2025 Year-End Budget to Actuals Review (General Fund); 2026 Preliminary Outlook; and 2027 Budget Process Update

Finance Committee | June 1, 2026

Agenda

- 2025 Actual Revenues
- 2025 Actual Expenditures
- General Fund Condition
- Preliminary 2026 Outlook and Projection Timeline
- 2027 Budget Process

2025 Actual Revenues

General Fund

Revenues finished 4% above budget

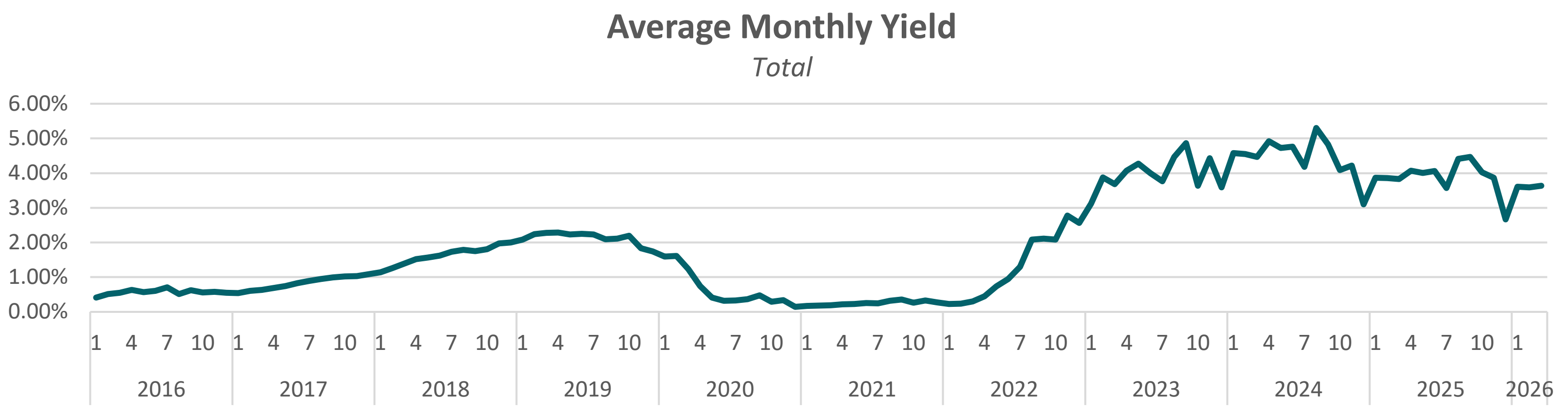
Primary factors:

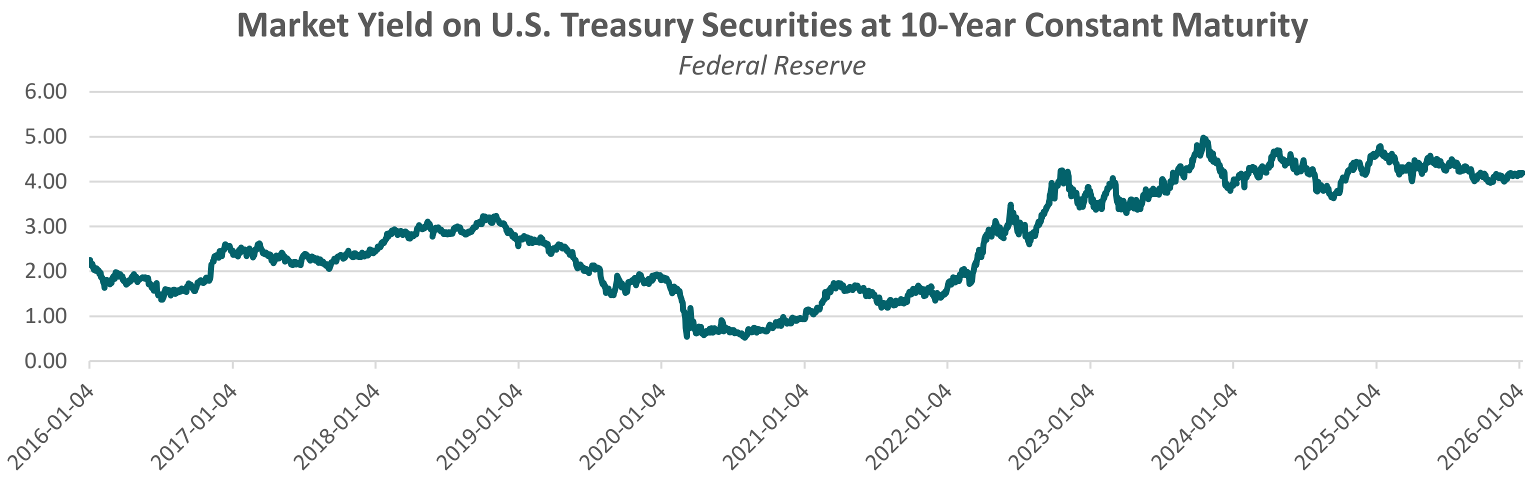
- Investment Income – persistent above average interest rates.
- Ambulance Charges for Service – new Medicaid waiver payments and billing administrator issues
- Building Permits – continued high volume of housing construction

