

September 3, 2024 Meeting

# **ROOM TAX COMMISSION**

# AGENDA

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*Equity Statement on all BCC agendas – “Consider: Who benefits? Who is burdened? Who does not have a voice at the table? How can policymakers mitigate unintended consequences?”*

*This meeting is being recorded*

1. Call to Order/Roll Call
2. Approval of Minutes from June 3, 2024 meeting
3. Disclosures and Recusals
4. Financial Update and Budget Priorities from Organizations Receiving Room Tax Commission Allocations
5. Room Tax Fund Condition and Projections / City Budget Outlook
6. Outline of Room Tax Commission 2025 Budget Meeting
7. Adjournment

Alliant Center, Madison Arts Commission, Destination Madison,  
Monona Terrace, Overture Center

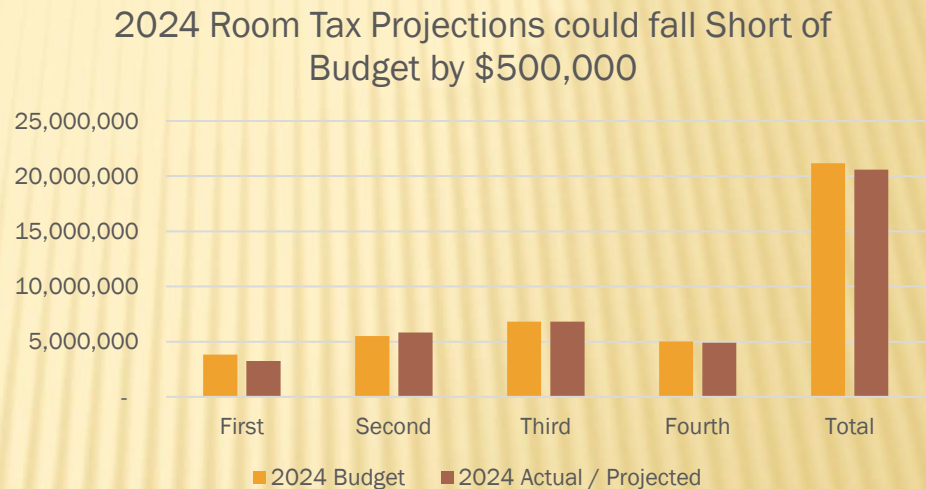
# **FINANCIAL UPDATE AND BUDGET PRIORITIES FROM ORGANIZATIONS RECEIVING ROOM TAX COMMISSION ALLOCATIONS**

# ROOM TAX FUND CONDITION AND PROJECTIONS



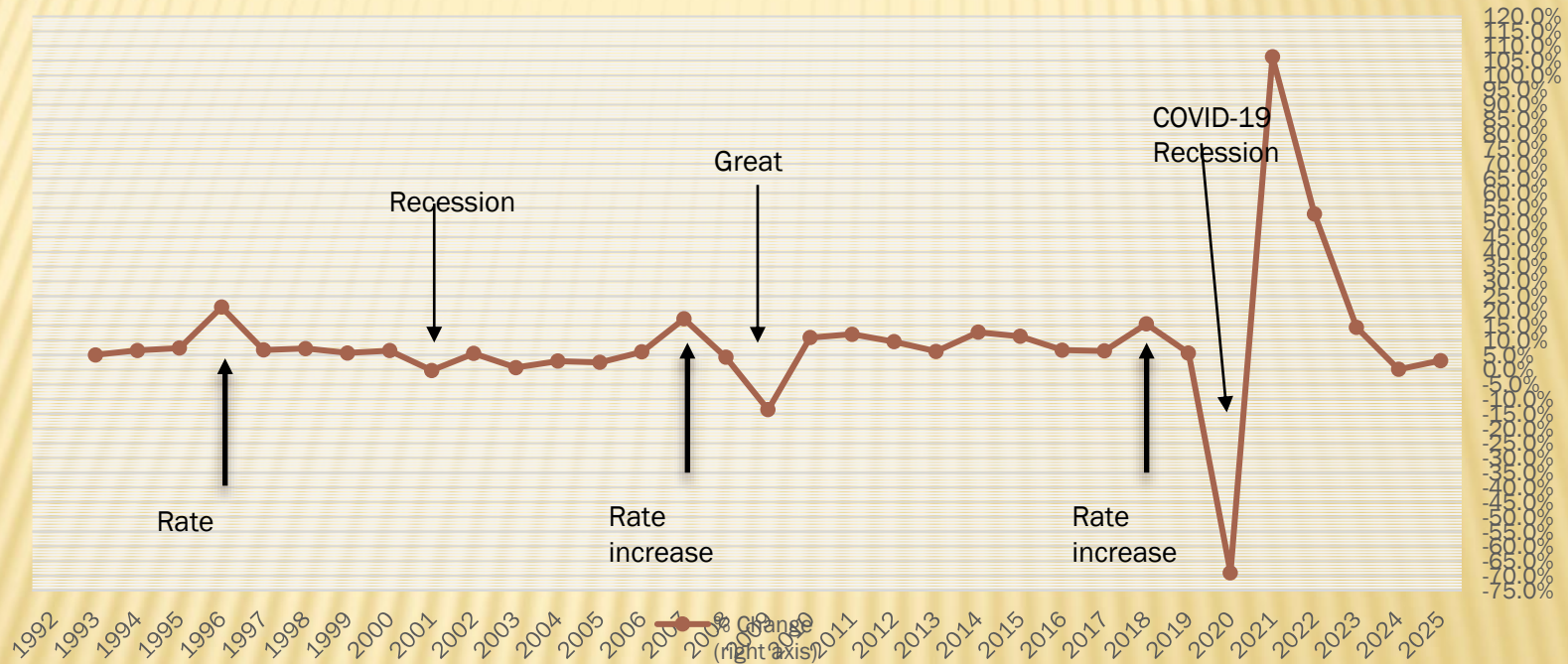
# 2024 Q2 COLLECTIONS AND FORECAST

- ✗ Preliminary collections -- \$5,842,538
- ✗ Up 6% over 2023 Q2; down 4.6% YTD
- ✗ May still reach 2024 budget amount.



