



# 2025 Operating Budget: Update on Budget Outlook

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Common Council  
June 18, 2024

# Agenda

- 2025 Operating Outlook
  - Budget Gap and Long-Term Outlook
  - 2023 General Fund Results
  - Budget Calendar
  - Cost to Continue Revenue & Expenditures Assumptions
- Mayor's Message and Approach for 2025

# 2025 Operating Outlook

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Budget Calendar; Cost to Continue Assumptions; Budget Gap; Approach for 2025

# Current Budget Gap

## (General and Library Funds)

### Expenditures = \$431.4 million

Total expenses are \$26.0 million (6.4% ) higher than 2024 adopted budget. Major changes:

- + \$14.5m: Salary + benefits increases
- + \$2.7m: Metro subsidy increase
- +\$500k: PHMDC subsidy
- + \$5m: Placeholder for GF Debt Service
- + \$1.47m: Citywide Purchased Services increases for technology costs (software maintenance contracts, PCI compliance, and credit card processing fees)
- - \$1.22m: Adjusts expenses for odd-year election cycle

### Revenues = \$409.4 million

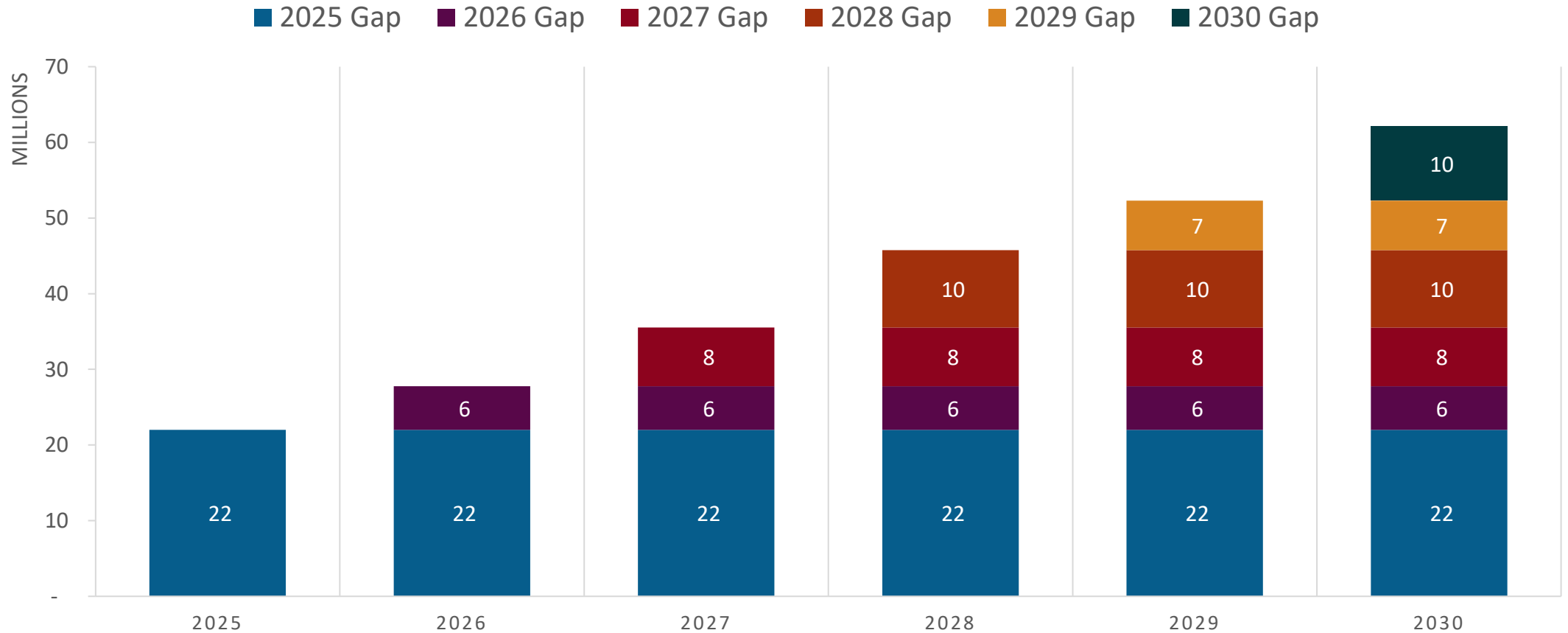
Total revenues are \$4.0 million higher than the 2024 adopted budget. Assumptions:

