

UPDATED MEMORANDUM

TO: Alder Shiva Bidar-Sielaff, Council President
Alder Chris Schmidt, Council President Pro-Tem
Michael P. May, City Attorney

FROM: Heather Allen, Common Council Legislative Analyst

DATE: January 30, 2013

RE: **Addressing Long-Term Challenges through the Common Council Legislative Agenda:
Alternative Revenue and Shifting Demographics**

In June of 2012, the Common Council initiated discussions on a legislative agenda, an effort to establish a vision for Madison as a changing and growing City. The Council sought to identify a small group of issues as priority areas with the goal of working together to develop solutions for the whole City as a unified body. The Council conducted a survey, developed proposals and participated in facilitated discussions ultimately choosing two priority areas; alternative sources of revenue and demographic changes.

The Council chose to focus on the long-term challenges of revenue and demographics because both topics will have a profound effect on the ability of the City to deliver high-quality services to its citizens. Moreover, these two issues are not easily addressed in the day-to-day operations of the City; rather the work requires cross-cutting analysis, and a coherent and consistent strategy to serve the City well into the future.

This memo provides information relating to municipal revenue and alternatives to existing income sources. This memo also highlights ongoing and anticipated demographic shifts relating to age and ethnicity, and lays out the need to explore what attracts young families to Madison.

As funding for City services shifts and the nature of those services change to address a larger proportion of seniors and a more diverse group of young people and families, it is worthwhile for the City of Madison to reflect on the future now.

Alternative Revenues: New Sources of Income for the City of Madison

Our Goal

The Common Council is seeking to build financial stability by exploring alternatives to traditional sources of income for the City of Madison.

Why focus on alternative revenues?

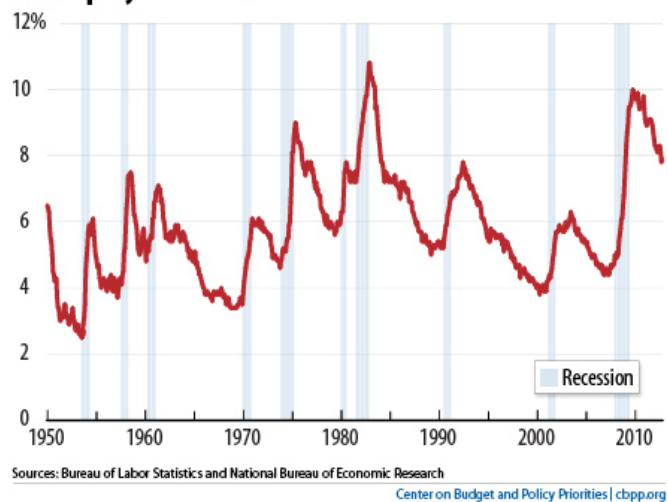
The primary sources of revenue for the City of Madison are property taxes, and State and Federal Aid. As those income streams shrink or become less predictable, Madison, like many other municipalities, is exploring opportunities to diversify its income with new alternatives.

Alternative sources of revenue can include Payments in Lieu of Taxes (PILOTS), fees for services, public-private partnerships, efforts to increase or leverage other State or Federal Aids, regional cooperation, development financing tools and more. New revenue streams offer potential financial relief to cities, yet all the options pose particular challenges and must be explored carefully.

Background

Since 2008, the Great Recession and the concomitant housing crisis shrunk property values and property tax income for cities around the country. At the same time, more people came to rely on government and community services as a result of job losses in the public and private sector. The graph to the right produced by the Center on Budget and Policy Priorities shows that unemployment resulting from the 2008 recession nearly reached the highest levels since World War II.¹ State and federal aids have also been reduced in certain sectors, pinching cities further. Since 2010, twenty-eight municipalities have filed for bankruptcy.²

Unemployment Rate



Now, as the real estate sector is beginning to show signs of improvement, analysts predict it will still be several more years before municipalities can achieve the level of services provided in 2006.³ Michael Pagano, Dean of Urban Planning and Public Affairs at the University of Illinois, sums it up eloquently:

