



2026 Operating Budget Overview

Finance Committee
June 23, 2025

Agenda

- 2026 Operating Outlook
 - 2024 Year-End Review
 - 2025 Projections
 - 5-Year Outlook
 - Cost to Continue Revenue & Expenditures Assumptions
 - Approach for 2026
- Budget Guidance

2024 Year End Review

Annual Comprehensive Financial Report; General Fund Actual Revenues and Expenditures; General Fund Balance

2024 Annual Comprehensive Financial Report (ACFR)

ACFR will be published by June 30, 2025

Key Elements of 2024 ACFR

- Net position of primary government (assets net of liabilities for governmental and business-type activities) is \$2.1 billion (up \$246 million from 2023); \$1.7 billion of that amount represents investments in capital assets.
- Net position of business-type activities (City enterprise funds) is \$1.1 billion, up \$260 million from 2023. Nearly \$190 million of that increase is due to City and federally-funded capital contributions to Metro Transit for fixed assets associated with bus rapid transit.
- Net General Obligation debt is \$681 million, which is 1.48% of equalized property value (down from 1.49% in 2023) and \$2,341 per capita (up from \$2,213 in 2023).
- Total debt (GO and revenue bonds) is \$928 million, which is 3.87% of personal income (down from 3.97% in 2023) and \$3,165 per capita (up from \$3,050 in 2023).

Key Elements of 2024 ACFR

- General Fund transferred (receivable in General Fund and payable in enterprise fund) \$15 million to Transit and \$5 million to Fleet due to timing of receipt of certain revenues; these funds will be returned within one year.
- Successfully implemented two new Government Accounting Standards Boards (GASB) requirements -- presentation of accounting changes/error corrections and calculation of compensated absence liabilities.
- All governmental fund balances totaled \$379 million, down \$11.4 million from 2023, with all but the unassigned general fund balance classified as non-spendable, restricted or assigned for specific purposes. The unassigned general fund balance totaled \$110.6 million, up \$28 million from 2023. The unassigned general fund balance is 27% of the 2025 budgeted expenditures.
- The City has annually received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association

Internal Control Findings

- External audit services are provided by Baker Tilly through a competitively bid contract with the City.
- Three areas of material weakness were identified:
 - Community Development Authority –pre-development costs for Triangle Redevelopment should have been capitalized instead of expensed.
 - Metro Transit – proper recording of bus disposals and local partner subsidy calculations.
 - Water Utility – adjustments related to treatment of depreciation for projects funded by expense depreciation due to differences between Public Service Commission rules and Generally Accepted Accounting Principles.
- All three agencies have developed and are implementing new internal control procedures to address these identified material weaknesses.

