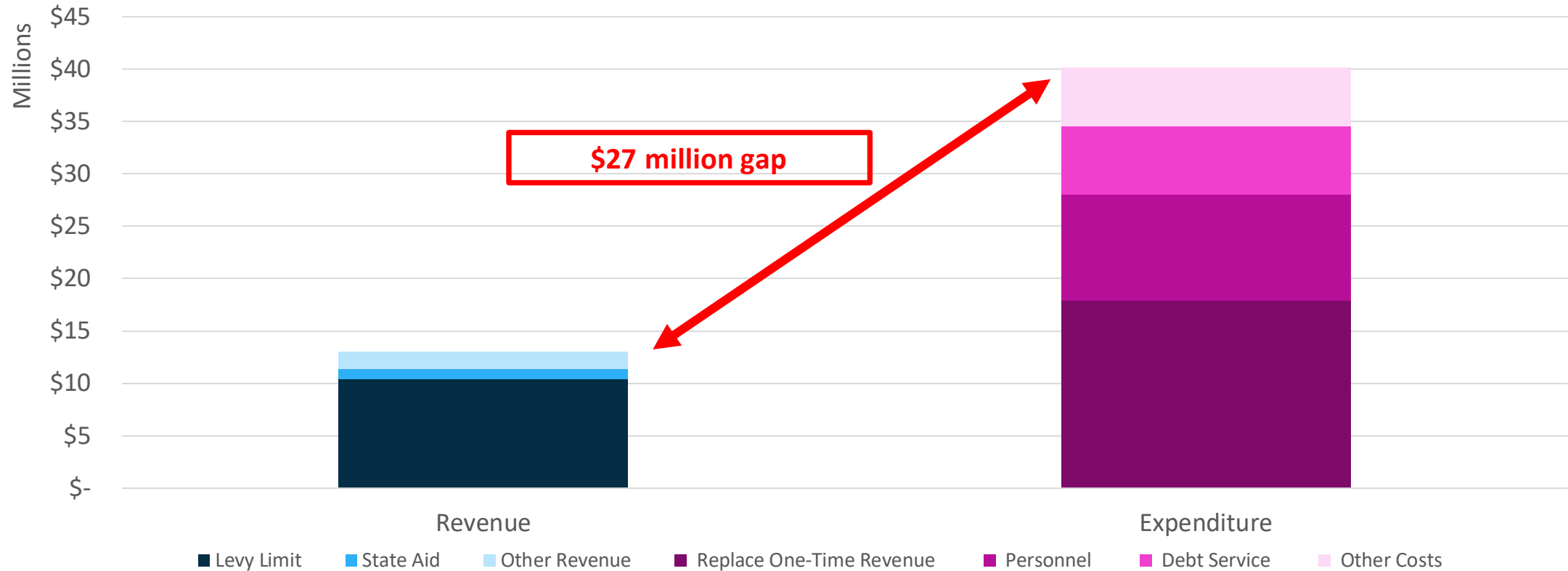
- Context of Budget Gap
- Understanding Options – Revenues and Expenditures
- Guided discussion on Council values and priorities

# Goals for Committee of Whole Discussion

- Continued building of understanding of the issues
- Proactive and positive discussion of values and priorities
- General consensus on broad framework for 2025 budget

# 2025 Budget Deficit = \$27 million

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



# \$27 million gap is an estimate

- Finance is beginning cost to continue exercise for 2025
- Updated estimate expected by mid-May
  - **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

# Reminder: Focus on the General Fund

- The structural deficit impacts the General Fund. Proposed solutions must be within General Fund.
  - Increasing revenues within other funds (e.g. utility rates, parking fees) will not help the structural deficit
  - 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
- Reducing borrowing in the capital budget and debt service will not address the structural deficit.
  - 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

# 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
- 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
- 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

# Need for sustainable, long-term solutions

***One-time expenditure cuts & revenue adjustments will not solve the budget deficit. New revenues and/or permanent expenditure (service) reductions are necessary to address the structural deficit.***

- Example: Holding positions vacant, implementing furloughs, incentivizing retirements
  - Savings from vacancies and furloughs are one-time; any amount “saved” in 2025 would be added to the gap in 2026
  - Retirement incentive packages generally have been found to not have much of an impact on on-going costs; staff can already “retire early” under Wisconsin Retirement System
  - Would need to permanently eliminate positions and reduce services
  - Potential for higher overtime costs to cover staff vacancies
- Example: Selling city assets (land, buildings)
  - Revenues from sale would be a one-time source and would not solve deficit
  - Potential for small increase in allowable levy if sale results in asset going back on the tax rolls *and* there is new construction, but effect would be extremely small
- Example: Fund balance (“rainy day” fund)
  - Fund balance will increase in 2023 to over 20% of budget due to underspending and higher investment earnings
  - Use of fund balance is a short-term measure
  - Short-term use of fund balance could be part of a broader package of permanent solutions.