- + \$12.6m: Levy increase
- + \$6.0m: Increase in interest earnings
- + \$1.0m: Increase in ambulance conveyance fees
- - \$17.9m: Removing one-time sources (\$9.2m fund balance, \$5.6m ARPA, \$3.1m TID)

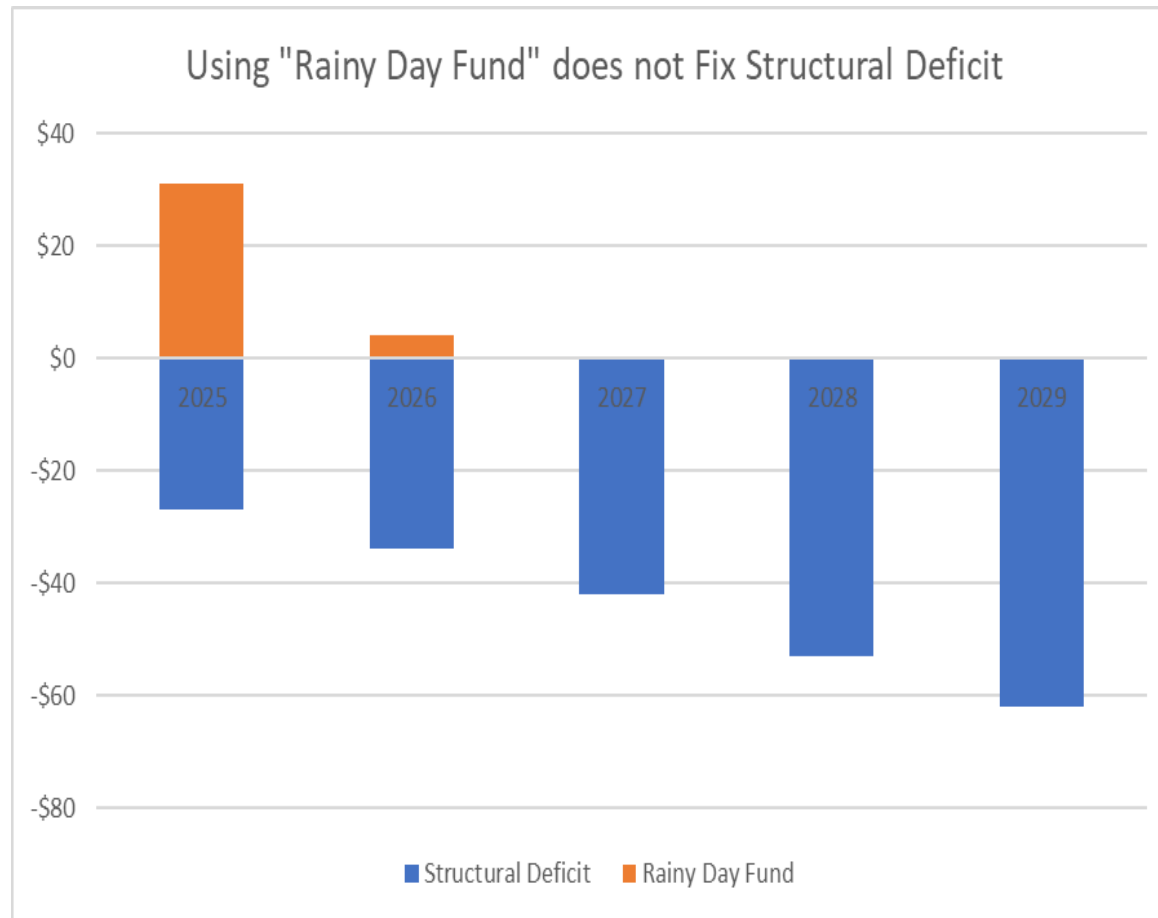
**Gap = \$22.0 million**

# Long-Range Outlook

## ESTIMATED ADDITIONAL GAP BY YEAR



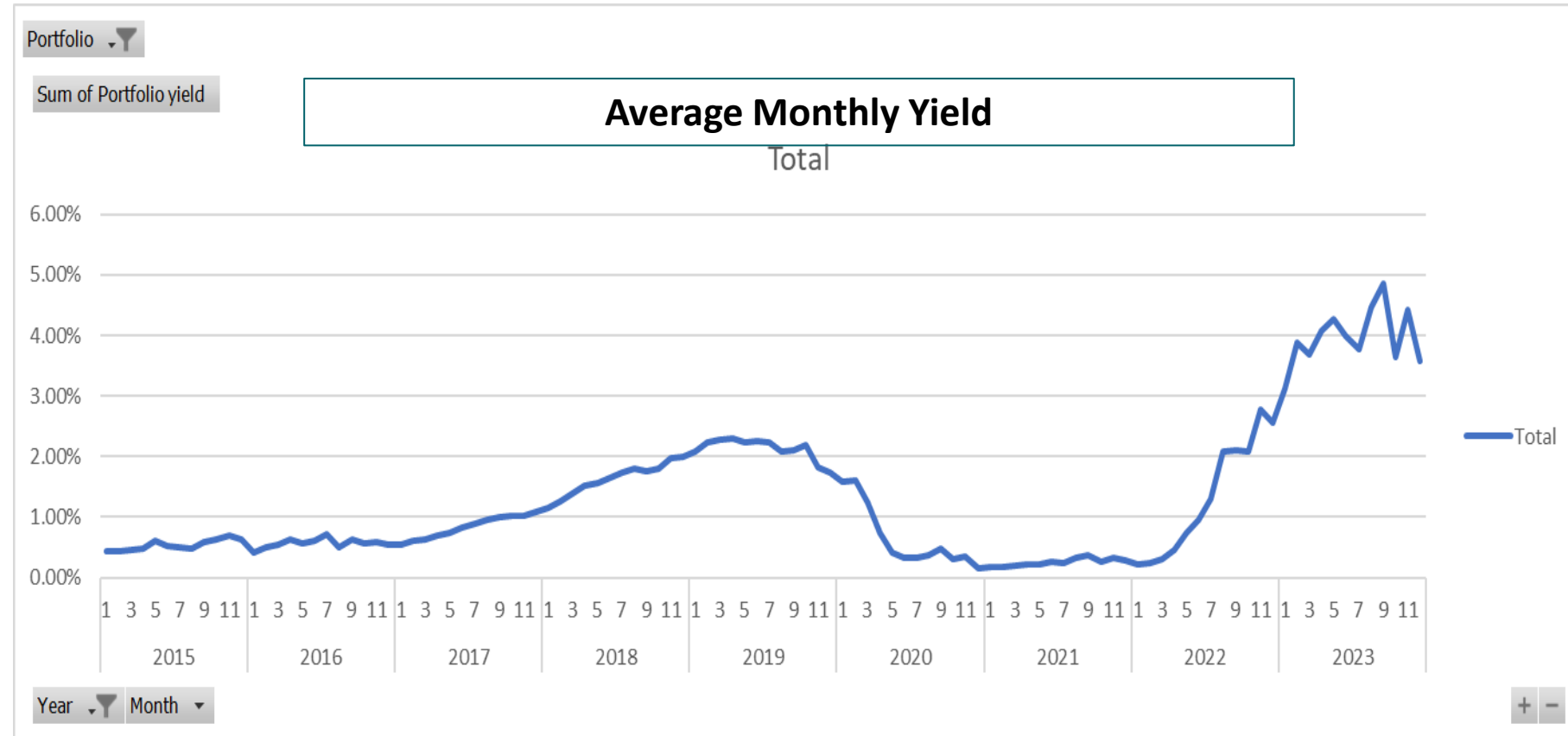
# 2023 General Fund Results



- City finished 2023 with revenues exceeding expenditures by \$31 million:
  - Rapid increase in interest rates boosted investment income
  - Staff vacancies much higher than usual due to strong labor market and retirements.
  - Lifted “Rainy Day Fund” to 21% of budget – minimum target is 15% of budget
- Budget Outlook
  - Staff vacancy rate is slowing
  - 2024 budget already reflects savings from staff turnover
  - Interest rate impacts are short-term
  - “Rainy Day Fund” is one-time funding
  - Structural deficit is occurring every year.

