Outlook for 2025 City Budget

Information Series on the General & Library Fund Budget

Part 4: Revenue Strategies

Series Overview

Part 1: Budget Foundations

- Understanding the City's Fund structure & main components of the Operating Budget

Part 2: The Structural Deficit

- Internal and external factors driving the deficit

Part 3: Budget Balancing Strategies – Expenditures

- Impact of Debt Service and Personnel Costs

Part 4: Budget Balancing Strategies – Revenues

- Local Revenues, Special Charges, Property Tax

Additional topics to be determined

Part 4:
Budget Balancing Strategies – Revenues

Takeaways:

- Madison was shortchanged by 2023 State Aid Legislation
- There are a limited number of non-property tax revenues
- There are tradeoffs and equity considerations to increasing user fees and/or pursuing a property tax referendum

Madison's Revenues in Context

Comparison with 35 largest Wisconsin Cities (over 20,000 in population)

	Per Capita	Rank	Average	Median	% of Average
Federal Aid	$249	2	$78	$45	320%
General Property Taxes	$928	4	$694	$663	134%
Fines, Forfeitures, Penalties	$19	6	$13	$10	146%
Total Taxes	$1,133	6	$906	$855	125%
All Other State Aids	$59	8	$51	$33	117%
Total Intergovernmental Revenue	$432	9	$348	$306	124%
Charges for Service	$124	10	$119	$98	104%
Licenses and Permits	$41	11	$45	$36	91%
Tax Increments (TIF)	$131	14	$159	$121	83%
Total State Aid	$176	23	$256	$240	69%
Shared Revenue (includes municipal, utility, exempt property and expenditure restraint aid)	$71	25	$151	$143	47%
State Highway Aid	$46	26	$55	$53	84%
General Revenues	$1,815	5	$1,540	$1,507	118%
Total Revenues and Other Financing	$2,529	1	$1,900	$1,853	133%

2022 County and Municipal Revenues and Expenditures – Department of Revenue Bulletin No. 120

General State Aid

Total State Aid = $46 million

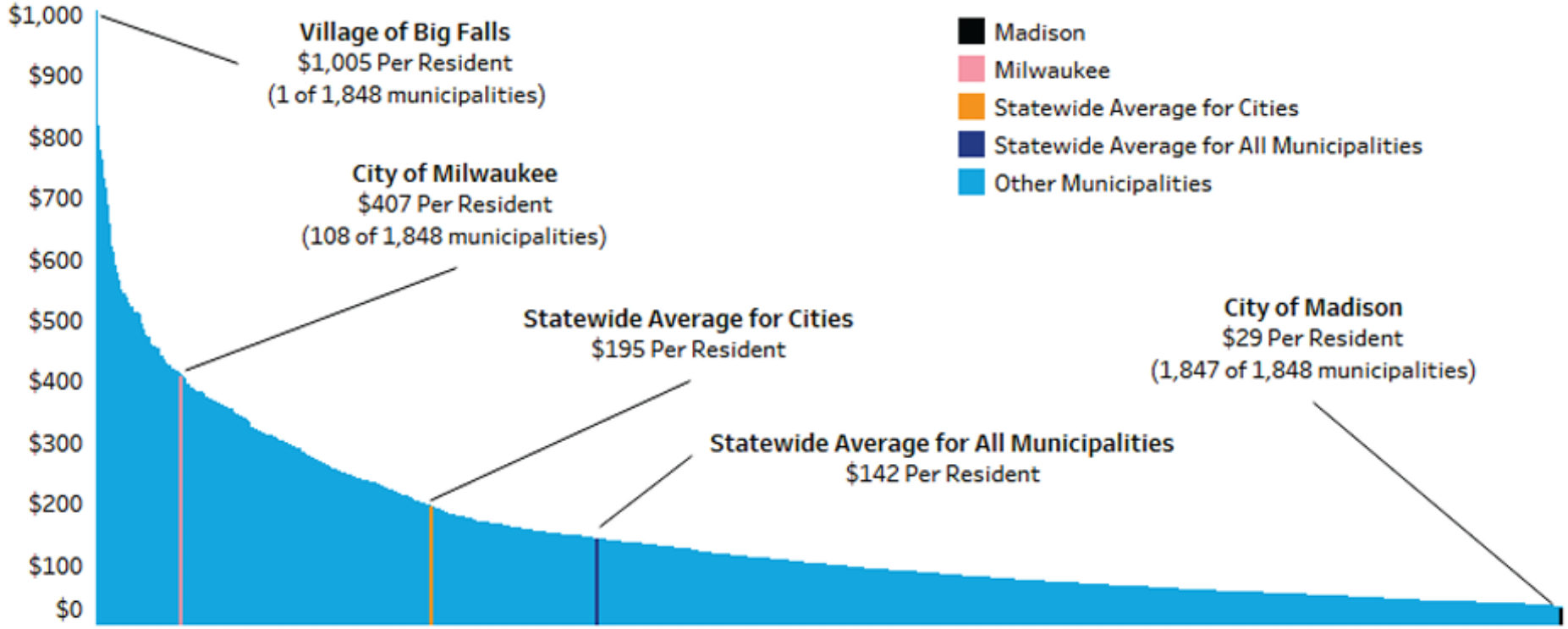
Revenue	2024 Budget
General Transportation Aid	$13.3 million
Municipal Aid (Shared Revenue)	$8.1 million
Municipal Services Program	$8.0 million
Expenditure Restraint Incentive Program	$6.9 million
Exempt Property Aid (computer, personal, utility)	$6.3 million
Fire Insurance Dues	$1.7 million
Recycling	$0.8 million
Video Provider Aid (offset capped cable franchise fees)	$0.5 million
Total	$45.6 million