# Understanding Options: Referendum

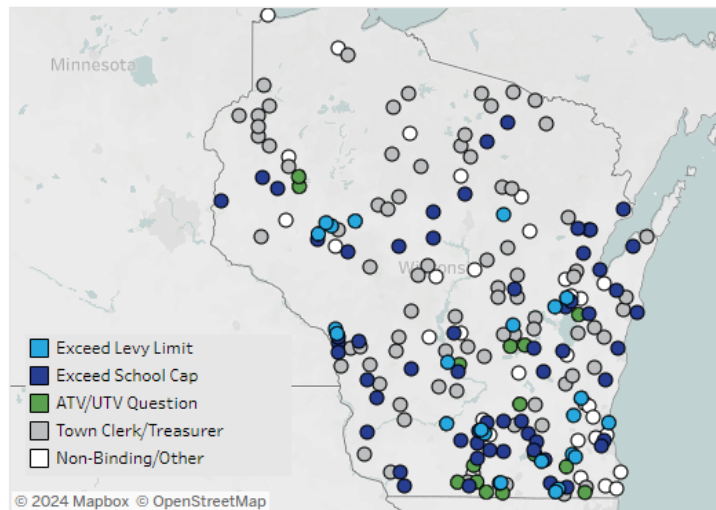
Context, Process, Timeline, Considerations

# Context: Significant increases in local referenda across WI

[“A Record Year for Referenda”](#) Wisconsin Policy Forum, November 2022

- 18 of 23 municipal, town, and county referenda (78.3%) were approved November 2022
- 11 additional referenda passed on other elections
- 29 total local referenda passed in 2022; more than double any prior year

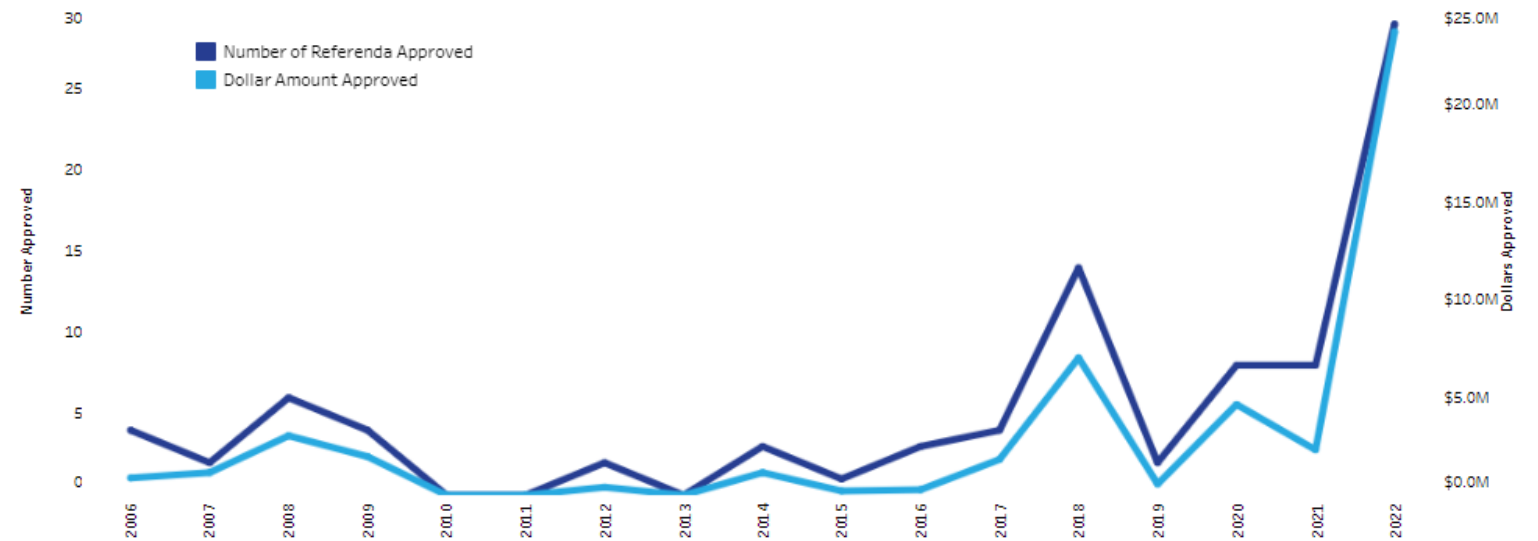
**Figure 1: Hundreds of Referenda on the Ballot**  
Referendum questions in November 2022 general election  
Mouse over for result