2024 Actual Revenues

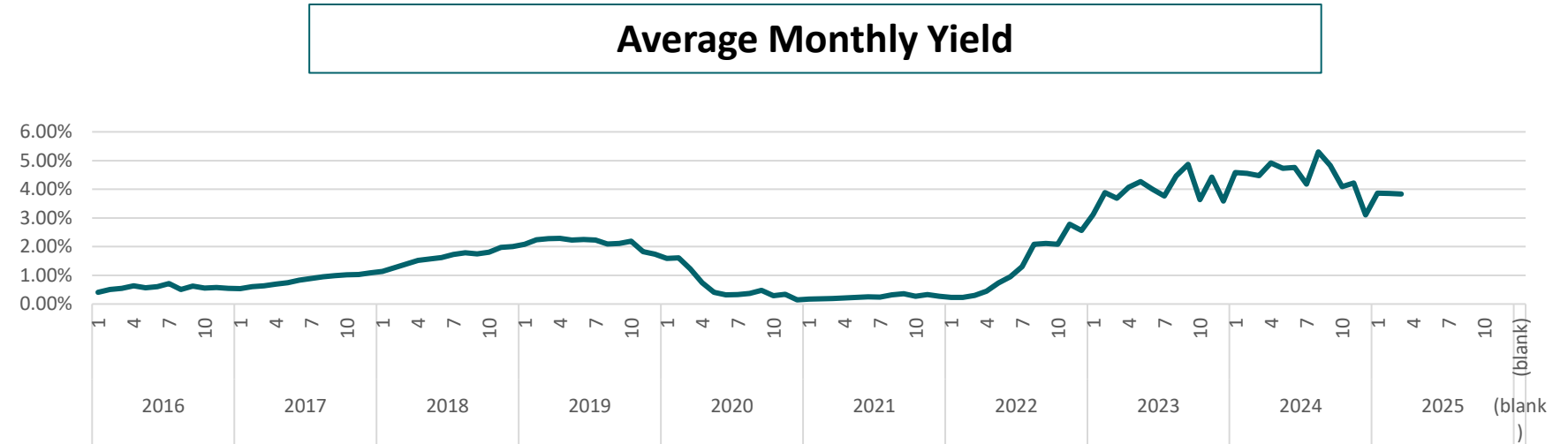
General Fund

Revenues finished nearly 6% above budget due primarily to Investment Income

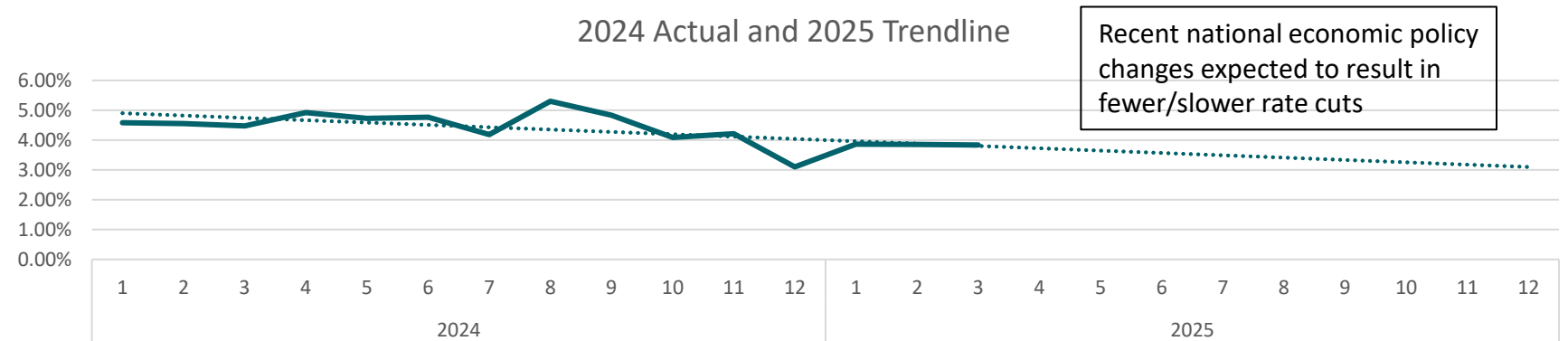
	Budget	Actual	\$ Variance	% Variance
Taxes	282,663,822	283,612,472	948,650	0.3%
Intergovernmental	45,657,876	45,971,118	313,242	0.7%
Licenses and Permits	8,382,120	9,555,246	1,173,126	14.0%
Fines and Forfeitures	5,250,000	6,722,942	1,472,942	28.1%
Charges for Services	17,666,455	17,481,054	(185,401)	-1.0%
Investment Income	6,000,000	23,683,613	17,683,613	294.7%
Other	17,149,364	17,390,690	241,326	1.4%
	382,769,637	404,417,135	21,647,498	5.7%

Investment income higher than forecast

- Average annual yield increased over three-fold from 2022 to 2023 and remained elevated through 2024; interest rates averaged 3.8% in 2023 and 4.4% in 2024.