Excludes state transit aid ($17 million) which is deposited in the Metro Transit enterprise fund.

Madison received lowest per capita increase from 2023 State Aid Legislation

Figure 11: Madison Now Second Lowest Among 1,848 Wisconsin Municipalities in Key Form of State Aid

Total state per capita county and municipal aid following the legislation known as Act 12, by municipality



Sources: Wisconsin Department of Administration, Legislative Fiscal Bureau, and WPF calculations

[Wisconsin Policy Forum, City of Madison Budget Brief]

City has limited non-property tax revenues

- Local Revenues
  - Charges for services (e.g., ambulance fees)
  - Licenses and Permits (e.g., building permits)
  - Fines and Forfeitures (e.g., parking violations)
  - Other (e.g., room taxes, investment earnings)
- Total local revenues = $55 million
  - $27 million would require about a 50% increase in all local revenues

Top 10 Local Revenues

Total Local Revenue = $55 million (excludes $8.7 million of one-time ARPA and TID revenue)

Revenue	2024 Budget	Comments
Ambulance Fee	$11.4 million	
Room Tax (30% general fund share)	$6.4 million	70% must be spent on tourism marketing
Water Utility Payment-In-Lieu-of-Taxes (PILOT)	$6.4 million	Formula set by state
Investment Earnings	$6.0 million	Tied to interest rates and city cash balances
Building Permits	$5.7 million	Can’t exceed cost of issuance
Parking Violations	$4.0 million	
Cable Franchise Fees	$1.8 million	At maximum allowed by state
Engineering Service Charges	$1.5 million	Tied to development activity
Parking Utility PILOT	$1.5 million	Based on assessed value and tax rate
Clerk’s Licenses (e.g., alcohol establishment)	$1.1 million	Some license types are capped under state law
All Others	$9.5 million	Approximately 35 different revenue types
Total	$55.3 million	

Room Tax

Room Tax is the largest single local revenue source ($20 million/year). State law requires that at least 70% be used for tourism-related activities; 30% for general fund. Collected from hotels, vacation rentals, etc. for transient occupancy stays of 30 days or less. Authorized and defined by state law, which sets a maximum rate of 8%, unless there is outstanding debt for construction or renovation of a convention center. Paid primarily by non-residents.