Sources: Wisconsin Elections Commission, county elections websites

**Figure 2: 2022 A Record Year for Local Referenda**

Total number and new levy authorization in municipal, town, and county referenda by year, 2006-2022



Sources: Wisconsin Elections Commission, county elections websites, League of Wisconsin Municipalities; prior to 2016 some referenda may have been missed.

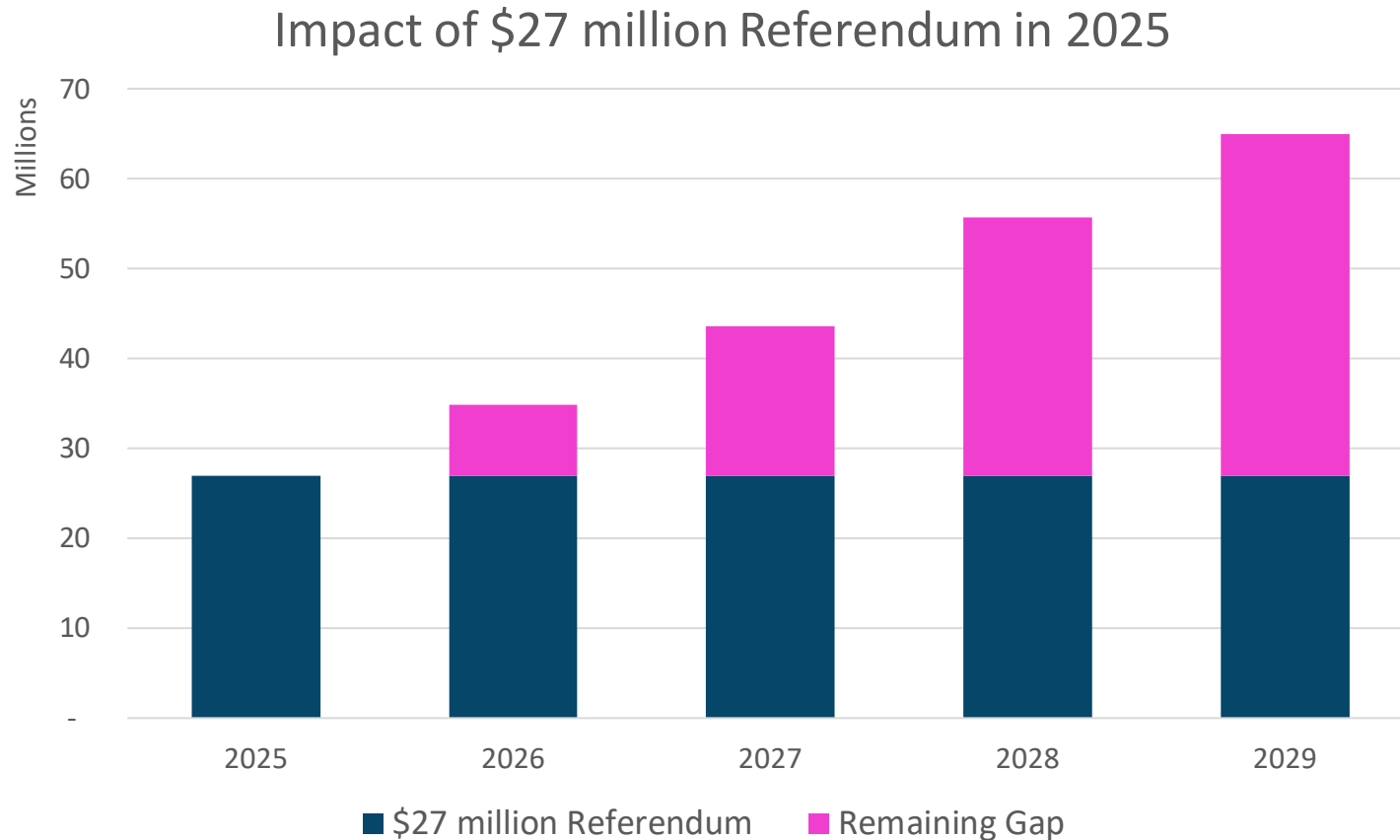
# Process: Local referendum to increase property tax levy requires approval from voters