	Budget	Actual	$ Variance	% Variance
Taxes	313,511,125	315,109,019	1,597,894	0.5%
Intergovernmental	49,635,161	50,041,620	406,459	0.8%
Licenses and Permits	8,532,120	9,486,877	954,757	11.2%
Fines and Forfeitures	6,050,000	6,587,304	537,304	8.9%
Charges for Services	18,081,455	22,131,897	4,050,442	22.4%
Investment Income	12,234,000	21,783,970	9,549,970	78.1%
Other	1,485,000	1,755,722	270,722	18.2%
	409,528,861	**426,896,409**	**17,367,548**	**4.2%**

Investment income higher than forecast

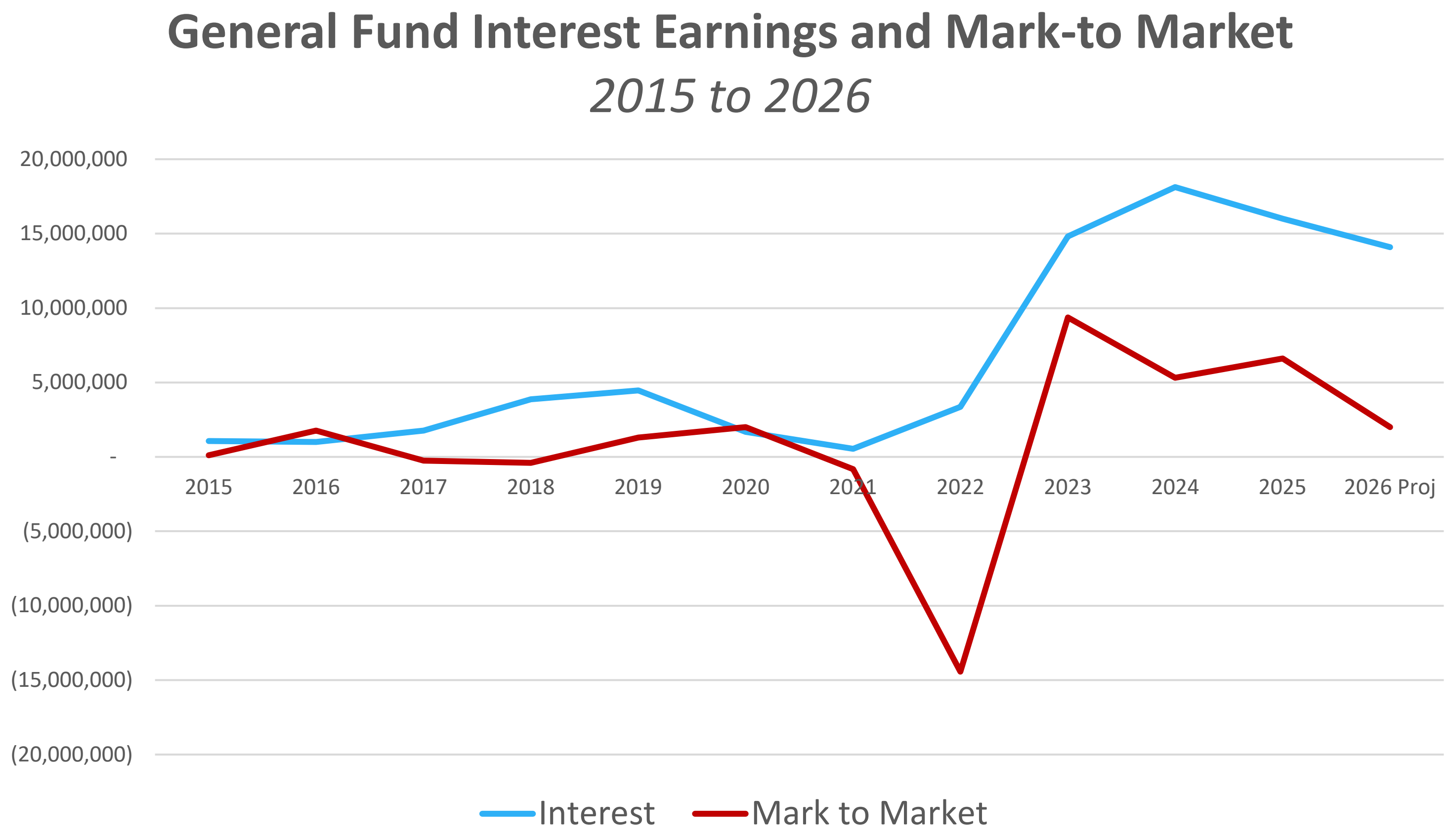
- Average annual yield increased over three-fold from 2022 to 2023 and remained elevated through 2025
- Mark-to-Market adjustment was -$14 million in 2022; reversed by +$9 million in 2023, +$5 million in 2024 and +$6 million in 2025.
- Forecast on track for 2026; expected to remain elevated, but slightly lower in 2027.