# REVENUES STABILIZING AFTER PANDEMIC

## ANNUAL RATE OF CHANGE - 1992 TO 2025



*Long term average annual growth rate, excluding rate increases, is 3% to 5%*

# NATIONAL GROWTH RATE IS NORMALIZING MADISON ON SAME TRACK

“...Travel remains a priority for most Americans, but the volume has lessened as prices on goods and services continue to rise...”



## U.S. Hotel Forecast

% changes represent year-over-year comparisons

	2023 Actual	2024 Forecast	2025 Forecast
Occupancy	63.0%	63.0%	63.4%
ADR	+4.3%	+2.0%	+2.0%
RevPAR	+5.0%	+2.0%	+2.6%
Real RevPAR compared w/ 2019	-4.8%	-5.9%	-6.0%

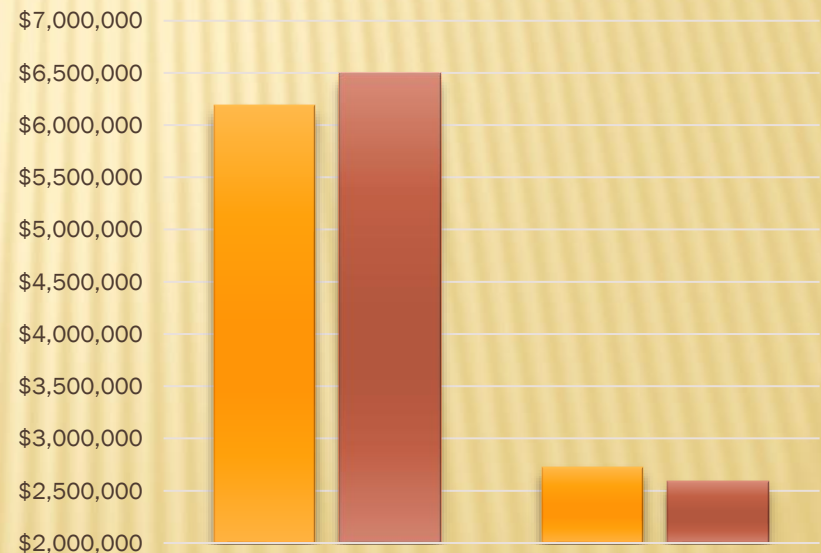
Source: Tourism Economics: STR

“...lessening demand for hotels in the lower priced tier...pricing demand has waned given changes in mix and travel patterns...”