To complicate matters, estimates of infrastructure needs total in the trillions of dollars and pension obligations for local governments, as well as health benefits for retired municipal employees, reach unfathomable heights. In other words, cities labor under a weak tax collection regimen today and for the foreseeable future just at the same time as pension obligations, health costs for city retirees, and the "life" of infrastructure

¹ Graph from Center on Budget and Policy Priorities

Retrieved from <http://www.cbpp.org/cms/index.cfm?fa=view&id=3252>

² Data retrieved from Governing: The States and Localities show that 28 municipalities have filed for Chapter 9 bankruptcy protection since 2010.

<http://www.governing.com/gov-data/municipal-cities-counties-bankruptcies-and-defaults.html>

³ Pagano, Michael E. *Don't Forget, Local Governments Are Facing a Fiscal Crisis of Their Own*. The Atlantic Cities. Retrieved from <http://www.theatlanticcities.com/jobs-and-economy/2012/11/dont-forget-local-governments-are-facing-fiscal-crisis-their-own/3831/>

assets are reaching critical needs. Metropolitan regions and cities, the engines of the national and global economies, are straining under the confluence of these critical factors.

The City of Madison has wrestled with unpopular budget cuts in 2011 and 2012 as it sought to maintain services under increasingly challenging conditions faced by municipalities throughout the United States. The City's primary source of income is property taxes which accounts for over 70% of funds available to the City. Local revenue and intergovernmental payments are the next largest categories at 14% and 13% respectively.⁴ The City of Madison seeks to identify income streams that would reduce the portion of the budget supported by property taxes. New revenue streams may help the City reduce vulnerability to housing market fluctuations and potentially slow the increases in property taxes in the coming decades.

Areas of Inquiry

State and Federal Aid

Critical federal aid programs for municipalities have been scaled back significantly and may face some of the deepest cuts ever if the anticipated *Fiscal Cliff* (Budget Sequestration) process comes to pass in January of 2013. Federal aid supports municipalities with funds for transportation, housing, energy, social programs, health care and other critical services but the continuity of those programs is at risk. The Community Development Block Grants (CDBG) program is one such shrinking program administered by the Housing and Urban Development agency. Madison utilizes CDBG grants to provide affordable housing and economic opportunities to low and moderate income persons. The program was cut by over one billion dollars between 2009 and 2011, reducing its disbursements to less than it provided cities in the Carter administration.⁵ Federal aid to cities is a complex picture and the CDBG grants are one funding stream, but continuing budget cuts could worsen the municipal revenue situation for cities like Madison over the next several years.

The research on this topic should investigate the major trends related to federal aid and how they might impact Madison's revenue. In addition, opportunities to deepen partnerships directly with the Federal government should be explored as suggested by Michael Pagano in the article mentioned earlier. Pagano proposes that these partnerships could help focus federal spending on infrastructure maintenance and rehabilitation (to reduce sprawl and increase efficiencies), and advance regional solutions to transportation, housing and environmental needs.⁶

The State of Wisconsin provides aid to municipalities, including Madison, primarily through Shared Revenue, transportation aid and school aid. Andrew Reschovsky, together with Howard Chernick, reviewed the role of State policies on the fiscal health of cities in New York, California and Wisconsin. The authors found that despite the growth of the 1990s, cities economic growth was slower than that of suburbs. Yet, rather than offsetting this imbalance, state aid and state tax policies in the three states

⁴ Data retrieved from City of Madison 2013 Executive Operating Budget.