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, 2024, and 2025.
- $5 million has been set aside in assigned fund balance to help offset future drops in M2M and investment earnings.
- $400,000 of 2025 M2M is from employee life and disability insurance pool managed by Hartford.



2025 Actual Expenditures

General Fund

Expenditures $4m below budget

Primary factors:

- Savings due to vacant positions, additional revenues (Municipal Court), and contract underspending (Assessor, IT, and CDD).

	Final Budget	Actual	$ Difference	% Difference
Top 5 by $ Difference				
Police	96,467,686	94,707,123	1,760,563	2%
Fire	75,791,990	74,278,954	1,513,036	2%
Traffic Engineering	10,516,183	10,134,632	381,551	4%
Information Technology	9,952,646	9,603,805	348,841	4%
Community Development	17,331,120	17,084,456	246,664	1%
Top 5 by % Difference				
Municipal Court	378,660	287,804	90,856	24%
Office of Independent Monitor	405,964	353,329	52,635	13%
Council	1,177,689	1,088,891	88,798	8%
Assessor	3,672,896	3,488,020	184,876	5%
Traffic Engineering	10,516,183	10,134,632	381,551	4%
Total	**412,608,261**	**408,574,894**	**4,033,367**	**1%**

Expenditure Variances by Functional Area

- Miscellaneous includes centrally budgeted funds in direct appropriations. Overspending primarily due to contracts with outside legal firms associated with property assessment litigation.

	Final Budget	Actual	$ Difference	% Difference
Functional Area				
General Government	35,049,955	34,202,263	847,692	2%
Public Safety and Health	183,460,162	180,133,929	3,326,233	2%
Public Works and Transportation	71,865,233	71,486,941	378,292	1%
Planning and Development	30,546,526	30,272,824	273,702	1%
Culture (Parks)	17,267,478	17,159,951	107,527	1%
Miscellaneous	6,271,802	6,629,667	(357,865)	-6%