STR / TE – June 3<sup>rd</sup> Press Release

**Top Twenty Revenue Generators  
have 5% increase  
All Others have 5% Decrease  
Overall –2% increase**

*[Collections through Q2– excludes Evolve marketplace]*



Twenty Largest in Revenue – 5.0% Increase

All Others (excluding Evolve) – 5% decrease

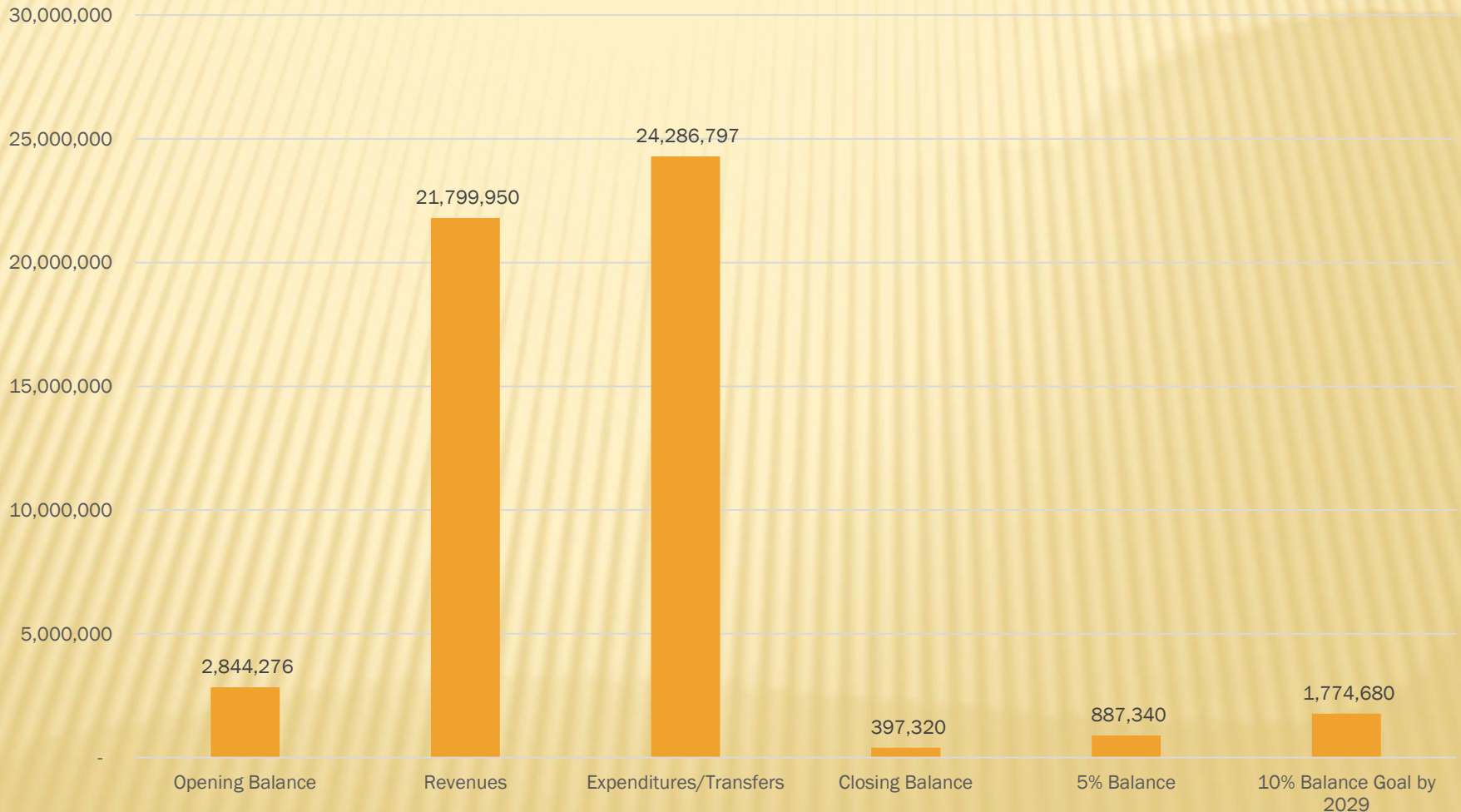
Top 20 includes Expedia and AirBnB

■ 2023 ■ 2024



# SPENDING DOWN LARGE FUND BALANCE

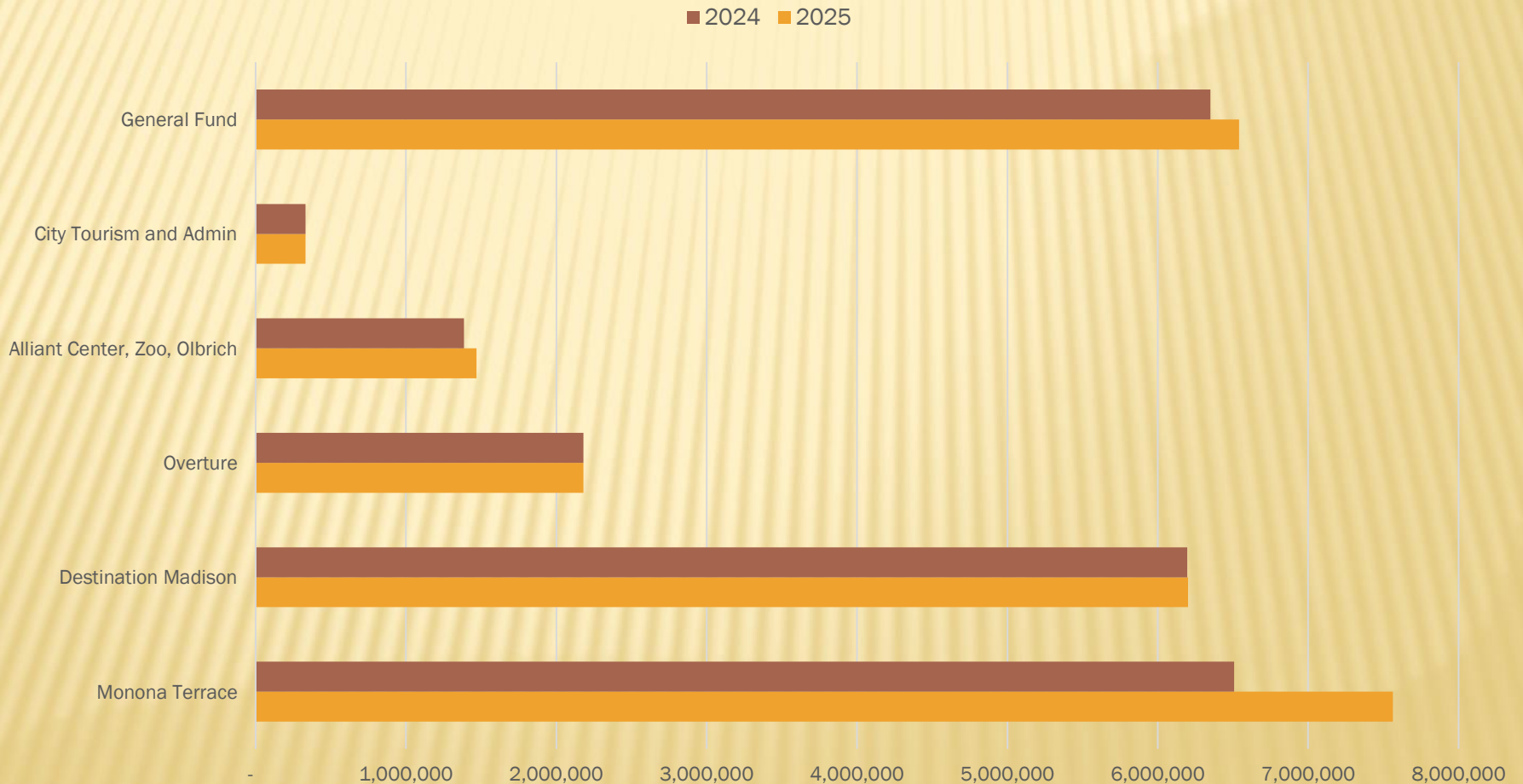
3% Growth -- Not Sufficient to Maintain 5% Fund Balance Goal