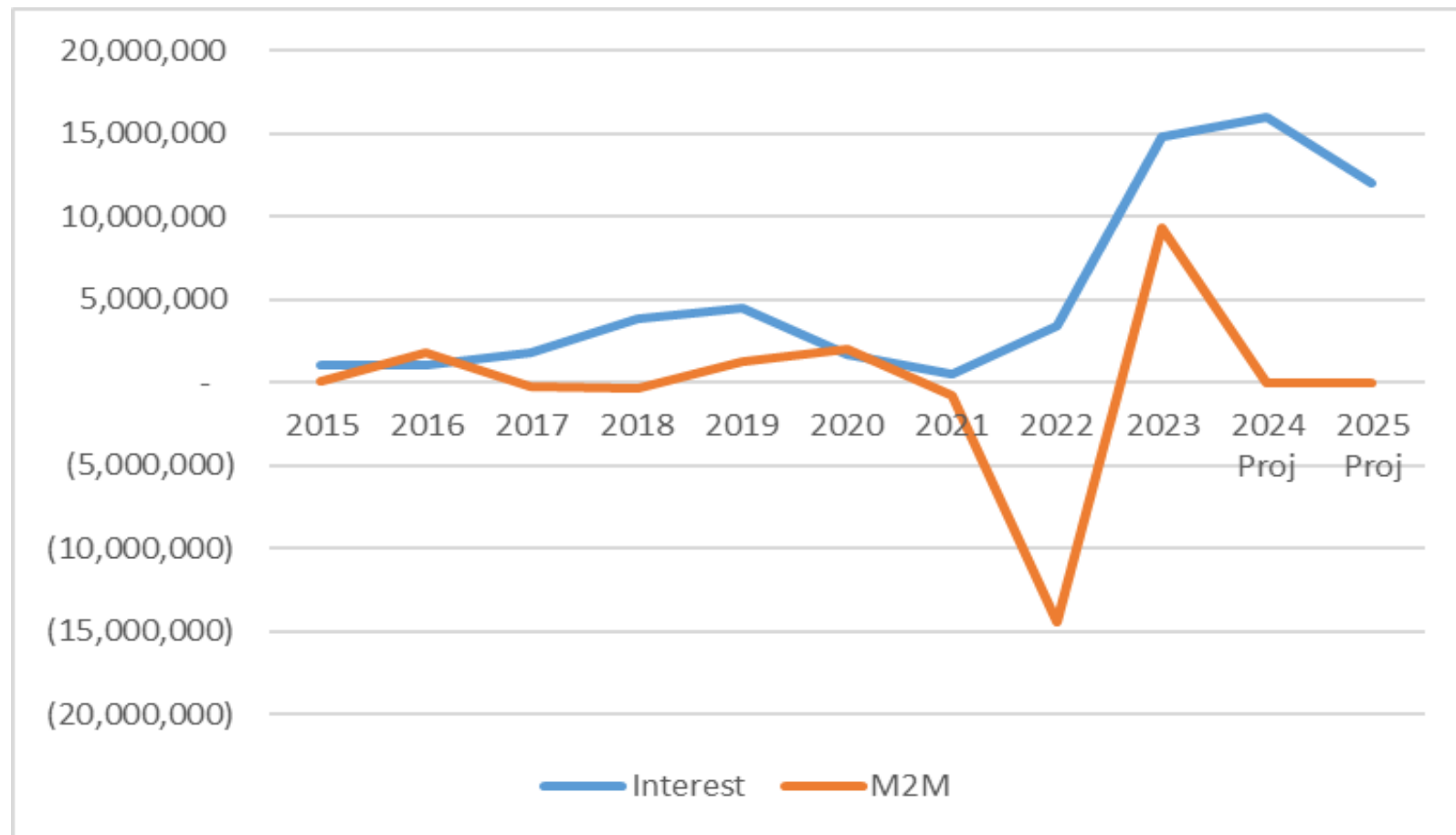
# Investment income higher than forecast

- Average annual yield increased over three-fold from 2022 to 2023
- Mark-to-Market adjustment was -\$14 million in 2022; reversed by +\$9 million in 2023
- Projection model understated cash balances that generated General Fund investment income; not noticeable in low interest rate environment; model has been updated.



# 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; partially reversed in 2023.
- \$5 million has been set aside in assigned fund balance to help offset future drops in M2M and investment earnings.





# 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. Some of the major actions taken to balance the budget include:

- **Employee compensation** – increased employee contributions to police and fire pensions and health insurance for all employees.
- **Spending cuts** – \$6 million in reductions in 2024 budget
- **Room tax** – rate increase from 9% to 10% in 2018 (only 30% can be used for general purposes)
- **Ambulance fees** – multiple rate increases since 2011
- **Vehicle Registration Fee** -- \$40 fee established in 2020 to help fund City's contribution to transit operations.
- **Special Charges** – created to pay for urban forestry and resource recovery (recycling)
- **American Rescue Plan Act (ARPA)** – one-time funding to help maintain current service levels during COVID pandemic.
- **“Rainy Day” Fund** – one-time funding to help maintain current service levels

# Overview of Operating Budget Phases



# Detailed Calendar – June - August

Date	Activity
June 10	2025 Operating Budget Update to Finance Committee
June 17	Operating budget instructions to agencies
June 18	2025 Operating Budget Update to Council
June 24	Broad options discussion with Finance Committee
July 2	Briefing and Discussion at Council; Referendum resolution introduced
July 8	Referendum resolution discussed at Finance Committee
July 16	Referendum resolution discussion
August 6	Last scheduled Council meeting before 70-day deadline for referendum ballot resolution (August 26); referendum language must include DOR-provided data that is available after August 1 <sup>st</sup> .