Fund Balance and Outlook

General Fund

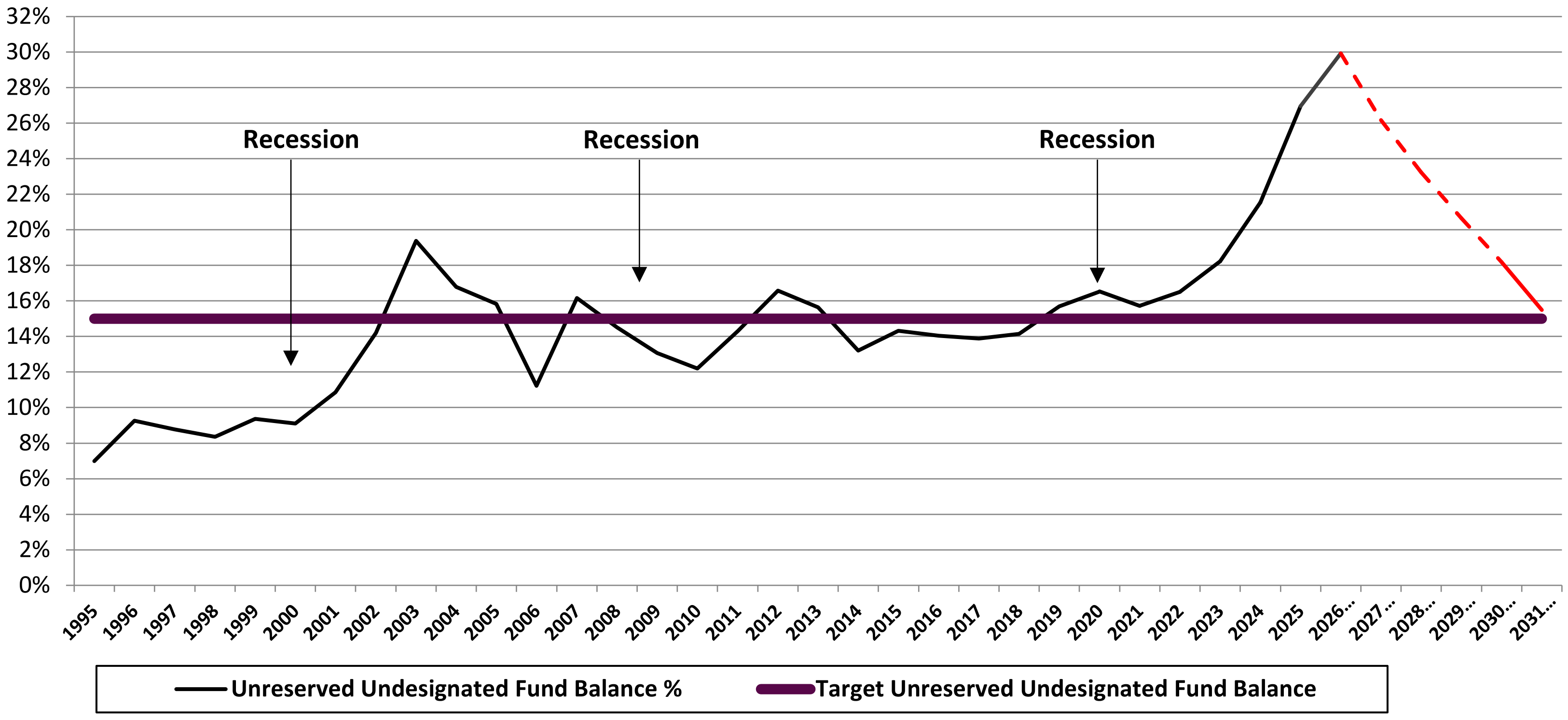
Strong Reserves – Fund Balance at 30% of Budget

2025 Year End

- Revenues exceeded expenditures by $18m.
- Increase in assigned balance of $380,000
  - Fund balance applied up $1.5m
  - Life Ins/Disability plan reserves increased $0.4m
  - Set-aside for Shelter endowment down $1m ($1m still reserved)
- Projected amounts for 2027-2031 assumes return to 15% minimum level by applying fund balance to budget