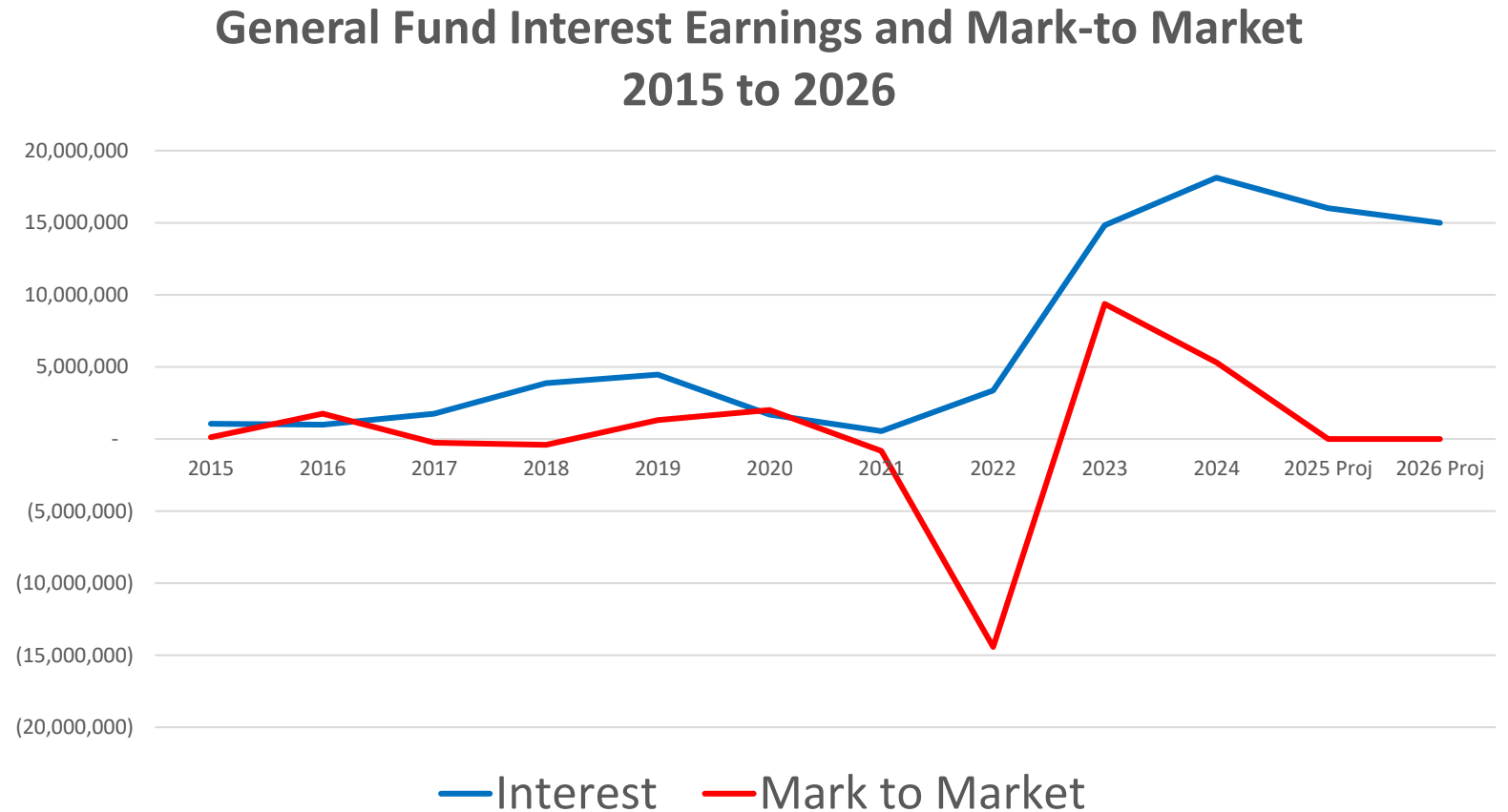


- Mark-to-Market adjustment was -\$14 million in 2022; reversed by +\$9 million in 2023 and +\$5 million in 2024.



Mark-to-Market Trend

- Mark-to-Market (M2M) is the calculation of the potential gain or loss when comparing actual investments to market conditions at year-end.
- Rapidly increasing rates in 2022 created a loss that year; reversed in 2023 and 2024.
- \$5 million has been set aside in assigned fund balance to help offset future drops in M2M and investment earnings.
- \$2 million of 2024 M2M is from employee life and disability insurance pool managed by Hartford (part of assigned fund balance).



2024 Actual Expenditures

General Fund

Expenditures \$8m below budget

- Miscellaneous due primarily to savings in agencies from vacancies – centrally budgeted compensation costs not needed.
- CDD due to charging of ARPA costs to Grants Fund
- Other agencies due to vacancies

	Final Budget	Actual	\$ Difference	% Difference
Top 5 by \$ Difference				
Miscellaneous	13,774,020	9,604,744	4,169,276	30%
Fire	72,131,017	70,987,766	1,143,251	2%
Community Development	15,609,598	14,663,238	946,360	6%
Parks	16,854,635	15,975,893	878,742	5%
Traffic Engineering	9,826,506	9,076,030	750,476	8%
Top 5 by % Difference				
Office of Independent Monitor	509,420	235,992	273,428	54%
Miscellaneous	13,774,020	9,604,744	4,169,276	30%
Municipal Court	311,596	258,359	53,237	17%
EAP	503,037	426,216	76,821	15%
Economic Development	2,505,655	2,160,017	345,638	14%
Total	393,204,184	384,668,364	8,535,820	2%

Expenditure Variances by Functional Area

	Final Budget	Actual	\$ Difference	% Difference
Functional Area				
General Government	34,606,524	34,994,831	(388,307)	-1%
Public Safety and Health	175,223,666	173,585,720	1,637,946	1%
Public Works and Transportation	60,517,191	59,412,665	1,104,526	2%
Planning and Development	28,348,248	26,672,397	1,675,851	6%
Culture (Parks)	16,854,635	15,975,893	878,742	5%
Miscellaneous	13,774,020	9,604,744	4,169,276	30%

Fund Balance and 2025 Outlook

General Fund

Strong Reserves – Fund Balance at 27% of Budget

2024 Year-End

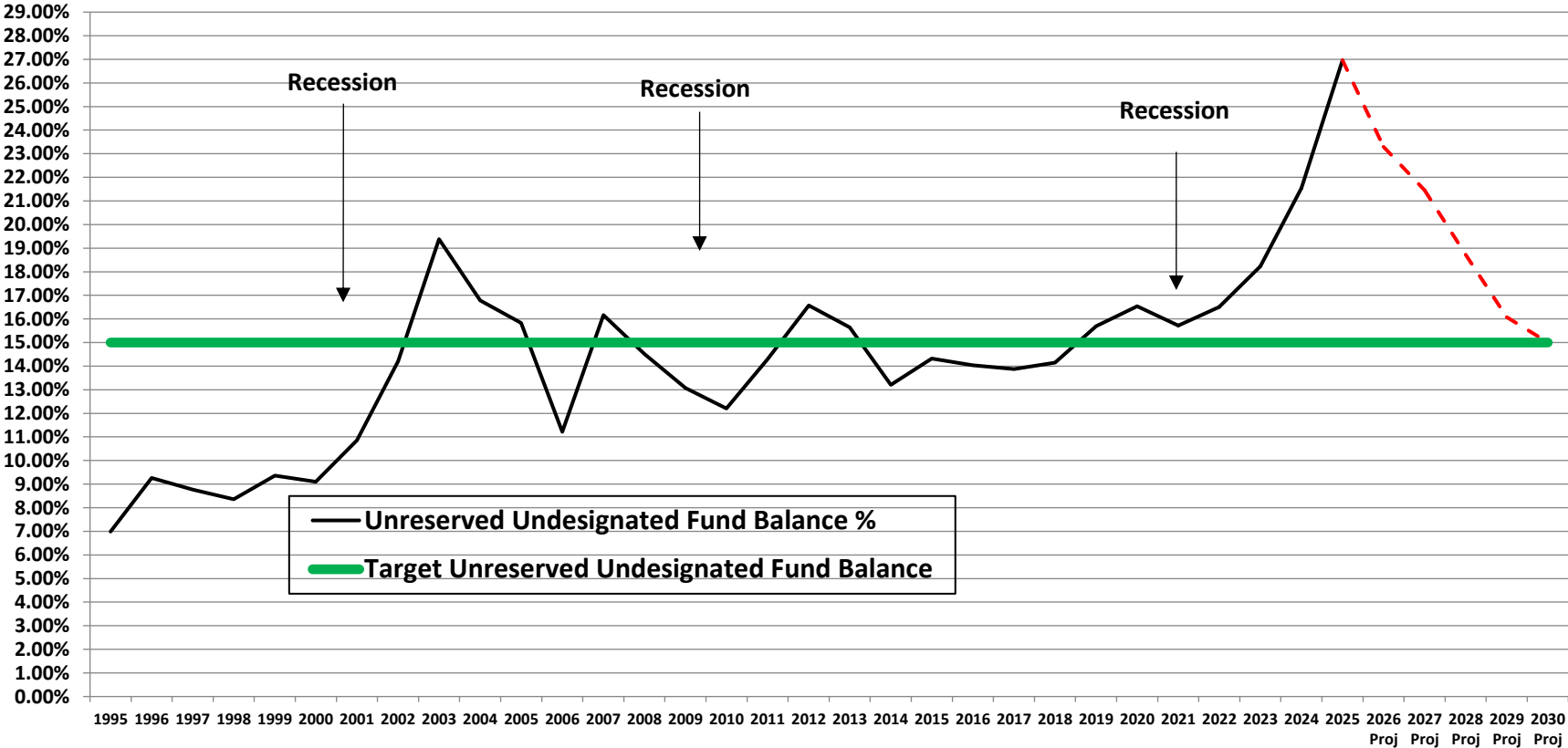
- Revenues exceeded expenditures by \$20m.
- Reduction in assigned balance of \$8m
 - Fund balance applied down \$9m
 - Life Ins/Disability plan reserves increased \$2m
 - Compensated absences down \$1 million – new GASB standard