*Dates could shift due to availability of data.*

# 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

- Remove one-time funding used to balance the 2024 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 Results Madison payroll allocations
- Utilities, Fleet, and Cost Allocation Plan charges
- Workers Comp & General Liability Insurance

## Agency-Specific Adjustments

- Remove one-time funding and expenses from the 2024 Adopted Budget
- Annualize partial year commitments
- Build in contractually required increases for purchased services
- Agency C2C determined through meetings between agencies and budget staff

# Cost to Continue Adjustments: Categorized Adjustments (GF + Library)

Category	Assumptions
Personnel Costs	<p>\$14.5m increase in salaries and benefits</p> <ul style="list-style-type: none"> <li>• Annualizes 6% GME increase phased in during 2024 (4% catch up effective January 2024; 2% catch up effective July 2024)</li> <li>• Adds 3% increase for GMEs and protective service based on negotiated agreements <ul style="list-style-type: none"> <li>• General and Library funds GME 3% - \$3 million includes benefits</li> </ul> </li> <li>• Includes 1% step and longevity increase</li> <li>• Annualizes positions funded for partial year in 2024</li> <li>• Includes funding for potential position reclassifications submitted to Human Resources</li> <li>• \$2.97m placeholder for health insurance rate increases; \$500k placeholder for WRS rate increases (held in direct appropriations)</li> </ul>
Elections	<ul style="list-style-type: none"> <li>• Removes \$1.22m for elections (\$990k election officials; \$226k supplies and postage)</li> </ul>
Direct Appropriations	<ul style="list-style-type: none"> <li>• Adds \$5.0m placeholder for Debt Service</li> </ul>
Facilities & Utilities	<ul style="list-style-type: none"> <li>• Adds \$489k for higher gas (+15%) and electricity (+5%) costs, Building Use charges (+10%)</li> </ul>
Technology Costs	<ul style="list-style-type: none"> <li>• Adds \$68,625 for PCI Compliance</li> <li>• Adds \$1.44m for software maintenance contract increases</li> <li>• Adds \$30,000 for credit card processing fees</li> </ul>
ARPA	<ul style="list-style-type: none"> <li>• Removes \$1,225,600 transfer in to cover various CDD community agency contracts</li> </ul>

# Cost to Continue Adjustments: Categorized Adjustments (GF + Library)

Category	Assumptions
Metro Subsidy	<ul style="list-style-type: none"> <li>Adds \$2.7m to Metro subsidy (2025 total: \$18,225,000) for salaries, fringe benefits, overtime, paratransit contracts, supplies/services, and revenue reestimates.</li> </ul>
PHMDC Subsidy	<ul style="list-style-type: none"> <li>Adds \$500k to PHMDC subsidy for salaries, fringe benefits and supplies/services.</li> </ul>
Fleet Rate	<ul style="list-style-type: none"> <li>\$1.4 million increase. Highlights: \$758,000 debt; \$435,000 repairs and supplies; \$211,000 salaries and benefits; \$207,000 decrease fuel.</li> </ul>
Insurance & Worker's Comp	<ul style="list-style-type: none"> <li>Adds \$95,500 (\$485,000 increase in Insurance, \$389,500 decrease in Worker's Comp)</li> </ul>
Professional Services	<ul style="list-style-type: none"> <li>Adds \$125,900 for contractual increases</li> </ul>
Park Maintenance	<ul style="list-style-type: none"> <li>Adds \$48,175 for the costs to operate recently completed capital projects</li> <li>Adds \$128,900 for Mall maintenance, Door Creek Shelter &amp; Country Grove Shelter operations</li> </ul>
Office of Independent Monitor	<ul style="list-style-type: none"> <li>Reduces budget by \$65,500 to remove one-time start-up funding.</li> </ul>
Cost Allocation	<ul style="list-style-type: none"> <li>Updated plan increases billings to enterprise agencies by \$469,000 to reflect higher central service agency costs.</li> </ul>