⁵ Cooper, Michael. *Cities Face Tough Choices as U.S. Slashes Block Grants Program*. The New York Times. December 12, 2011. Retrieved from www.nytimes.com/2011/12/22/us/cities-struggle-as-us-slashes-block-grants-program.html?_r=0

⁶ Pagano, Michael E. *Don't Forget, Local Governments Are Facing a Fiscal Crisis of Their Own*. The Atlantic Cities. Retrieved from <http://www.theatlanticcities.com/jobs-and-economy/2012/11/dont-forget-local-governments-are-facing-fiscal-crisis-their-own/3831/>

avored the suburbs making the provision of services more difficult. All of these trends were in place well before the 2008 recession and the State Budget cuts enacted in 2010 in Wisconsin.⁷

Revenues from the shared revenue program to the City of Madison have declined since 1984. Meanwhile Dave Schmiedicke, Madison's Finance Director, notes that these reductions are somewhat offset by increasing school aid and transportation aid: "The state has followed a policy of delivering property tax relief through the school aid formula and direct property tax credits rather than shared revenue. As a result, shared revenue as a share of the state budget has declined considerably over the past 20 years, while school aid has increased." Nevertheless these trends require a re-evaluation of the role of state aids in the coming years. The 2011 – 2013 state budget cut approximately \$800 million from schools as well as \$250 million from the University of Wisconsin systems and more cuts from technical colleges.⁸ These cuts have a large impact on the City of Madison given its coupled relationship with the University of Wisconsin – Madison. Finally, Payments for Municipal Services (PMS) is a source of state funding for the City of Madison, given its proportion of State-owned properties, including the Capitol and the University. This program is currently only funded at 50% which translates to approximately a \$8 million dollar loss to Madison.

Regional Solutions

By some counts, Dane County is home to 61 units of government. These same units are sometimes offering the same service or competing for the same funds. Regional approaches to transit, taxing or other activities may hold potential for the City of Madison. In 1970, St. Paul and Minneapolis, Minnesota, implemented a regional tax-base sharing program which seeks to reduce fiscal disparities between the municipalities and school districts in the region. "As a result of the sharing program, local tax-base disparities narrowed significantly."⁹ The program is the most prominently successful model for regional tax-base sharing and while other communities have considered a similar approach, political, legal and administrative issues have limited its use. Dane County's efforts to establish a regional transit authority were setback when the Wisconsin Legislature voted in March of 2011 to eliminate all regional transit authorities. Efforts to initiate a regional approach will require fresh thinking and careful navigation of the political hurdles both at the state and local levels.

Payments in Lieu of Taxes

Cities with large numbers of non-profit organizations or other governmental agencies operate with a reduced tax base than other comparable cities. Non-profit organizations and governments do not pay property taxes which can significantly decrease income for state capitols and university towns. Payments in Lieu of Taxes (PILOTs) are a voluntary payment to the municipality in an effort to account for the police, fire, garbage and other municipal services provided. The City of Madison is already receiving PILOTs on the order of \$8.5 million per year.

⁷ Chernick, Howard & Reschovsky, Andrew. *Lost in the Balance: How State Policies Affect the Fiscal Health of Cities*. The Brookings Institution Center on Urban and Metropolitan Policy. March 2001. Retrieved from <http://www.brookings.edu/research/reports/2001/03/cities-chernick>

⁸ Luhby, TamiGov. *Scott Walker unveils Wisconsin budget*. CNN Money March 1, 2011. Retrieved from http://money.cnn.com/2011/03/01/news/economy/wisconsin_budget_walker/

⁹ Orfield, Myron and Wallace, Nicholas. *The Minnesota Fiscal Disparities Act of 197: The Twin Cities' Struggle and Blueprint for Regional Cooperation*. William Mitchell College of Law 3/7/2007. Retrieved from <http://www.wmitchell.edu/lawreview/Volume33/documents/4.Orfield.pdf>

Nevertheless, studies indicate the PILOTS may not be sufficient to offset the revenue reduction caused by tax-exempt organizations. In 2010, researchers from the Lincoln Institute of Land Policy “found that PILOTS, as currently structured and administered in most cities, simply do not deliver anything resembling the amount of revenue lost to nonprofits’ property tax exemptions.”¹⁰ The City of Madison is currently reviewing PILOTS to determine the best course of action, for long-term revenue.