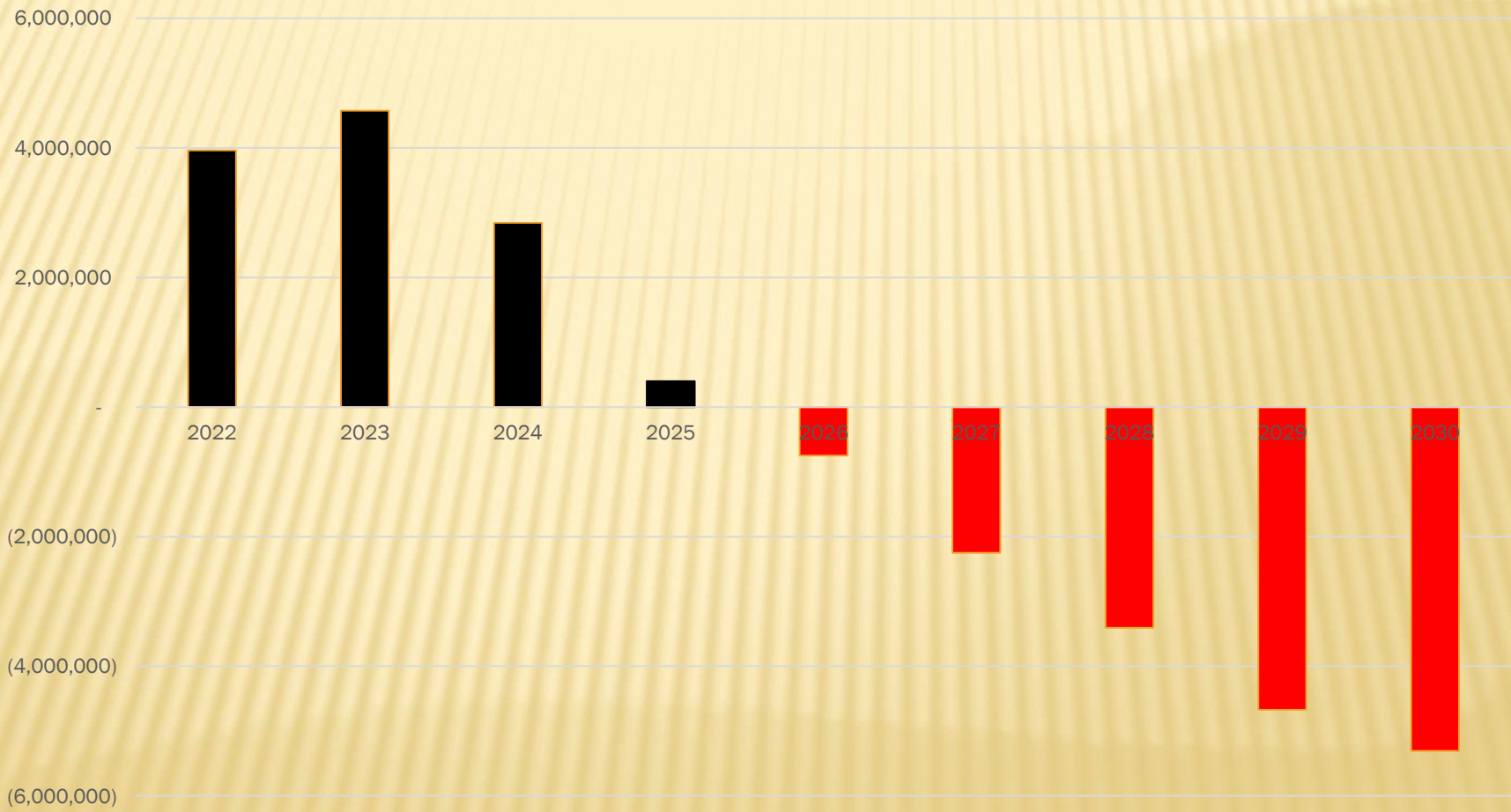
# MONONA TERRACE CAPITAL COSTS DRIVE COST TO CONTINUE

2025 Costs-to-Continue and Transfer to General Fund

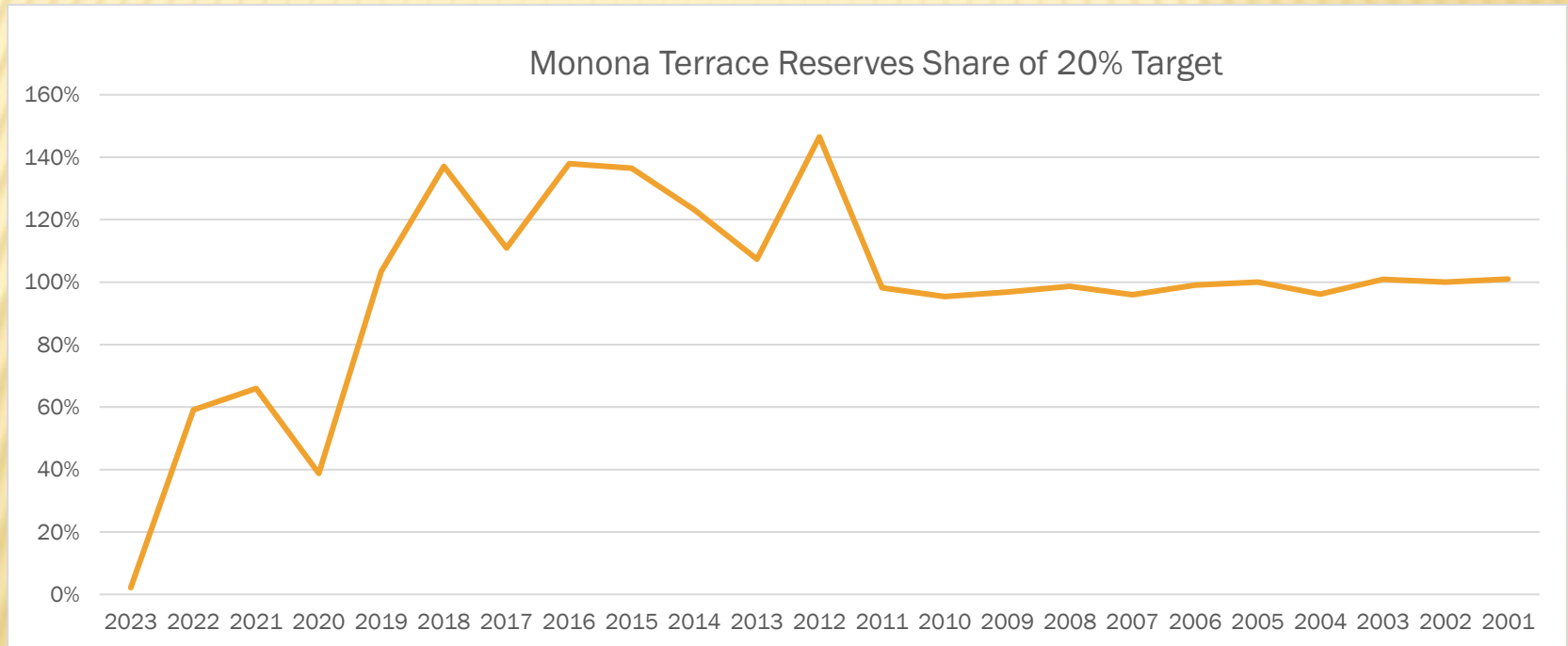


# FUTURE CHALLENGES

Future Fund Balances at 5% Revenue Growth



# MONONA TERRACE RESERVES DEPLETED







# FUND CONDITION

	2022 Actual	2023 Adopted	2023 Actuals	2024 Adopted	2024 Projected (June 2024)	2025 Concept
Revenues	18,488,410	19,000,000	21,143,358	21,165,000	21,165,000	21,799,950
<b>Tangible Municipal Development (s. 66.0615 (1) (fm) 3., Wis. Stats.)</b>						
Monona Terrace	4,150,574	6,688,446	5,791,080	6,300,768	6,508,489	7,563,375
Debt Service	115,479	207,721	-	509,768	717,489	654,694
Operating	3,962,100	4,825,725	4,825,725	5,392,000	5,392,000	5,459,681
Capital	72,995	1,655,000	965,355	399,000	399,000	1,449,000
Alliant Center, Olbrich and Zoo		738,152	738,152	1,386,000	1,386,000	1,469,723
Overture	1,600,000	2,095,000	2,095,000	2,180,000	2,180,000	2,180,000
<b>Tourism Marketing (s. 66.0615 (1) (fm) 1., Wis. Stats.)</b>						
Destination Madison	3,900,000	5,264,037	5,264,037	5,591,000	5,920,000	5,926,200
Event Booking Assistance	197,080	275,000	177,607	275,000	275,000	275,000
City Tourism	108,129	222,500	204,170	297,500	297,500	297,500
Other	16,229	35,000	49,767	35,000	35,000	35,000
Room Tax Commission	9,972,012	15,318,135	14,319,813	16,065,268	16,601,989	17,746,797
<b>Room Tax Retained for General Purposes</b>						
General Fund Share	5,667,799	5,700,000	6,288,337	6,350,000	6,350,000	6,540,000
Total Expenditures	15,639,811	21,018,135	20,608,150	22,415,268	22,951,989	24,286,797
Ending Balance	3,961,107	950,352	4,571,636	1,868,676	2,844,276	397,320
Structural Balance (rev v exp)	2,848,599	(2,018,135)	535,208	(1,250,268)	(1,786,989)	(2,486,847)