General Fund Unassigned Balance

(as of January 1)

1995 to 2025 actual; 2026 to 2030 projected

Assumes return to 15% minimum level by applying fund balance to budget



Fund balance history since 2022

- Underspending, combined with higher interest rates have resulted in increasing fund balance.
- Fund balance level a key part of City's triple-A debt rating.
- Use of fund balance is a one-time / short-term measure.
- 2025 Budget incorporated 5-Year Outlook that includes using fund balance to close budget gaps to help maintain service levels.
- Anticipate using fund balance to close 2026 budget gap

				2025
	2022	2023	2024	Budget
Opening Unassigned Balance	56,371,768	66,120,952	82,853,730	110,630,286
Revenues	340,298,754	378,385,393	404,417,135	409,528,859
Expenditures	<u>328,648,521</u>	<u>347,163,791</u>	<u>384,668,364</u>	<u>410,308,259</u>
Variance	11,650,233	31,221,602	19,748,771	(779,400)
Assigned Change	(1,564,026)	(14,572,171)	6,930,834	-
Other Changes	<u>(337,023)</u>	<u>83,347</u>	<u>1,096,951</u>	<u>-</u>
Ending Unassigned Balance	66,120,952	82,853,730	110,630,286	109,850,886
Subsequent Year Budgeted / Estimated Expenditure	362,559,104	384,620,273	410,308,260	431,850,998
Fund Balance Share	18.2%	21.5%	27.0%	25.4%
Fund Balance Policy Target	15.0%	15.0%	15.0%	15.0%

2025 Preliminary Outlook

- Investment income expected to exceed budget by \$4 million (\$12 million vs. \$16 million) due to continued high interest rates in response to current economic uncertainty. Mark-to-market is also positive year-to-date.
- Ambulance fee revenues up by \$3 million to \$4 million due state's General Emergency Medical Transport program. Federal Medicaid budget changes could impact program.
- Building permit revenues expected to be below forecast.
- Expenditures expected to be close to budget:
 - 1% across-the-board reductions
 - Increased salary savings
- 2025 Mid-year projections -- July 22nd Finance Committee meeting.
 - Maximizing Expenditure Restraint Base for 2026 Budget
 - Address any needs in Enterprise / Internal Service Funds
 - Transfer to Capital Projects to reduce need for debt
 - Mid-year and Year-end appropriation resolutions