- Increase above levy limit requires voter approval
- Referendum ballot requires Council approval (11 votes)
- Property tax calculated as a flat percentage of value; more tax paid by higher value properties
- \$27 million = additional \$284/year (\$24/month) 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
- More progressive than flat fees
- Smaller base of payers since tax-exempt properties are excluded from base

# Timeline: Council actions required to implement referendum

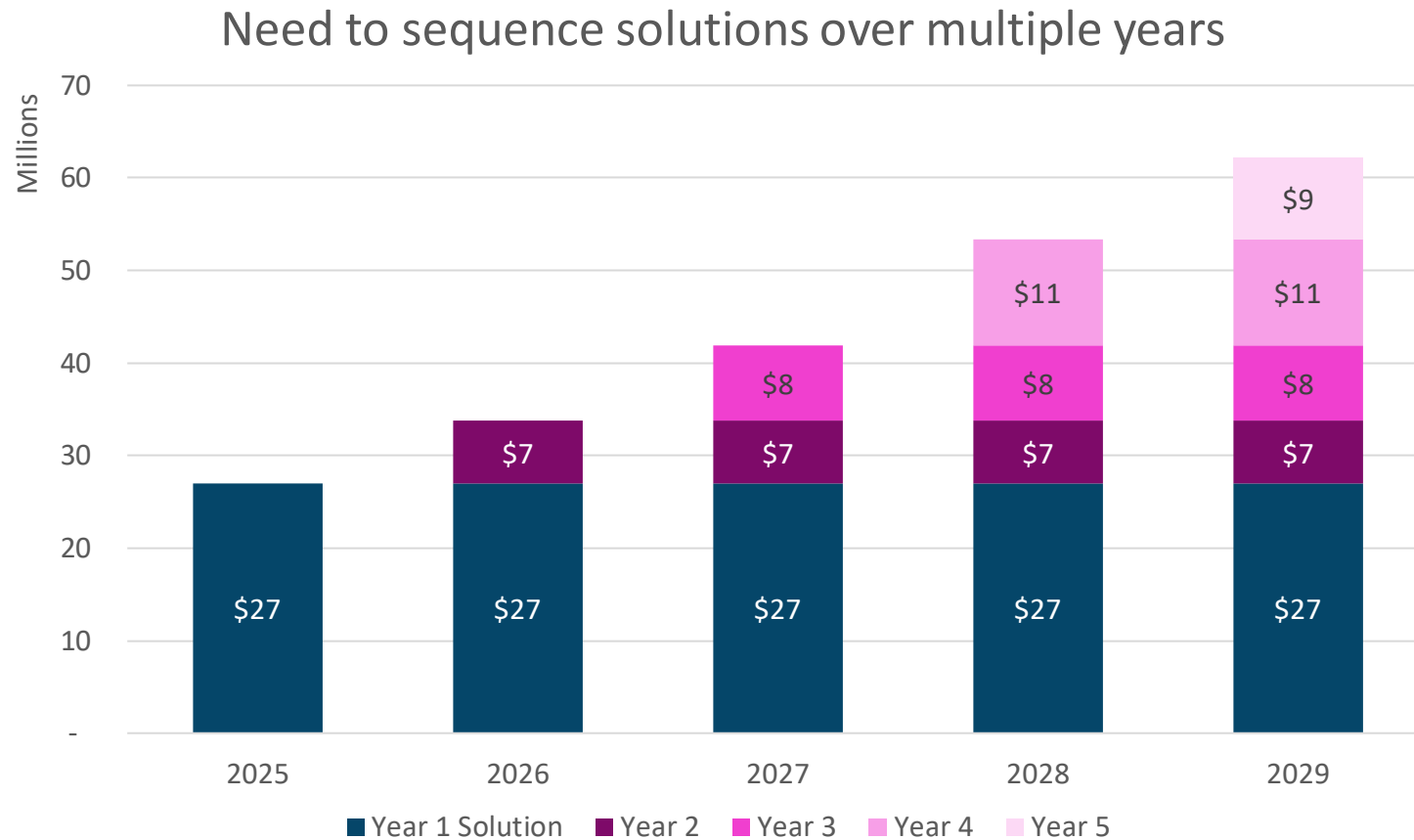
- A referendum ballot has to be approved by the Council through a resolution at least 70 days prior to the election in which the referendum question will be considered
- Two potential dates for referendum in 2024
  - Primary Election: August 13 | CC approval needed by June 4 (Meeting of June 4)
  - Fall General: November 5 | CC Approval needed by August 27 (Meeting of August 6)
- If Council decides to pursue referendum, staff would draft a resolution that sets the \$ amount and includes all required language for the ballot
- Executive budget would assume adoption of a referendum
- Contingency plan would be developed if referendum does not pass