# CITY TOURISM ACTIVITIES DETAIL

	2023 <u>Actual</u>	2024 <u>MOTION</u>	2024 <u>Post-Budget Projected</u>	2025 <u>Aug-24</u>
<u>City Tourism Marketing Activities</u>				
Support for Fireworks Events (d)				
Sister Cities Program	\$ 27,273	30,000	30,000 	30,000
Civic Conferences / Fairs / Festivals / Summer Conce	161,897	252,500	252,500	252,500
Civic Conferences (e)	\$ 2,272	\$ 35,000	\$ 35,000	\$ 35,000
Civic Promotion (e)	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Madison Music City (g)				
Dane Dances (g)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Make Music Madison (g)	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Songwriting Conference (g)	\$ -			
Music Tourism Study / Implementation	\$ 45,000	\$ 25,000	\$ 25,000	\$ 25,000
Arts Workers Grants		\$ 75,000	\$ 75,000	\$ 75,000
Fairs / Festivals / Summer Concerts (f)	\$ 20,095	\$ 17,500	\$ 17,500	\$ 17,500
Downtown Temporary Art Installations	\$ 24,530	\$ 30,000	\$ 30,000	\$ 30,000
WIAA Basketball Tournament (h)	15,000	15,000	15,000 	15,000
Subtotal City Tourism Marketing	\$ 204,170	\$ 297,500	\$ 297,500	\$ 297,500

# 2025 CITY BUDGET BACKGROUND



# CURRENT SITUATION: THE CITY FACES A SERIOUS STRUCTURAL DEFICIT

## What is a structural deficit?

- ✖ A structural deficit is when projected expenses are greater than projected revenues, despite economic conditions. The cost to provide the same level of services next year is more than we think we will bring in through revenues.

## How much is the projected deficit for 2025?

- ✖ Currently, the deficit is estimated to be \$22 million.

## Why are we in this situation?

### 1 Limited Revenues

- State of WI places strict limits on revenues, so revenues do not keep pace with inflation
- Madison receives less State Aid (\$29/resident compared to statewide average of \$195/resident)