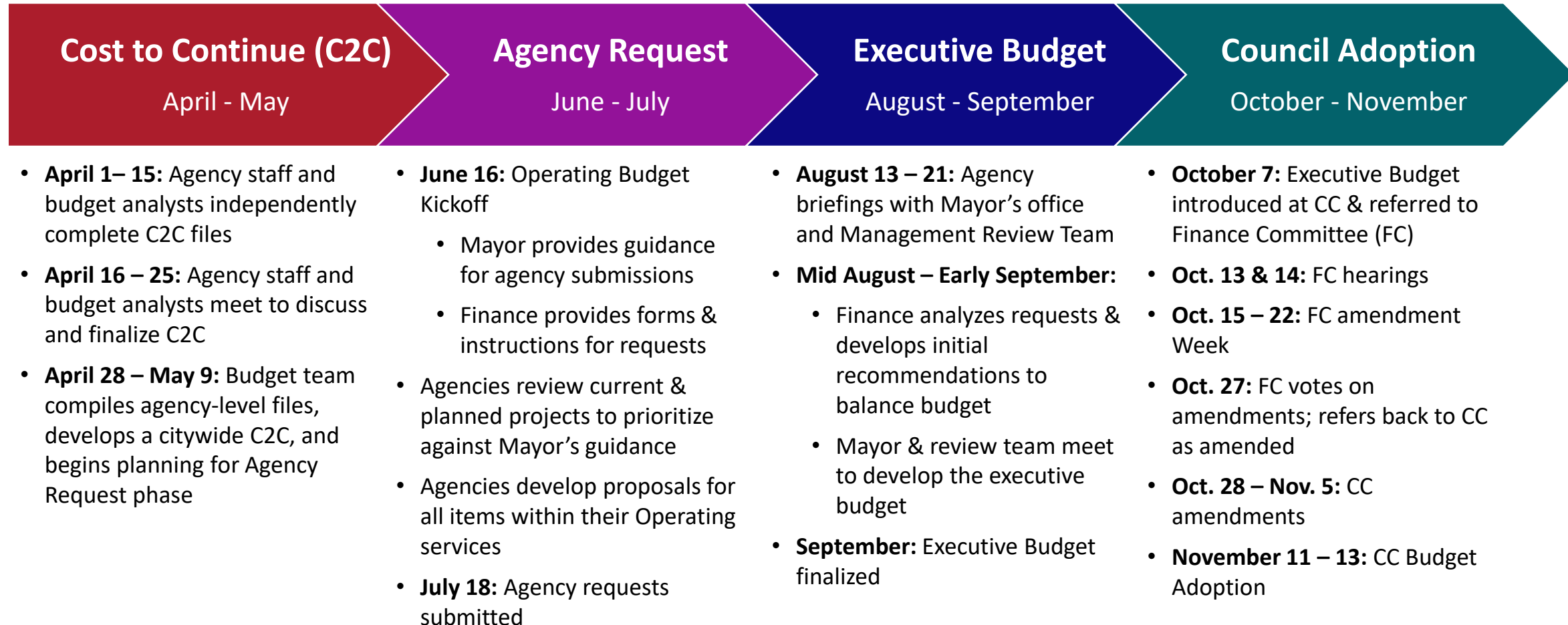
2026 Operating Outlook

Budget Calendar; Cost to Continue Assumptions; Budget Gap

Key Dates for 2026 Budget Development

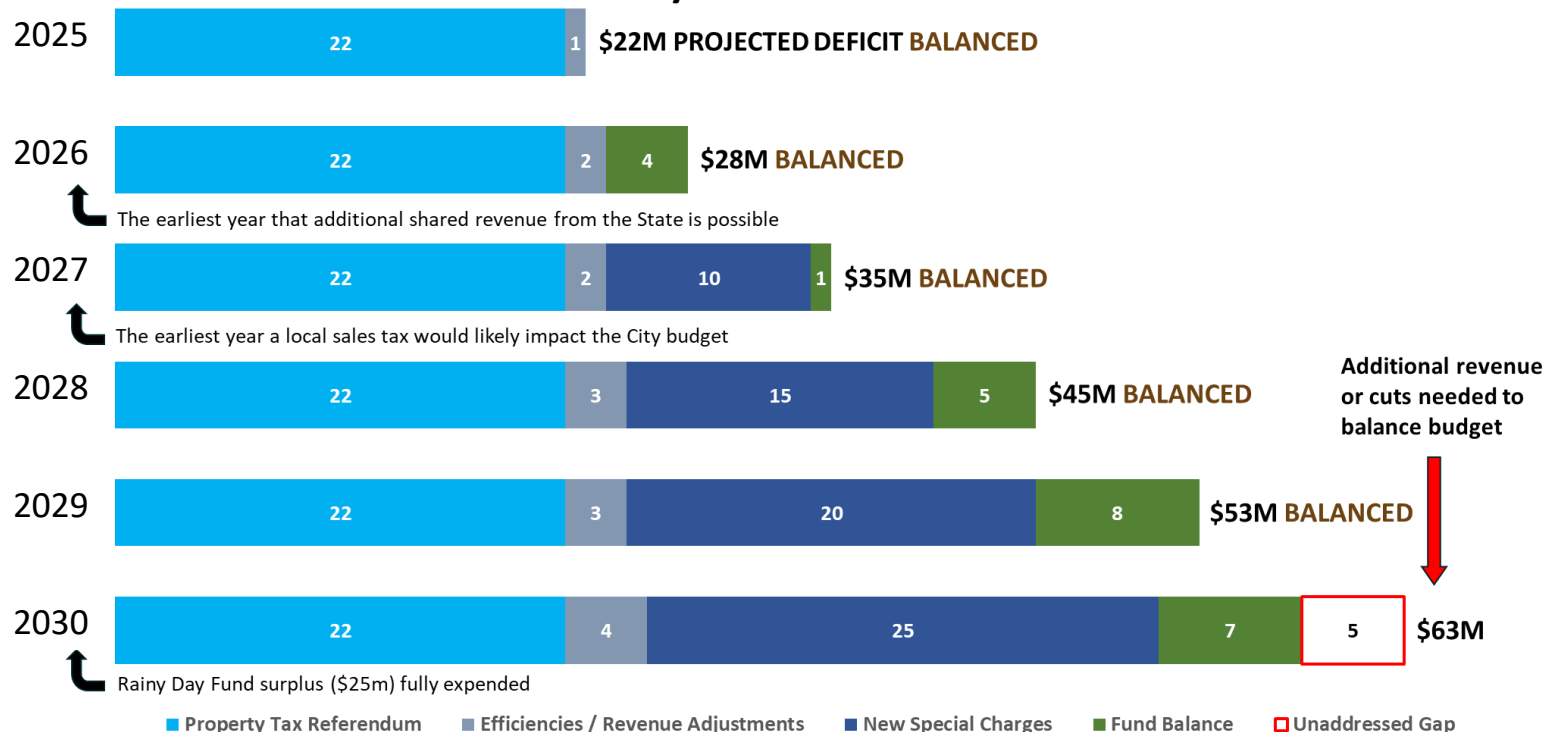
	Capital	Operating
Kick-Off Meeting	Tuesday, March 18 11:00am	Monday, June 16 2:00pm
Agency Requests Due	Friday, April 18	Friday, July 18
Agency Briefings with Mayor's Office	May 14 & 16	August 13 – 21
Executive Budget introduced to Common Council (CC)	Tuesday, September 2	Tuesday, October 7
Finance Committee (FC) Briefings	September 8 – 9	October 13 – 14
FC Amendment Meeting	September 29	October 27
CC Amendment Week	October 27 – November 5	
CC Budget Adoption Meetings	November 11 – 13	