Fees for Services

As noted above, Madison is home to many tax-exempt organizations. One way to address the value of services they receive is to assess fees. Many communities charge for services ranging from trash and recycling collection to snow removal, stormwater charges and transportation utility fees. The City of Milwaukee charges for snow removal as a method of assessing tax exempt properties. While other areas (like the Cleveland suburb University Heights) charge for trash removal but collect recycling for free. Fees have been considered on occasion for the City of Madison related to trash and recycling and snow removal, though they have not yet been enacted. These charges may not be the most appropriate tool to assess the University of Wisconsin – given the fact that the University provides its own trash removal and recycling services as well as snow removal. In fact, the Streets Division has assessed the number of properties which could be charged for trash and recycling services. On the west side of Madison, approximately 100 properties might be eligible for the fee.

Fees may also be utilized to address policy questions while raising revenue. Water conservation pricing is a strategy to improve water conservation and save energy. This may well be an appropriate tool for Madison as it has high water use rates for commercial and industrial users. A new conservation program based on a tiered price structures would charge higher rates for higher rates of water use. Stormwater usage fees (already in place in Madison) could be expanded to improve the incentive to help keep rain and runoff on a property. Fees relating to transportation such as tolling or Vehicle Mileage Traveled (VMT) fees can help a community to reduce congestion and air pollution while raising revenue.

Other options could include development fee structures that promote healthy walkable communities. Development impact fees (DIFs) are charges to developers to provide the municipal services needed to accommodate a new development. These one-time fees can help a city offset the costs of delivering services. These fees help promote infill development, but can be highly vulnerable to the market much like property taxes.

Value Capture Strategies

A variety of strategies to allow a city to capture the value of development could hold potential revenue raising opportunities for the City of Madison. Split-rate taxation or land value taxation is an approach to property tax that separates the value of the land and the buildings or other improvements to the land. By separating the two, a municipality can reduce the incentive to allow buildings to fall into disrepair or to leave prime land undeveloped. The split-rate approach can help cities to direct development to priority areas where infrastructure exists and avoid unwanted sprawl.

¹⁰ Pagano, Michael. *How Non-profits Can End Up Becoming a Drain on City Budgets*. Atlantic Cities. November 12, 2012. Retrieved from <http://www.theatlanticcities.com/jobs-and-economy/2012/11/how-nonprofits-can-end-becoming-drain-city-budgets/3798/>

Moving Forward

As Madison continues to adapt to “the new normal” economic conditions, it is prudent to investigate new opportunities to supplement revenues and shore up reserves. There are a wide variety of potential revenue sources which should be considered in this endeavor. The preceding list is a sample rather than an exhaustive list of the possibilities.

As the Common Council begins its inquiry into alternative revenues, it will be critical to work with municipal partners, especially those in South Central Wisconsin who may be willing to consider innovative partnerships. As Mitchell Silver, the President of the American Planning Association said in his address at the Healthy Communities Conference at the Monona Terrace this year, “we rise and fall as a region.”

In his experience in North Carolina’s Research Triangle, it was “hitting bottom” which forced Raleigh, Durham and Chapel Hill to band together and build a world renown research destination which now leads the country in growth and innovation. Madison has the potential to be such a world leader, and with foresight and cooperative planning can become the envy of other regions.

Pertinent City Committees

Board of Estimates
City-County Liaison Committee
Common Council Organizational Committee
Downtown Coordinating Committee
Economic Development Committee
Education Committee
Long Range Transportation Planning Committee
Madison Arts Commission
Madison Public Library
Board of Park Commissioners
Pedestrian/Bicycle/Motor Vehicle Commission
Plan Commission
Sister City Collaboration Committee
Sustainable Madison Committee
Committee on Sweatfree Purchases
Transit & Parking Commission
Urban Design Commission
Zoning Board of Appeals

Demographics and the City of Madison

Our Goal

The Common Council is working to maximize the quality of life for all Madison residents by planning for demographic shifts. Madison will attract and retain residents by tailoring City services and operations to address the needs of its changing population.

Why focus on demographics?