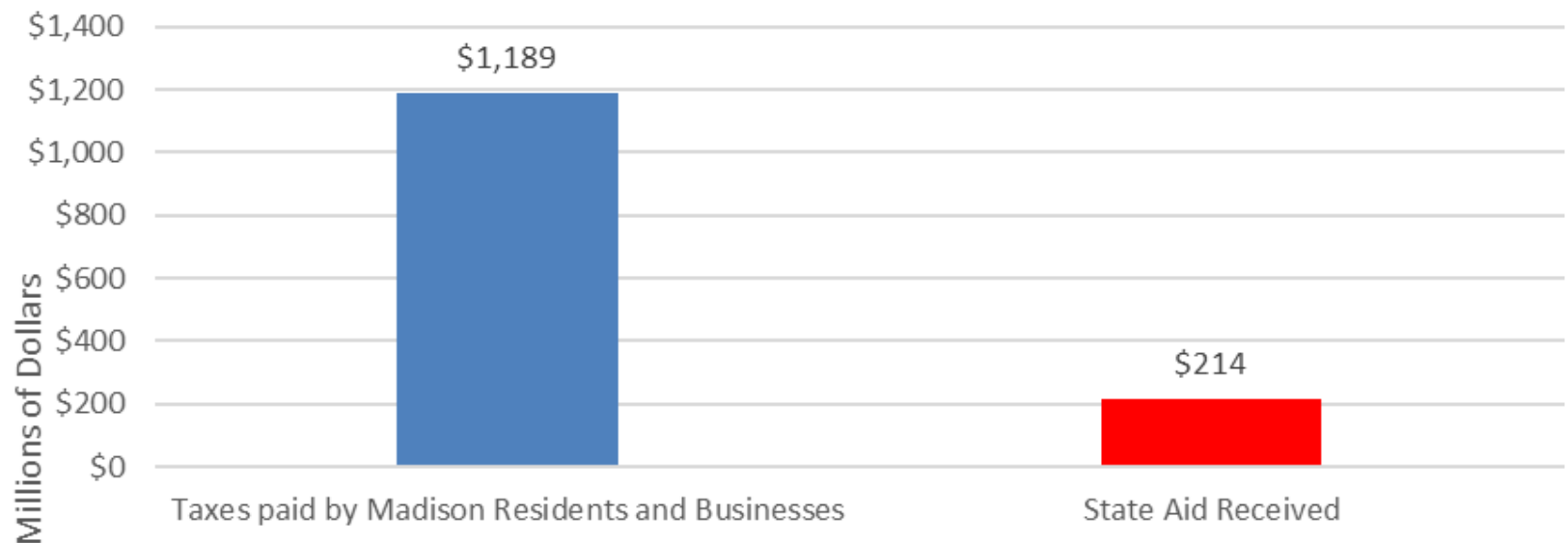
### 2 Growing City

- Expanding services to meet resident needs as the City grows (for example, maintaining emergency response times)
- Annual increases for cost of living adjustments, higher healthcare costs, and inflation

### 3 Impact of COVID Pandemic

- City revenues have not fully recovered from the pandemic – property taxes limited compared to county and state sales taxes
- Federal COVID relief funding helped with revenue losses in prior years, but this ends in 2024

# STATE LEGISLATURE SHORTCHANGES MADISON: WE GET BACK ONLY 18 CENTS FOR EVERY \$1 OF STATE TAXES PAID



Note: Includes state aid for City of Madison, Madison Metropolitan School District, and City portion of Dane County

Source: Wisconsin Department of Revenue; City Finance Department analysis

## WHAT HAS THE CITY DONE SO FAR?

Madison has faced a budget deficit **every year** since the State imposed strict levy limits in 2011. The problem is bigger in 2025 than before because of the lasting impacts of the pandemic and end of federal recovery funds.

2012	2013	2014	2015	2016	2017	2018
<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 – shift Overture</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>	<ul style="list-style-type: none"><li>• Increased Room Tax rate</li><li>• Cost Allocation</li><li>• Increased investment revenue</li></ul>
2019	2020	2021	2022	2023	2024	
<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 Registration Fee</li><li>• Shift Parking Enforcement to Parking Enterprise</li><li>• Increased Forestry staff time to Urban Forestry Special Charge</li><li>• Debt premium</li></ul>	<ul style="list-style-type: none"><li>• \$8 m in fund balance</li><li>• \$6 million in cuts, Workshare/'furloughs', service efficiencies</li><li>• \$6.1 million American Rescue Plan Act (ARPA)</li><li>• \$2 m in fee increases, Town of Madison fire &amp; EMS contract</li></ul>	<ul style="list-style-type: none"><li>• \$13.1 million ARPA</li><li>• \$1.5 million Resource Recovery Special Charge (RRSC)</li><li>• \$1.4m in cuts</li></ul>	<ul style="list-style-type: none"><li>• \$6.9 million TID proceeds</li><li>• \$3 million Resource Recovery Special Charge (RRSC)</li><li>• \$7.7 million one-time reduction to Metro subsidy</li></ul>	<ul style="list-style-type: none"><li>• \$9.2 million in fund balance</li><li>• \$5.6 million ARPA</li><li>• \$3.1 million TID proceeds</li><li>• \$3.0 million reduction to all agencies</li><li>• \$2.4 million savings from vacancies/ salary savings</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.