Overview of Operating Budget Phases



Five Year Outlook

With A Referendum, Madison Can Avoid Significant Cuts or the Need for More Revenue for Another Five years



The 2025 Adopted Budget includes a 5-year plan to address future deficits.

- The referendum amount is fixed (\$22 million) so it will not grow with inflation or keep pace with increasing costs.
- Due to the structural nature of the deficit, this means a budget gap will reemerge in future budgets.
- Fund balance will be used over next five years; reduce share of budget from 27% to closer to 15% policy minimum.
- Additional strategies will be needed to balance future budgets.
- The 5-year plan will be updated annually.

Updating the City's 5-year operating plan

- The 2026 budget will include an updated 5-year plan.
- Department and division heads are encouraged to begin planning for mid- to long-range budget needs for their agencies. These plans should factor in agency workplans, long-range facilities plan, Results Madison service indicators, projected service needs due to population growth, and other considerations.
- Finance staff will engage with agencies on long-range planning later this year, but it will not be part of the official budget submission.

2026 Cost to Continue

Cost to Continue (C2C) is the first step of developing the city's operating budget. It is a baseline estimate of how much it will cost the City to provide the same level of service in the upcoming year.

City-Wide Adjustments

- Update revenue projections and remove one-time funding used to balance the 2025 Budget
- Personnel Costs
 - Estimated through a salary & benefit projection that incorporates step & longevity increases and negotiated increases
 - Includes placeholders for benefits rates, which will be updated later in the year
 - Based on 2025 payroll allocations
- ID Charges for internal services (Fleet, Insurance, Workers Compensation) and cost allocation plan

Agency-Specific Adjustments

- Remove one-time funding and expenses from the 2025 Adopted Budget
- Annualize partial year commitments
- Build in contractually required increases for purchased services
- Agency C2C determined through meetings between agencies and budget staff

Current Budget Gap

(General and Library Funds)

Expenditures = \$456.3 million

Total expenses are \$23.8 million (5.5%) higher than 2025 adopted budget. Major changes:

- + \$10.2m: Salary + benefits increases
- + \$6.5m: Metro subsidy increase
- + \$6.2m: Placeholder for GF Debt Service
- ~\$0.0m: Non-Personnel Costs. Increased funding for software (\$1.3m), library costs for shared services and revenue adjustments (\$470,000), and other increases, offset by removing \$2.0 million in one-time funds for CDD homeless services
- Totals above include cost of 2 additional elections (\$689,000 staffing and services)

Revenues = \$450.1 million

Total revenues are \$17.6 million (4.1%) higher than the 2025 adopted budget. Assumptions:

- + \$13.9m: Levy increase
- + \$3.0m: Increase in interest earnings
- -\$0.5m: Decrease building permit revenue
- - \$0.8m: Removing one-time fund balance for unsheltered operations

Gap = \$6.2 million

Cost to Continue Adjustments:

Expense Details(GF + Library)