# Considerations: State Law Requires that Referendum be Flat Amount



- If adopted, referendum will be a flat amount that does not grow with costs
- A referendum will not permanently solve the structural deficit, but it will significantly reduce future budget gaps
- Can be part of a multi-year strategy to explore other revenue options and expenditure efficiencies

# Considerations: Need for a multiyear strategy to close structural gap



- If the City implements a permanent (not one-time) solution to the \$27 million budget gap in 2025, each subsequent year's gap is \$7 - \$11 million
- Options for closing a \$7 - \$11 million gap are drastically different than solving for \$27 million
- Need to consider strategy for phasing in different solutions over multiple years

# Considerations: City has used many strategies to close persistent budget gap since 2012

2012	2013	2014	2015	2016	2017
<ul style="list-style-type: none"> <li>• Debt premium</li> <li>• Police and fire pension contributions</li> <li>• Premium stabilization surplus</li> </ul>	<ul style="list-style-type: none"> <li>• Room tax growth</li> <li>• Ambulance fee</li> </ul>	<ul style="list-style-type: none"> <li>• Room tax – shift from MT projects</li> <li>• Building Permit revenue</li> <li>• Urban forestry special charge</li> </ul>	<ul style="list-style-type: none"> <li>• Room tax</li> <li>• Building permits</li> <li>• Urban forestry special charge</li> </ul>	<ul style="list-style-type: none"> <li>• Room tax – Overture shift</li> <li>• Urban forestry special charge</li> <li>• Health Insurance Plan Design</li> </ul>	<ul style="list-style-type: none"> <li>• Room tax</li> <li>• Ambulance fee</li> <li>• Transit fund surplus</li> <li>• Snow and ice removal budget</li> <li>• Urban forestry special charge</li> </ul>
2018	2019	2020	2021	2022	2023
<ul style="list-style-type: none"> <li>• Increased Room Tax rate</li> <li>• Cost Allocation</li> <li>• Increased investment revenue</li> </ul>	<ul style="list-style-type: none"> <li>• TID 32 Closure</li> <li>• Increased interest revenue</li> <li>• Shift Library Collection to capital</li> </ul>	<ul style="list-style-type: none"> <li>• Vehicle Reg Fee</li> <li>• Shift Parking Enforcement to Parking Enterprise</li> <li>• Increased Forestry staff time to Urban Forestry</li> <li>• Debt premium</li> </ul>	<ul style="list-style-type: none"> <li>• \$8 million from fund balance</li> <li>• \$6 million in cuts / Workshare / service efficiencies / “furloughs”</li> <li>• \$2 million in fee increases / TOM fire/EMS contract</li> </ul>	<ul style="list-style-type: none"> <li>• \$13.1m in one-time ARPA funding</li> <li>• \$1.5m revenue from Resource Recovery Special Charge (RRSC)</li> <li>• \$1.4m in cuts</li> </ul>	<ul style="list-style-type: none"> <li>• \$3m RRSC</li> <li>• \$3.4m fund balance</li> <li>• \$6.9m TID proceeds</li> <li>• -\$7.7m one-time reduction in Metro subsidy</li> </ul>

*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.*

# Understanding Options: Special Charges

Context, Process, Timeline, Considerations



# Context: State allows Special Charges for limited array of services

- 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
- City currently has two city-wide special charges: urban forestry, resource recovery (recycling)
- Not all activities/ services could be moved to a special charge
- \$27 million = \$27 per month or \$324 per year per residence
- Flat fees are more regressive than a property tax referendum
- Broader base of rate payers since tax-exempt properties would be included

# Process: 2022 Budget Example – Resource Recovery Special Charge (RRSC) (1 of 2)

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1. Identify eligible service (Spring 2021)
  - Special charge must provide direct service to a property
  - Under state law, charging for certain services, including garbage pick up, results in a decrease in allowable levy; new charges should preserve levy and add new revenue source
  - Recycling identified as an eligible option
2. Identify direct costs (Summer 2021) & draft apportionment policy (Fall 2021 – Winter 2021)
  - Charges must “bear a reasonable relationship to the service for which the [charge] is imposed” [Wis. Stat. Sec. 66.0628(2)]
  - Recycling costs approximately \$3 million/year (staffing, supplies, fleet, Pellitteri contract)
  - Streets, Finance, Attorney’s office drafted apportionment policy to distribute charge based on dwelling units
3. Develop executive budget including revenue assumptions (Fall 2021)
4. Common Council adopts budget (November 2021)