# COUNCIL GUIDANCE ON 2025 BUDGET

LEGISTAR 82456, ADOPTED APRIL 16, 2024

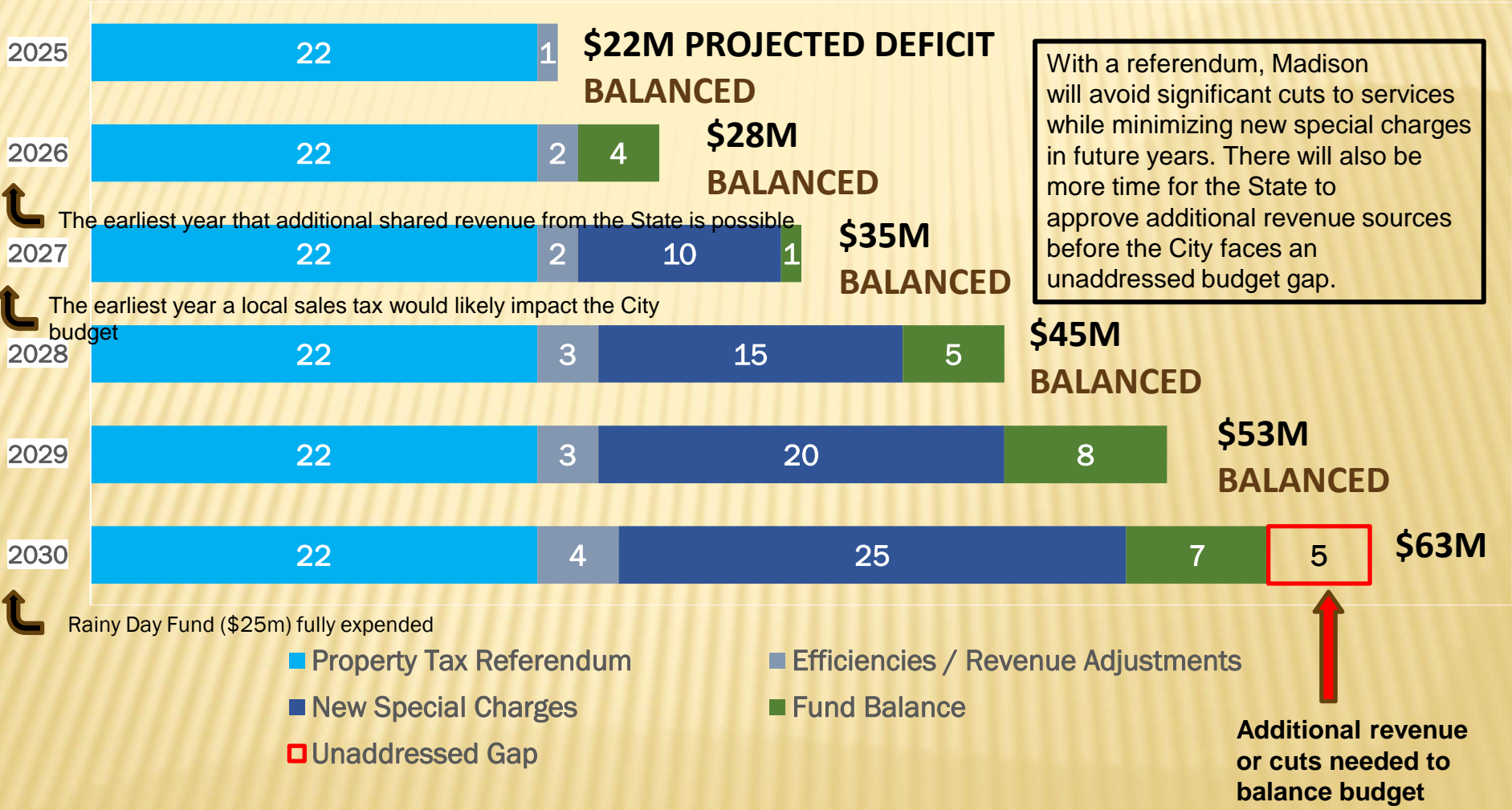
## VALUES AND PRIORITIES

1. Maintaining services to residents
2. Preventing layoffs or furloughs of city staff.
3. Maintaining wage parity for general municipal employees
4. Meeting the needs of a growing city.
5. Choosing the most progressive revenue options that consider housing affordability.