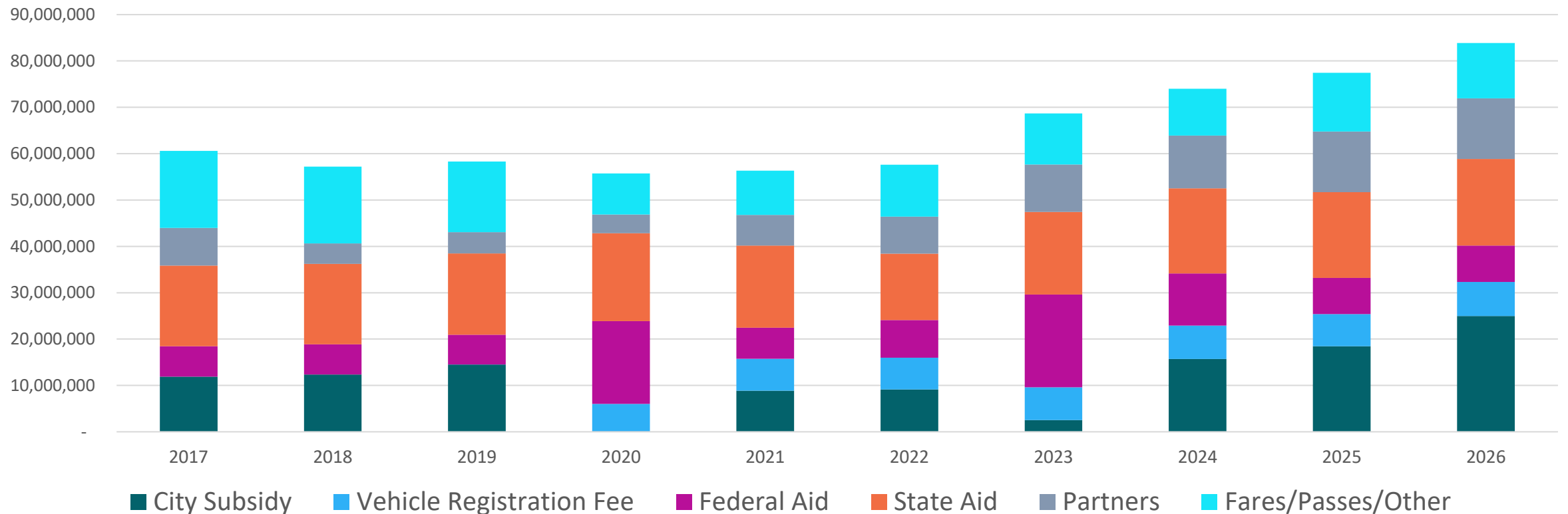
Category	Assumptions
Personnel Costs	<p>\$10.2 million increase in salaries and benefits</p> <ul style="list-style-type: none"> \$4.2m increase in perm wages: 3% increase for GMEs and protective service based on negotiated agreements and Step/Longevity adjustments \$509,000 increase in Clerk's Office: elections staffing \$3.3m increase in health insurance: ETF average increase of 11.5% on local plans \$1.1m increase in WRS: placeholder assumed 5% rate increase \$800,000 reduction in compensated absence escrow: based on actual spending \$728,000 adjustment to budget efficiencies (1% reduction required in prior years) \$1.2m other adjustments for COLA increases to non-perm wages and benefits, adjustments to salary savings, other changes
Elections	<ul style="list-style-type: none"> \$689,000 for elections-related expenses (\$509,000 staffing; \$180,000 non-personnel costs such as software, postage)
Direct Appropriations	<ul style="list-style-type: none"> Adds \$6.2m placeholder for Debt Service \$52,000 increase in consulting services for state liaison and PSC rate case
Purchased Services	<ul style="list-style-type: none"> Adds \$1.3m in agencies for software costs (\$1.0m in IT, \$230,000 in Police, \$82,000 in CDD, \$40,000 in Engineering, \$25,000 in Finance) Increased utility costs (electricity, stormwater) in multiple public works agencies (\$272,000) Library: \$350,100 increase in Dane County contract, databases, annualizing Dream Bus operations Removes \$2.0m in CDD related to one-time ARPA funding for unsheltered homeless support

Cost to Continue Adjustments: Other Adjustments(GF + Library)

Category	Assumptions
General Fund Subsidies	
Metro Subsidy	<ul style="list-style-type: none"> Adds \$6.5m to Metro subsidy (2026 total: \$25.0 million) Reflects end of one-time federal funding for pandemic response
PHMDC Subsidy	<ul style="list-style-type: none"> Reduced by \$68,300 based on cost to continue and equalized value
Billings and Charges	
Fleet Rate	<ul style="list-style-type: none"> Fleet budget increased by \$1.8 million (2026 total = \$24.0 million) related to increased supplies and equipment (\$666,800), purchased services (\$335,300), personnel costs, and other adjustments \$1.5 million increase in GF billings Updated allocation methodology for ID charges to more accurately reflect assets and usage of fleet services
Cost Allocation	<ul style="list-style-type: none"> Updated plan increases billings to enterprise agencies by \$750,000, primarily due to higher IT costs
Other billings and charges	<ul style="list-style-type: none"> Insurance: increase total agency billings by \$1 million; GF impact of \$338,800 Worker's Compensation: Decrease total agency billings by \$1 million; GF impact of -\$661,700

Context on Metro Transit Operating Revenues

Metro Transit Operating Revenues
(Actuals 2017-2024; Budgeted 2025; Cost-to-Continue 2026)



Expenditure Restraint Incentive Program (ERIP)

- City qualifies for \$7 million in state aid if it keeps the increase in General Fund budget, excluding debt service, below the change in the Consumer Price Index (CPI) plus 60% of net new construction.
- City has qualified for this payment annually since the program's inception in early 1990's.
- Estimated growth limit for 2026 = 4 percent
- 2026 Cost-to-continue excluding debt service = \$381.6 million
- 2026 Maximum allowed to qualify for ERIP = \$380.6 million
- Anticipated re-estimates and other changes will be needed in executive/final 2026 budget to qualify for \$7 million ERIP payment.

Property Tax Levy Limits

- 2026 Maximum Allowable Property Tax Levy
 - Preliminary Net New Construction Factor = 2.17 percent
 - Total Maximum Allowable Levy:
 - 2025 Actual Levy, plus:
 - 2025 Actual Levy excluding 2025 GO debt service, multiplied by Net New Construction Factor, plus;
 - 2026 GO Debt Service (final figures available after August debt sale), plus;
 - Other minor adjustments (e.g., refunded/rescinded taxes)
- Maximum Allowable Carry Forward to 2027:
 - “Carry forward” for 2027 = unused levy limit authority from 2026 used in 2027 budget.
 - 0.5% of prior year (majority vote) = \$1.6 million
 - 1.5% of prior year (minimum 3/4ths vote) = \$4.8 million
 - Unused levy limit authority above 1.5% of prior year levy cannot be used in future years.