General Fund Unassigned Balance as of January 1

1995 to 2026 actual; *2027 to 2031 projected*



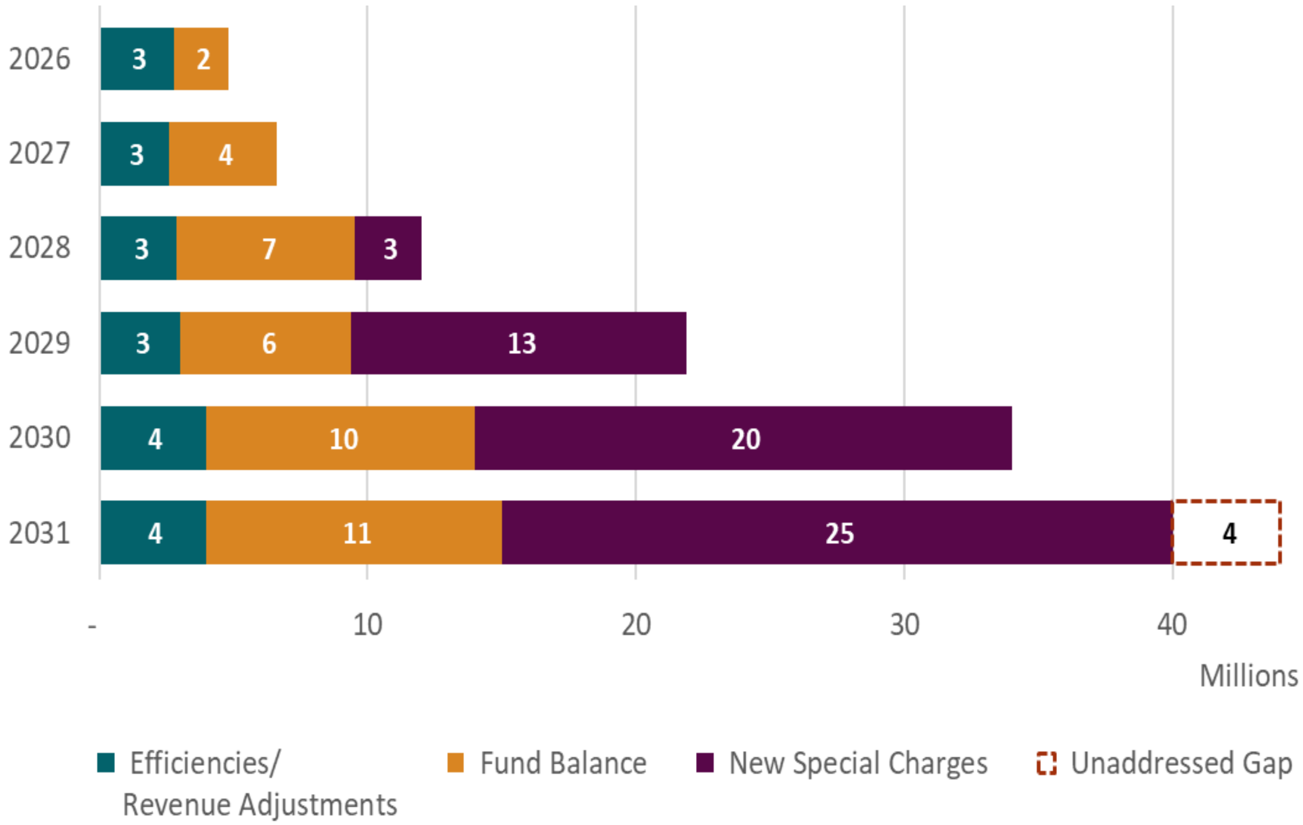
Fund Balance History Since 2022

- Underspending, combined with higher interest rates have resulted in increasing fund balance.
- Fund balance level a key part of City's debt rating.
- Use of fund balance is a one-time / short-term measure.

	2022	2023	2024	2025	2026 Budget	2027 Projected
Opening Unassigned Balance	56,371,768	66,120,952	82,853,730	110,618,536	128,501,499	118,501,499
Revenues	340,298,754	378,385,393	404,417,135	426,896,409	427,132,000	446,581,031
Expenditures	328,648,521	347,163,791	384,668,364	408,574,894	429,350,000	456,581,031
Variance	11,650,233	31,221,602	19,748,771	18,321,515	(2,218,000)	(10,000,000)
Assigned Change	(1,564,026)	(14,572,171)	6,930,834	(380,194)	(7,782,000)	-
Other Changes	(337,023)	83,347	1,085,201	(58,358)	-	-
Ending Unassigned Balance	66,120,952	82,853,730	110,618,536	128,501,499	118,501,499	108,501,499
Subsequent Year Budgeted / Estimated Expenditures	362,559,104	384,620,273	410,308,260	429,350,000	456,581,031	481,789,717
Fund Balance Share	18.2%	21.5%	27.0%	29.9%	26.0%	22.5%
Fund Balance Policy Target	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

2026 5-year outlook assumes using $40m from fund balance. Outlook will be updated for 2027 budget.