# Cost to Continue Adjustments: Salary & Benefits Increase (GF + Library)

- 2024 Adopted Salaries & Benefits: **\$253.9 million**
- 2025 Cost to Continue Salaries & Benefits: **\$268.2 million**
  - Represents a **5.63% increase** over 2024 Adopted Budget

Category	Additional Amount in 2025
2025 Steps & Longevity (calculated at 1%)	\$2.0 million
3% COLA for all employees	\$6.1 million
Benefits (includes placeholder for 11% increase in health) <ul style="list-style-type: none"> <li>• Health Insurance</li> <li>• Commissioned Benefits (Retiree health, accidental death and dismemberment)</li> <li>• WRS</li> <li>• FICA</li> <li>• Wage Insurance &amp; VEBA</li> </ul>	<b>\$5.7 million</b> <ul style="list-style-type: none"> <li>• \$3.0m</li> <li>• \$430,000</li> <li>• \$1.65m</li> <li>• \$544,000</li> <li>• \$66,500</li> </ul>
Reclasses; COLA and benefits for Hourly, Overtime, Premium Pay	<b>\$500,000</b>

# What options does the City have?

The operating budget must be balanced. How much we spend (expenditures) cannot be more than the money we bring (revenues).



## Reduce Expenditures

Closing the budget gap through cuts alone will have significant operational impacts and will result in less services to residents.

- Reduce all/most agencies
- Cut specific programs or services
- Cut positions (layoffs) or reduce employee compensation (for example, saving \$22 million would require cutting 220 positions).



## Increase Revenues

The City's options for raising revenues are limited by the State. For example, we cannot levy a local sales tax or income tax.

- Create new special charges
- Increase existing local revenues (e.g. fines, fees)
- Ask voters to increase the property tax ("levy") through a voter referendum



# Mayor's Budget Instructions

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Operating Budget Kickoff – June 17, 2024

# 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.

# Salary Savings

- 7.2% vacancy rate in first 5 months of 2024
- Created tiered structure in 2024 so small agencies with less turnover are not adversely impacted
  - Fewer than 20 FTEs = 0%
  - 20 – 49 FTEs = 0.5%
  - 50 – 99 FTEs = 1.0%
  - 100 – 199 FTEs = 3.0%
  - 200+ FTES = 4.0%
- 2025 salary savings = \$5.6m in GF + Library (3.2% of perm wages)

# 99% Budget for General, Library, Fleet Funds

- Agencies regularly underspend their budgets; the amount varies by agency, but the average for the General, Library, and Fleet funds from 2019-2023 is 3.5%

General, Library, and Fleet Fund Agencies				
Year	Actual	Revised Budget	Unspent Appropriation	% Unspent
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	\$ 10,615,613	4.0%
2023	\$ 268,100,869	\$ 276,326,356	\$ 8,223,961	3.0%
Average	\$ 248,007,806	\$ 257,123,074	\$ 9,114,571	3.5%

- The 2024 budget introduced a 1% reduction in agency budgets to reflect this underspending
- In 2025, the 1% budget efficiencies reduction is \$3.4 million in the General, Library, and Fleet funds
- The 2025 cost to continue budget continues this reduction and General, Library, and Fleet fund agencies will receive a budget target that reflects 99% of their cost to continue budget to capture the underspending

# Service Activity Priorities for General, Library, and Fleet Funds; Metro Transit and PHMDC Subsidies

- Further reductions in certain service activities may be necessary to close the 2025 budget gap while still protecting core services.
- General, Library, Fleet, Metro Transit, and Public Health fund agencies will complete a Lower Priority Service Activity Identification form.
- Each agency will use this form to identify the cost of lower priority service activities in their agency.
- Service activities identified must total at least 5% of the agency's cost to continue budget for the General, Library, and Fleet fund agencies.
- Service activities identified must total at least 5% of the General fund subsidy for the Metro Transit and Public Health agencies.
- Agencies are allowed to propose fee or charge increases on service activities to meet the 5% target. Focus should be on service activities primarily provided to those with the ability to pay.
- No new positions / no supplemental requests.

# General Background on Fees/Charges

- The City has limited authority to impose fees and charges.
- Fees/charges must have a connection to the activity.
- Fees/charges cannot exceed the cost of the service; the City must prove this fact if challenged in court.
- Central service agencies are addressed through cost allocation to enterprise agencies.
- Administrative burden is a key consideration – does the cost to administer a fee/charge outweigh the amount of revenue collected?
- “Covered Services” – garbage collection, fire protection, snow plowing, street sweeping, storm water management – fees/charges revenue reduces allowable levy – no benefit to City.