# Process: 2022 Budget Example – Resource Recovery Special Charge (RRSC) (2 of 2)

5. Staff collect data and build out billing process (Fall 2021 – Spring 2022)
  - Streets Division needed to develop a customer list and a process for adding/ removing properties that receive services (updated over several months)
  - Technical work to update billing system get charge on Municipal Services Bill
6. CC adopts ordinance change & policy (both 11 vote items) (April 2022)
  - Ordinance: [File 70344](#)
  - Policy: [File 71186](#)
7. Charge implemented mid-year in 2022 (July 2022)
  - Collected \$1.5 million in first year; annualized to \$3 million in 2023 budget without raising rates
8. CC approves annual rates (11 votes) & subsequent budgets that include RRSC revenues
  - 2022: [File 71182](#)
  - 2023: [File 74355](#)
  - 2024: [File 80491](#)

# Timeline: Council actions required to implement special charges

- Council provides direction on whether SC should be pursued
- If Council decides to consider this option, staff would begin researching viable options, collecting data, and developing apportionment policy
- Executive budget would assume adoption of special charges
- Council would adopt budget in November
- Council would adopt ordinance change and apportionment policy in early 2025
- Charge would go into effect in mid-2025

# Considerations: Special Charges can be part of a multi-year strategy

- Closing the budget gap solely through special charges would require a charge that is 9x larger than Resource Recovery – the magnitude of the special charge would be significantly larger than anything previously considered
- Historically, special charges have been implemented mid-year and phased into the budget over multiple years
- City has more flexibility in implementing special charges
- Council may want to consider holding special charges to close future budget gaps

# Understanding Options: Expenditure Cuts

Context, Process, Timeline, Considerations

# Context: Prior budget requests have asked for 5% expenditure cuts

- 2022 budget request included 5% cut
  - \$11m (89%) were personnel reductions (includes reductions to hourlies and FTEs, filled and unfilled positions)
  - \$1.4m (11%) were non-personnel reductions
- Proposals included eliminating 98 FTEs
- Instructions asked for on-going cuts; most proposals were one-time (e.g. holding positions vacant) due to challenges identifying things that could actually be cut without significant service impacts

# Context: Top 15 Largest Cut Proposals (2022)

Top 15 =\$9.6 million

Total proposals =  
\$12.2 million

Summary of 5% cut proposals submitted by agencies as part of the 2022 Budget Request				
Agency	Service	Action	Timeliness	Amount
Police	Police Field	Layoff 36 commissioned positions	Ongoing	\$ (3,451,418)
Fire	Fire Operations	Close 3 stations; layoff 32 commissioned staff	Ongoing	\$ (3,089,347)
Streets	Recycling	No seasonals/hourlies for brush collection (reduce 6 FTEs, each resident only receives 2 brush collections per year)	Ongoing	\$ (607,439)
Library	Public Service Community	Eliminate Central evening hours	Ongoing	\$ (375,029)
Police	Police Support	Layoff 8 civilian Police Report Typists and use a private transcription service	Ongoing	\$ (316,754)
Streets	Street Repair & Maintenance	Reduce pothole patrol by 3 FTEs, no seasonal/hourly staffing for street repair	Ongoing	\$ (295,369)
Building Inspection	Systematic Code Enforcement	Eliminate Two Code Enforcement Officer positions (4002 and 3772)	Ongoing	\$ (223,819)
Streets	Recycling	No seasonals/hourlies to support drop-off sites (reduce 2 FTEs, drop-off sites open 2 days per week)	Ongoing	\$ (210,076)
Parks	Parks Operations - East/West/Central	Reduction of Hourly Wages 51210		\$ (181,217)
Police	Police Field	Adjust attrition overhire formula resulting in longer vacancies for police officer positions	Ongoing	\$ (165,999)
Assessor	Assessor	Eliminate 1-2 Assessment Tech positions (1 vacant, 1 filled)	Ongoing	\$ (153,448)
Police	Police Support	Eliminate wellness checks	Ongoing	\$ (150,000)
TE	Pavement Marking	Reduce epoxy marking contract	One-time	\$ (120,000)
Attorney	Ordinance Enforcement	Eliminate a permanent Assistant City Attorney position	Ongoing	\$ (115,000)
Streets	Solid Waste Management	No seasonal/hourly staffing for solid waste including refuse collection, large items, and transfer station scale hours	Ongoing	\$ (108,000)