Five-Year Plan to Balance the Operating Budget (2026 Adopted)



2026 Preliminary Outlook

Revenues

- Investment income expected to be close to, or slightly above, budget projection of $14 million; mark-to-market could book a loss of up to $3 million on higher inflation/interest rates caused by geopolitical events.
- Other revenues expected to be slightly above budget projections (~$3 million) due primarily to higher ambulance, building permit and room tax revenues.

Expenditures

- Fleet costs expected to exceed budget due to higher fuel costs resulting from geopolitical events.
- Expenditures in most agencies expected to be close to budget:
  - 0.75% across-the-board reductions
  - Salary savings
- 2026 adopted budget very near maximum expenditure restraint (ERIP) limit; $2 million contingent reserve has draws for MadCAP and, possibly, remaining installment on shelter endowment.

2026 Budget Projections

Agency Projections

June 1 – July 1

- City agencies and Finance Budget Team complete projections
- Finance and agencies meet to identify risk areas and potential transfers

Citywide Projections

July 2 – July 20

- Finance Budget Team compiles agency data into a citywide projection
- Drafts mid-year appropriation resolution to amend 2026 budget

Legislative Process

July 21 – August 8

- Mid-Year Resolution introduced (Title Only) July 21
- Finance Committee July 27
- Adopted by Council August 4

2027 Budget Process Update

Key Dates for 2027 Budget Development

Capital Budget

- Kick Off: **March 17**
- Agency Requests Due: **April 17**
- Agency Briefings: **May 13-15**
- Executive Budget Introduced: **September 8**
- FC Briefings: **September 14-15**
- FC Amendment Meeting: **September 28**
- CC Budget Meetings: **November 10-12**

Operating Budget

- Kick Off: **June 9**
- Agency Requests Due: **July 17**
- Agency Briefings: **August 12-21**
- Executive Budget Introduced: **October 6**
- FC Briefings: **October 12-13**
- FC Amendment Meeting: **October 26**
- CC Budget Meetings: **November 10-12**

*FC = Finance Committee
*CC = Common Council

2027 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 2026 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 2026 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 2026 Adopted Budget
- Annualize partial year commitments – Fire Dept 10th Ambulance, Library & Parks staffing for Imagination Center at Reindahl Park, other partial-year positions
- Build in contractually required increases for purchased services
- Agency C2C determined through meetings between agencies and budget staff

Major cost drivers in 2027

- Cost to continue estimates are being finalized prior to budget kick-off on June 9
- Major cost drivers
  - **Salaries & Benefits:** Assuming comparable increases to 2026, plus annualizing partial-year positions for new ambulance, Imagination Center at Reindahl Park, and other new positions (approximately +$11 million)
  - **Fuel:** Projecting $1.5 million increase in Fleet fuel costs (44% increase over 2026 budget)
  - **Software and Technology:** Cost increases as software moves to the cloud and implementation of new systems
  - **GF Subsidy for Metro Transit:** Anticipating increases in personnel costs, paratransit services, and fuel

Expenditure Restraint in 2027

What is Expenditure Restraint?

- Expenditure Restraint Incentive Program (ERIP) limits growth in year over year expenditures by a factor of 60% net new construction plus inflation.
- Compliance with ERIP in a given fiscal year provides state aid in the following year (e.g. meeting ERIP requirement in 2027 budget qualifies City for state aid in 2028).
- The City of Madison has qualified for this payment annually since the program's inception in the early 1990s. The 2026 budget includes $9 million in ERIP funding.

Target for 2027 Budget

- Estimated growth limit for 2027 = 4.6%
- Budget kick-off on June 9 with provide updated estimate of ERIP target and agency-guidance for request.

June Briefings and Community Engagement Sessions

- **June 1 – Finance Committee Briefing:** Prior Year End (2025) Review, 2027 Cost to Continue Review
- **June 2 – Community Budget Engagement:** Justice & Public Safety at Central Library (6-8pm)
- **June 9 – Budget Kick-Off:** Operating budget message and instructions published
- **June 11 – Community Budget Engagement:** Public Facilities and Services at Vel Phillips Memorial High School (6-8pm)
- **June 24 – Community Budget Engagement:** Planning & Transportation at Warner Park Community Recreation Center (6-8pm)
- **June 29 – Finance Committee Briefing:** Operating Budget Instructions