- Current rate = 10% of occupancy charge (last increased in 2018)
- 2023 Collections = $20.4 million
- Yield: Each 1 percentage point (10% of total) = $2 million
  - $1.4 million for tourism marketing
  - $0.6 million for general fund

Comparables:

- Brookfield (city) – 10.5%
- Milwaukee – 10%
- Green Bay – 10%
- Middleton – 8%
- Monona – 8%
- Sun Prairie – 7%
- Fitchburg – 7%
- Verona – 7%
- Waunakee – 5%

Ambulance Fees

Paid for conveyance from scene to medical facility; two-thirds of trips paid by Medicare with fixed amount – fee increases do not generate revenue on those trips. Most non-Medicare trips paid by private insurance. City has waiver program based on income and household size.

- Current fee level = $1,410 per conveyance (last increased in 2022)
- 2023 Collections = $11.4 million
- Yield: $100 fee increase = $700,000
- New state Ground Emergency Medical Transport program may increase Medicaid funding to Madison by between $1 million and $3 million annually in 2025.

Surrounding communities:

- Middleton – $1,575
- Deerfield/Cottage Grove – $1,800 (ALS 2)
- Waunakee – $1,500
- Fitchburg/Verona – $1,300
- Monona – $1,200 (ALS 2)

Parking Violations

Paid violations of city ordinances related to parking restrictions. Approximately 80 different violations. Paid tickets are 25% lower than 2019; revenues are about 16% below 2019.

- 2023 Collections = $4.2 million (2019 collections = $5.0 million)

Violation Type	Fee Amount	Number Paid	Change since 2019	Last Increase
Street Sweeping Parking Restrictions	$35	24,604	Up 16%	2010
Expired Parking Meter on Street	$25	18,397	Down 4%	2014
Overtime in Two Hour Zone (8AM to 6PM)	$40	10,231	Down 60%	2018
All Others	$15 to $150	24,438	Down 35% (half of the decrease due to large drop in violations for alternate side and snow emergency zone)	~2010

Local Vehicle Registration Fee ("Wheel Tax")

Authorized under state law to raise revenues for transportation purposes. Requires adoption of an ordinance implementing the fee. Revenues collected by the Wisconsin Division of Motor Vehicles with the state annual vehicle registration original or renewal fee. Revenues deposited in Metro Transit Fund. Adopted in 2020.

- Current rate = $40 annually for each vehicle kept in city
- 2023 Collections = $6.8 million
- Yield: Each $10 = $1.7 million total

Comparables:

- Evansville -- $40
- Janesville -- $40
- Oregon -- $40
- Milwaukee (city) – $30
- Milwaukee (county) -- $30
- Dane County -- $28
- Green Bay – $20