The United States is growing older and more ethnically diverse, as is Madison. Projections estimate that Dane County will go from 12% of its population being 65 and over to 21% by 2035. According to the 2010 Census, 25% of Dane County households have a member over 60, and perhaps more importantly, 31% of those over 65 are living alone. At the same time, 17% of the Dane County's 2010 population was under 18. These populations are less likely to drive, more likely to want to live downtown and in safe, pedestrian-friendly environments, more likely to need job training (or re-training) and job search support, likely to access community services of some sort, and could cost the City significantly if not well-served. Looking at City operations through the lens of serving these populations will not only benefit them, but has the potential to benefit everyone.

Background

Madison's population is already more diverse than Wisconsin as a whole, and Dane County's non-White population increased by 58% between 2000 and 2010. White students accounted for approximately 80% of the students enrolled in the Madison Metropolitan School District (MMSD) in 1991, while in 2012 White students account for less than 50% of the student body. In addition, non-White populations are younger on average than the White population, suggesting a greater increase in the future. People of color are more likely to be unemployed, as are young people, than the total population. African-Americans are more likely to be poor, and more likely to have a history with the criminal justice system, than the population as a whole. In addition, racism continues to impact our city and keep our community from reaching its full potential. Existing inequalities are only exacerbated by the demographic trends, making it even more important that the City address them.

In the article *Minority Report: America Will Be Defined by These Huge Demographic Shifts*, Kristen Lewis and Sarah Burd-Sharps make the case that future of cities will depend on how well they prepare themselves for aging and increasingly diverse populations.¹¹ They argue that finding ways to minimize economic disparities is critical to avoid detrimental income and opportunity gaps; gaps that are "damaging to competitiveness, bad for community stability, and expensive for society as a whole."

The next two decades will see the number of older adults grow three times as fast as the population as a whole. How will different metropolitan areas organize themselves to meet the needs of this population as well as to take advantage of their tremendous, and often undervalued, talents?

¹¹ Lewis, Kristen and Burd-Sharps, Sarah. *Minority Report: America Will Be Defined by These Huge Demographic Shifts*. Business Insider. June 29, 2012. Retrieved from <http://www.businessinsider.com/america-will-be-defined-by-huge-demographic-shifts-2012-6>

The rising generation of majority-minority Americans will seek an inclusive, diverse civic life, opting for social solidarity rather than divisiveness. The inexorable march of gentrification and sorting of neighborhoods by income apparent in too many major cities crowds out many of the things that make city living exciting and fun. The best cities to live in twenty years from now will be those that invest in and make room for all the people living there today—because the real wealth of cities is people.

Areas of Inquiry

Connecting Youth (Especially Youth of Color) to Educational and Economic Opportunities

One in seven Americans ages 16 to 24 are neither working nor in school, a group termed *disconnected youth*. The rates of disconnection are significantly higher for African-American young adults (22.5%) and Latinos (18.5%). Lacking connections to school and professional opportunities, disconnected young people are socially isolated and face a future of diminished opportunities, both economically and socially. Between 2007 and 2010, the number of disconnected youth grew by 800,000.¹² The Common Council should determine which young people in Madison are at risk of disconnection and identify opportunities to build bridges training and employment. By connecting youth with apprenticeships, job placement and other supports Madison can help its young people become successful adults and contribute to the long-term economic and social well-being of the community.

Improving Access: Building Pathways to Equality and Success

As Madison and Dane County become increasingly racially diverse, they risk mounting polarization with respect to access to opportunity and economic success. The concern over inequity has been most visible in recent years in disparate levels in quality of life within the City of Madison and varying graduation and academic success levels of students. The Madison Metropolitan School District has recently launched a multi-million dollar effort to resolve long-standing gaps in achievement of, “students of color and students from low income households.” The City of Madison likewise should address issues of access and equality by deploying a two-fold approach. Poverty, racism, language and cultural differences often form barriers that challenge the individual and family on a daily basis and contribute to systemic inequality and underrepresentation.