# Context: 2022 budget survey asked staff for feedback on budget cut process

***“This is a very tough exercise.”***

## **Negative Impact on Employee Morale**

- “Incredibly detrimental to employee morale”
- “Instills fear among staff”
- “Puts dept. heads in the challenging position of singling out positions (filled by real people)”
- “Painful exercise”
- “Impacts trust within a department”

## **No More Low-Hanging Fruit**

- “We are already down to the bone on everything”
- “We are already reviewing our services and expenditures regularly for efficiencies, so it was extremely difficult to find even more to meet the 5% reduction goal”

## **Doing More With Less**

- “We are being asked to reduce our operating budget at the same time that we are being asked to increase programming and projects”
- Comments noted new work due to Town of Madison, new City/County initiatives, etc.

Source: Finance Department survey conducted in January 2023; 58 respondents

# Process & Timeline: 2022 Example

## General Process

## Example (Streets)

### May 2021 – Budget Instructions

- Mayor + Finance developed budget instructions that required most agencies to submit a 5% cut

### June - July 2021 – Agency Request

- Agencies developed and submitted proposals

- Agency proposed \$210,000 cut by reducing drop-off sites to 2 days/week, including eliminating 2 FTEs

### August 2021 – Review & Executive Budget

- Mayor + review team considered all options, identified \$1.4 million in cuts projected to have minimal operational impacts (0.4% of total)

- Executive budget included a partial cut by reducing hourly staff for drop-off sites by \$25,500

### October 2021 – FC budget deliberations

- Amendments added funding for new positions & expanded initiatives

- Amendments added back \$10,700 for drop-off site hourly staff

### November 2021 – CC budget deliberations + adoption

- Amendments added funding for new positions & expanded initiatives

- Amendments added back \$7,800 for drop-off site hourly staff

# Considerations: Maximizing budget efficiencies and salary savings

**Salary Savings:** Budgeting tool to reflect turnover and vacancies in agencies

- Historically budgeted at 2% of Permanent Wages
- Average underspending in Perm Wages from 2019-2023 = 5.5%
- 2024 budget increased salary savings from 2% to 3% to reflect high rates of turnover; saved an additional \$2 million
- Although there is underspending in Perm Wages, there is overspending in other salary objects (e.g. overtime, premium pay). Recommend monitoring actuals for another year before proposing additional changes to Salary Savings rates.

**1% Reduction:** In addition to increasing Salary Savings, reduced all GF budgets by 1%

- Agencies regularly underspend their budget; Citywide average from 2019-2023 is 3.5%
- Underspending was highest in pandemic years (2020-2022); 2023 rate closer to 2019

General, Library, Fleet Fund Agencies				
Year	Actual	Revised Budget	Unspent Appropriations	% Underspent
2019	\$ 231,816,905	\$ 237,191,257	\$ 5,374,352	2.3%
2020	\$ 241,552,493	\$ 251,971,804	\$ 10,419,311	4.1%
2021	\$ 245,074,975	\$ 256,014,594	\$ 10,939,619	4.3%
2022	\$ 253,493,790	\$ 264,111,357	\$ 10,617,567	4.0%
2023	\$ 268,500,437	\$ 276,326,356	\$ 7,825,919	2.8%

- May be able to absorb another 0.5% - 1.0% (up to \$3m) cut without significant impacts to services, but anything more would require service reductions

# Overall Timeline

	March	April	May	June	July	Aug	Sept	Oct	Nov
Overall Process	<ul style="list-style-type: none"> <li>• Council provides staff guidance on which strategies to pursue by mid-March</li> <li>• 3/19: Council introduces guidance/comfort resolution by mid-April</li> <li>• 4/16: Adopt guidance/comfort resolution</li> </ul>		Cost to Continue	Agency Request	Requests Submitted	Mayoral Briefings	Develop Exec Budget	<ul style="list-style-type: none"> <li>• Introduce budget to CC (10/8)</li> <li>• FC hearings (10/14-15)</li> <li>• FC Amend (10/28)</li> </ul>	CC Hearings & Adoption (11/12-14)
Referendum	<ul style="list-style-type: none"> <li>• Guidance resolution directs staff on referendum</li> </ul>		Staff develop referendum ballot resolution			CC adopts resolution	Assume ref. revenues		Election (11/5)
Special Charge	<ul style="list-style-type: none"> <li>• Guidance resolution directs staff on special charges</li> </ul>		Staff develop special charge, collect data, draft policies				Assume SC revenues		Ordinance and Policy adopted early 2025



Questions?