Special Charges

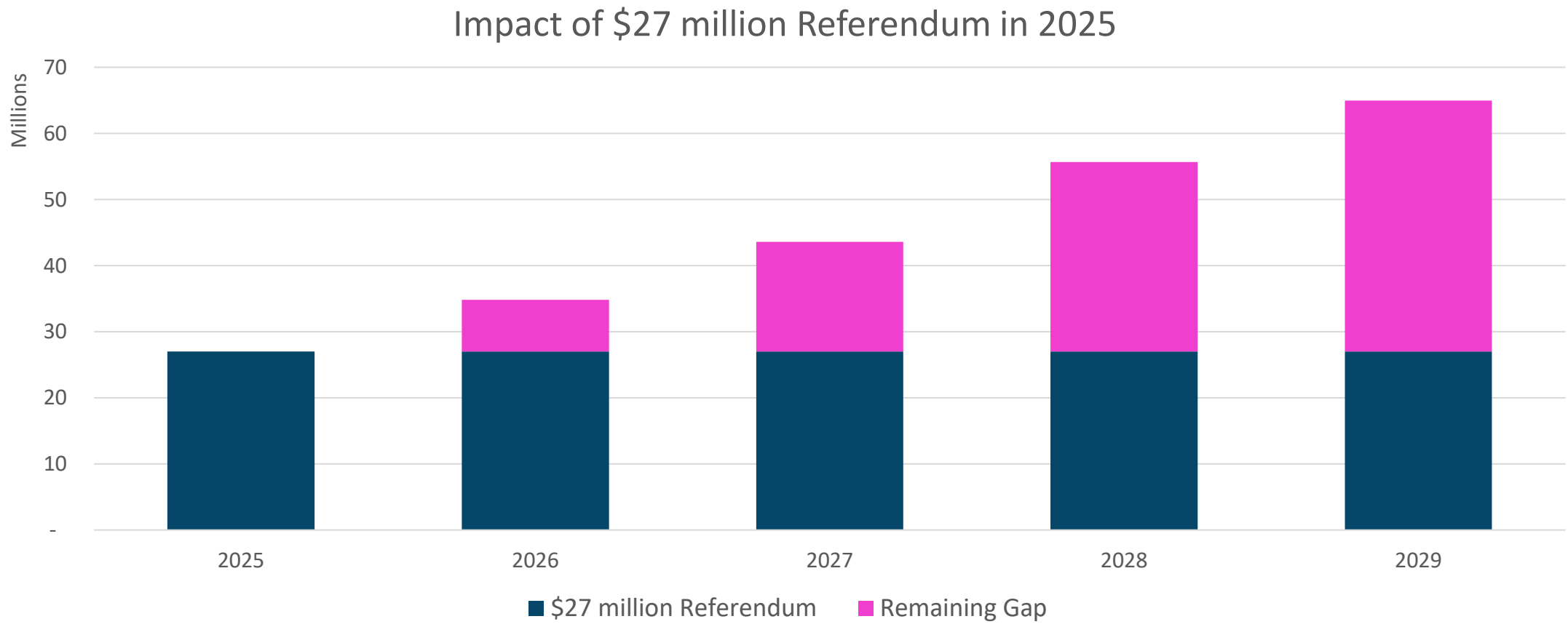
- State law allows the implementation of special charges to pay for the cost of specific services for which a “broad-based” public benefit can be identified.
- New fees for garbage collection, snow removal, fire protection, street sweeping, or storm water management do not result in net new revenue if those services were paid by the levy in 2013. If previously paid by levy, state law requires reduction in allowable levy equal to the new revenue.
- City currently has two special charges: urban forestry, resource recovery (recycling)
- Other Possible Options:
  - Transportation: Traffic Engineering, Streets Division street maintenance, Engineering, Metro subsidy (up to $30 million)
  - Library: up to $20 million
  - Parks: up to $15 million
- Each $1 per month per resident raises $1 million in revenue
- $27 million = $27 per month or $324 per year per resident

Property taxes

- Increase above levy limit requires voter approval
- Referendum ballot requires Council approval
- In even numbered years, referendum must be held at either Spring or Fall primary or general election
- Referendum allows one-time and on-going levy increases
- Increase is limited to a fixed dollar amount, not a percentage of levy each year – in other words, its share of the budget decreases each year
- $27 million = additional $284 on average value home or about 9% additional increase above levy limit; equal to 3.7% additional on total tax bill for average value home