The first approach would include specific strategies to improve economic well-being for the most vulnerable individuals and families. There are numerous programs and policies to consider regarding access and economic opportunity. Examples of such strategies could include:

- building financial literacy and facilitating access to safe and affordable financial products,
- ensuring that City services reach underserved populations,
- increasing access to affordable housing and quality child care, and
- assessing public transit for affordability and functionality for the working poor.

The second approach requires a reevaluation of City processes with a focus on providing new opportunities for marginalized populations to participate substantively in public decision making. The

¹² Burd-Sharps, Sarah and Lewis, Kristen. *One in Seven: Ranking Youth Disconnection in the 25 Largest Metro Areas*. Measure of America of the Social Science Research Council. September 2012. Retrieved from www.measureofamerica.org

goal is to make sure everyone has a seat at the table. Madison could address public participation through a variety of methods which may include:

- increasing diversity on Boards, Committees, and Commissions, and other official bodies,
- surveying citizens on a regular basis and reporting on what steps are being taken to address citizen concerns,
- building on the work of the Neighborhood Resource Teams, and
- relocating City meetings to locations, forums, or times which may be more accessible for underrepresented groups,
- utilizing technology to obtain input from a broader group of citizens.

This approach will require the City to redouble efforts to demonstrate that all communities are welcome, and that public participation influences decisions. This process cannot rely on the data of demographic trends alone. The experience of a person of color or a person who feeds their family with SNAP benefits can provide unique insights for City officials. Improved engagement from racially diverse and economically challenged communities should help the City build solutions for segregation, social tensions, housing equality, and accessibility to opportunity. It is through analysis of the trends in various populations and in listening to their experiences that the City will be able to understand the influence of race, poverty, age and ethnicity on the well-being of those populations and the interplay between those characteristics. Most importantly improved engagement might help the City better answer the question, *are we meeting the needs of communities of color, immigrants, and low-income families and individuals?*

Attracting Young Families to Madison

The University of Madison, innovative businesses, local hospitals and the State and local government attract young professionals and academics to the area. Yet, as those same Madison residents become parents, some trends indicate that they are settling into homes outside of the City. The Council is committed to addressing the needs of young families and professionals in their late 20s and early 30s. The research will seek to identify the reasons people choose to live in the City and lay out policies to improve or promote those resources or services.

Improving the Quality of Life for Seniors

As noted earlier, projections indicate that over 21% of Dane County's population will be over the age of 65 in 2035. Seniors will constitute a significant portion of Dane County residents, more than they ever have before and the City must be ready. Some regions like Arlington, VA, have already begun widening sidewalks, lowering bus heights and improving traffic signals to accommodate the needs of senior citizens. Other changes include amending zoning codes to allow for more "granny flats" so that seniors may live closer to relatives. Madison will likewise face this growing challenge. If the needs of the aging population are thoughtfully addressed, Madison can help its residents live fulfilling lives, and give back to the community throughout their later years. A failure to meet these needs however "risks alienating and isolating a rapidly growing cohort of taxpayers."¹³

¹³ Holeywell, Ryan. *How will Boomers Reshape U.S. Cities?* Governing: The States and Localities. September 2012. Retrieved from <http://www.governing.com/generations/government-management/gov-how-will-boomers-reshape-cities.html>

Moving Forward

The next steps to develop this Legislative Agenda item include more research on demographic trends, a review of current services for these populations, a review of city functions and services with the needs of these populations in mind, and research on best practices and innovations from other communities. The process could include public input, discussions with partners and stakeholders, and development of a policy agenda. Collaboration with Madison Metropolitan School District will be a priority throughout the demographic change analysis.

Pertinent City Committees

Affirmative Action Commission
City-County Liaison Committee
Committee on Aging
Commission on People with Disabilities
Common Council Organizational Committee
Early Childhood Care & Education Committee
Education Committee
Board of Health for Madison & Dane County
Long Range Transportation Planning Committee
Madison Arts Commission
Madison Public Library
Board of Park Commissioners
Parking Council for People with Disabilities
Pedestrian/Bicycle/Motor Vehicle Commission
Plan Commission
Public Safety Review Committee
Transit & Parking Commission
Zoning Board of Appeals