Discussion: What values and priorities should we center in decision-making?



## **Vision**

Our Madison – Inclusive, Innovative, & Thriving

## **Mission**

Our Mission is to provide the highest quality service for the common good of our residents and visitors.

# Centering City Values & Service Promise

## Values



### Equity

We are committed to fairness, justice, and equal outcomes for all.



### Civic Engagement

We believe in transparency, openness, and inclusivity. We will protect freedom of expression and engagement.



### Well-Being

We are committed to creating a community where all can thrive and feel safe.



### Shared Prosperity

We are dedicated to creating a community where all are able to achieve economic success and social mobility.



### Stewardship

We will care for our natural, economic, fiscal, and social resources.

## Our Service Promise

I have the highest expectations for myself and my fellow employees. Every day, I will:

- Serve coworkers and members of the public in a kind and friendly manner.
- Listen actively and communicate clearly.
- Involve those who are impacted before making decisions.
- Collaborate with others to learn, improve, and solve problems.
- Treat everyone as they would like to be treated.

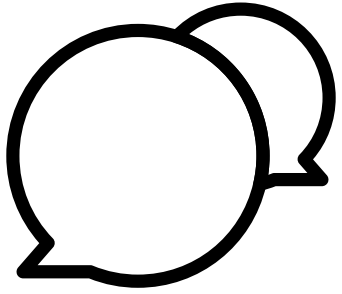


# Committee of Whole Discussion Objectives:

- Understand alder priorities for the 2025 budget
  - Listen to ideas & answer questions regarding strategies
  - Reach consensus on overall strategy and provide direction to staff
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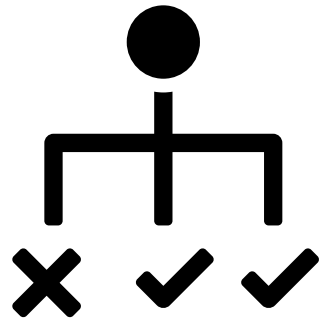
# Principles Guiding the Discussion:

- This is a complex problem with no easy answers – no “silver bullet” to solve issue
- Limited tools – need to be realistic with what the City is authorized to do
- Need for long-term, permanent solutions
- Decisions in 2025 should be considered in the context of a multi-year approach



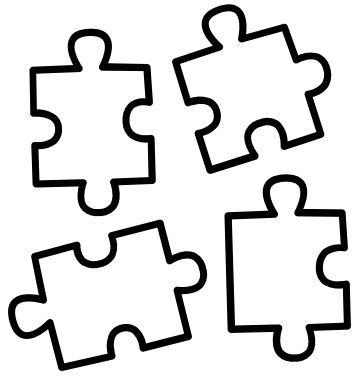
# Discussion Prompt #1: What are your priorities for the 2025 budget?

- Maintain services as the city grows
- Maintain staffing levels and avoid layoffs
- Maintain pay equity
- Minimize increases on local portion of tax bill
- Minimize increases on municipal services bill
- Choose the least regressive revenue options
- Other: \_\_\_\_\_



## Discussion Prompt #2: Given your priorities, what strategies would you consider for 2025?

Priorities	Types of Solutions
<ul style="list-style-type: none"><li>• Maintain services as the city grows</li><li>• Maintain staffing levels and avoid layoffs</li><li>• Maintain pay equity</li></ul>	Maintaining services & staffing = need for revenue options
<ul style="list-style-type: none"><li>• Minimize increases on local portion of tax bill</li><li>• Minimize increases on municipal services bill</li><li>• Choose the least regressive revenue options</li></ul>	Not increasing tax levy or charges = Expenditure cuts = service reductions/ layoffs
<ul style="list-style-type: none"><li>• Other: _____</li></ul>	



# Discussion Prompt #3: What action/ combination of actions do you propose?

## Revenues

- Property Tax Referendum
- Special Charges
- Other Local Revenues
- Combination

## Expenditures

- Service Reductions

## Combination

- Mix of revenue/ expenditure actions

# Next Steps

Council provides general direction to staff by end of March/ early April

- ✓ 2/13: Informational presentation on budget outlook
- ✓ 3/5: Discuss priorities and options
- 3/19: Introduce guidance/ comfort resolution
- 4/16: Adopt guidance resolution
- Future meetings: Finance provides frequent updates on budget development process