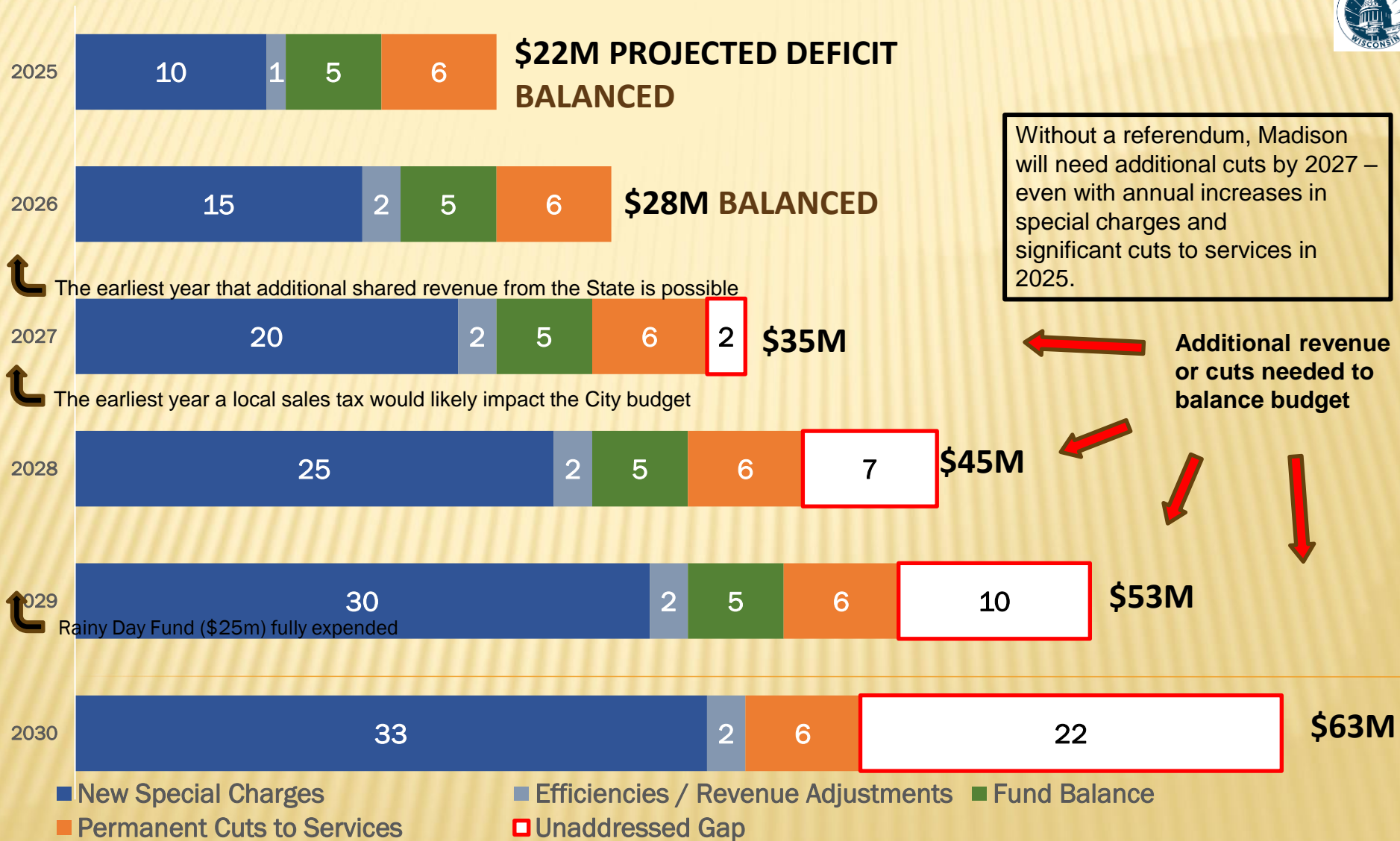
## GUIDANCE ON DEVELOPING 2025 BUDGET

1. Evaluate service levels, staffing and fiscal impact.
2. Seek ways to increase efficiencies in operations.
3. Explore a reduction in expenditures from cost-to-continue levels that does not compromise services to residents.
4. Develop referendum language to increase property tax to meet some or all of deficit, as well as options to replace existing non-property tax revenues.
5. Prepare options other than property tax, including special charges
6. Develop a multi-year plan, including options for new, or increasing existing, fees and charges.
7. Consider the level of overall general obligation borrowing in 2025 capital budget to reduce rate of growth in property taxes
8. Develop a community engagement plan to educate the public.

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



# Without a Referendum, the City Would Need Additional Cuts and Revenue by 2027





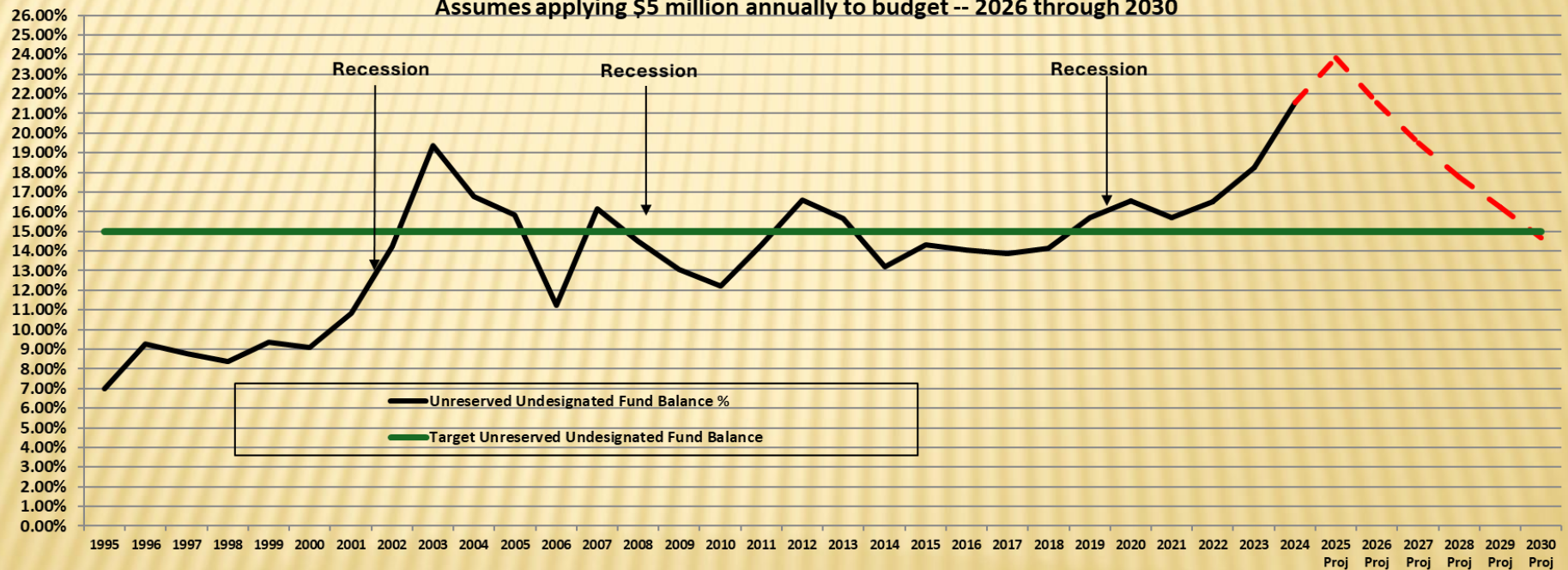
# GENERAL FUND UNASSIGNED BALANCE ("RAINY DAY FUND")

## General Fund Unassigned Balance

(as of January 1)

1995 to 2030 Projected

Assumes applying \$5 million annually to budget -- 2026 through 2030



# BUDGET TIMELINE

Council meeting - 5 year plan presented	July 16
Agency Requests due	July 19
Finance Committee – 5 year plan and referendum discussed	July 22
Council meeting – public comment on referendum	August 6
Agency Briefings with Mayor’s Office	August 12-14
Common Council (Special Meeting) – vote on referendum	August 20
Executive Budget Introduced to Common Council (CC)	October 8
Finance Committee (FC) Briefing	October 14-15
FC Amendment Meeting	October 28
CC Amendment Week	October 30-November 8
CC Budget Adoption Meetings	November 12-14

# 2025 ROOM TAX COMMISSION BUDGET

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# 2025 PRELIMINARY BUDGET – CONCEPT

- ✘ Overall – Retain fund balance to protect programs from economic shocks; Destination Madison receives 28% of room tax revenues
- ✘ Monona Terrace – Fund operating budget cost-to-continue request; fund machinery and equipment capital from room tax / building improvements from room tax-supported GO borrowing.
- ✘ Overture and Alliant Center– No increase
- ✘ Olbrich/Zoo – 50% of net cost-to-continue



# NEXT STEPS

- ✖ 2025 Executive Capital Budget introduced September 10th
  - + *Monona Terrace capital projects – building and building improvements – Room Tax-supported GO Debt; machinery and equipment – Room Tax annual funding*

*Room Tax Commission 2025 budget review – September 3*  
*Room Tax Commission 2025 budget approval – September 25*

- ✖ 2025 Executive Operating Budget introduced October 8<sup>th</sup>
- ✖ Levy limit referendum on November 5<sup>th</sup> general election ballot.
- ✖ 2025 Budget adopted on November 12, 2024

September 3, 2024, Room Tax Commission Meeting

**ADJOURNMENT**

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