2026 Budget Guidance

Maintaining a Cost to Continue Budget

2026 Budget funds the cost to continue services without agency reductions

- 2026 will essentially be a cost to continue budget.
- Agencies will not have to submit reduction scenarios as part of their request.
- Baseline budget will continue a 3% average salary savings rate (All Funds).
- “Budget Efficiency” reduction for General, Library, and Fleet Funds will continue, but rate will be changed from -1% to -0.75%. This gives back agencies a 0.25% to have more flexibility in their budget to address rising costs.
- Supplemental requests allowed in extremely limited circumstances.

How will the process compare to last year?

What's staying the same	What's new/ different
<ul style="list-style-type: none">• Calendar: key dates fall in the same week as last year• Proposal components: Main components of agency request will be the same (memo, service proposal, line-item budget)• Results Madison: agencies should use data from engagements to identify efficiencies in delivering results that residents expect.	<ul style="list-style-type: none">• No reduction proposals required• 1% budget efficiency reduced to 0.75%; Agencies can reallocate 0.25% of their budget as needed• Supplemental requests only to staff new facilities and to replace one-time revenues for on-going programs.

Budget Guidance: Cost to Continue Base Budget (Enterprise Funds)

All Enterprise Fund Agencies will submit operating budget plans consistent with current revenue projections for 2026.

Agencies projecting revenue shortfalls for 2026 will need to present a base budget that includes expenditure reductions to meet available revenue.

Proposed rate increases should be analyzed through an equity lens and consider resident ability to pay. If a rate increase is proposed, agencies will need to explain the components of the increase and what efforts have been made to reduce expenses before increasing rates.

Those agencies that receive subsidies from other funds will need to carefully review and reduce spending levels where necessary, consistent with constraints on the funds providing the subsidy.

Additional Context: Salary Savings

- “Salary Savings” is budgeting object used to reflect turnover and vacancies in an agency budget. All agencies, including enterprises, budget for salary savings.
- Salary Savings is calculated as a percentage of permanent wages and reduces an agency’s total budget target. Rate does not factor in savings in benefits from vacancies or additional costs from overtime/ hourly wages/ other costs for backfilling vacancies
 - Simple Example: Perm Wages = \$100,000 | Salary Savings Rate 3% = (\$3,000) | Total = \$97,000
- Actual underspending in permanent from 2021 – 2024 ranged from 4%-6%. Maintaining a 3% citywide average salary savings rate will recognize underspending and better align budgets with actuals.
- 2026 will continue the tiered rate structure introduced in the 2024 budget
 - 1 – 19 FTEs = 0%
 - 20 – 49 FTEs = 0.5%
 - 50 – 99 FTEs = 1.0%
 - 100 – 199 FTEs = 3.0%
 - 200+ FTEs = 4.0%

Additional Context: Budget Efficiencies

- The 2024 budget introduced a 1% “budget efficiency” – across the board reduction for all general/ library/ fleet fund agencies.
- The 1% cut was based on underspending trends from 2019-2022 (3.2% average).
- Actual agency underspending in 2024 was 1.6%. The increased salary savings rate and 1% efficiency appear to have helped calibrate agency budgets to actual spending; Finance will continue to monitor in 2025.
- 2026 Budget will give agencies back 0.25% to provide additional flexibility in budget.

Year	Actual	Revised Budget	Available Budget	% Unspent
2019	\$249,819,253	\$254,894,822	\$5,075,569	2.0%
2020	\$261,819,133	\$271,125,004	\$9,305,872	3.4%
2021	\$264,680,220	\$274,863,562	\$10,183,341	3.7%
2022	\$272,543,589	\$283,154,789	\$10,609,245	3.7%
2023	\$287,163,231	\$296,076,783	\$8,912,026	3.0%
2024	\$305,355,649	\$310,256,851	\$4,901,202	1.6%

Budget Guidance: Other Considerations

Citywide Priorities

- Agency requests should be aligned with citywide priorities, including racial equity, social justice, and sustainability. Department heads are encouraged to engage department equity teams to think about how to advance equity goals within your base budget. Sustainability staff can assist agencies on addressing sustainability goals in budget requests.

Creativity and Innovation

- Be creative in developing proposals to reduce the cost of service delivery. Consider ways to work across agencies and collaborate with others to create cost-saving efficiencies. If you have ideas for inter-agency coordination that do not fit directly within your budget, contact your budget analyst to discuss options. *Use Results Madison data to examine services and find opportunities for innovation.*

Briefing the Finance Committee

Briefings and presentations on
the 2026 Budget

FC Date	Topic
2/17/2025	2026 Budget Overview
3/3/2025	
3/17/2025	Capital Budget Guidance Overview
4/7/2025	
4/28/2025	
5/12/2025	Capital Request Overview
5/27/2025	
6/9/2025	
6/23/2025	Operating Budget Overview -- Cost to Continue / Budget Outlook / 2024-2025 Review and Projections / 2026 Operating Budget Guidance
7/7/2025	
7/28/2025	Debt Parameters Resolution
8/25/2025	Operating Request Overview
9/8/2025; 9/9/2025	FC Agency capital briefings (9/8 includes regular business)
9/29/2025	FC capital amendments (include regular business)
10/13/2025; 10/14/2025	FC Agency operating briefings (10/13 includes regular business)
10/27/2025	FC capital amendments (include regular business)