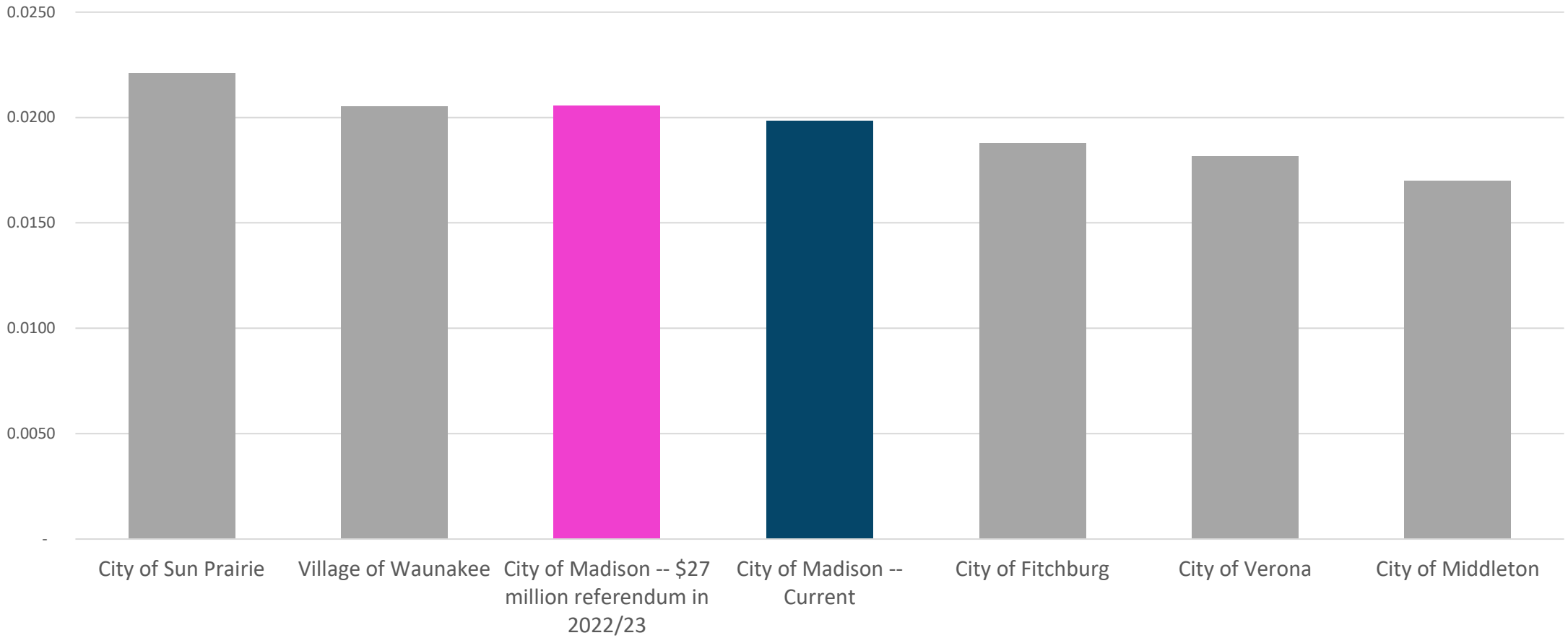
State Law Requires that Referendum be Flat Amount

Does not Grow to Offset Continuing Growth in Costs



Comparable Property Tax Rates

If $27 million referendum had occurred in 2022 tax year/2023 budget year



Reflects only a $27 million increase in property taxes; other levels of government in the city (e.g., Madison Metropolitan School District) can also increase property taxes through referendum that would also increase the tax rate.

Property Taxes Compared to User Fees and Charges

	Property Taxes	User Fees and Charges
Calculations for increases	Annual increase limited to change in value of new construction and increase in general obligation debt service; limit can be exceeded through voter referendum 2023/2024 property taxes on an average value home ($424,400) total $7,341 (all taxing jurisdictions) 2023/2024 property tax rate (net of state credits) = 1.83%	Cannot exceed cost to provide specific service State law presumption that municipality has to prove fees do not exceed cost if challenged in court
Tax deductions for property owners	Property taxes (and state income taxes) are deductible on federal income taxes up to a combined total of $10,000	Not deductible on federal income taxes
Who pays	Taxable properties	All properties, both taxable and tax-exempt

Equity Considerations:
Property Taxes Compared to User Fees and Charges

	Property Taxes	User Fees and Charges
Equity considerations	Taxes calculated as a flat percentage of value; more tax paid by higher value properties More regressive than progressive income tax (i.e., higher rates as income increases), but more progressive than flat fees	Fees assessed per property at a fixed amount Lower income property owners pay larger share of income for the fee than higher income property owners – most regressive revenue type

Equity Considerations:
Property Taxes Compared to User Fees and Charges

	Property Taxes	User Fees and Charges
Relief for payers	State constitution uniformity clause prevents differential property tax rates or targeted property tax relief programs on the tax bill State provides broad-based tax relief on the tax bill through school levy tax credit, lottery credit, first dollar credit and, to a lesser extent, through state aid to municipalities; state also provides targeted tax relief through income taxes (e.g., Homestead tax credit) City offers property tax assistance program for eligible seniors (reverse mortgage)	MadCap program offsets a portion of the cost of municipal services fees and charges for low income households Ambulance fee waiver provides relief based on income and household size

Takeaways

- **There are a limited number of non-property tax revenues**
  - The City receives $46 million from State Aid. On a per capita basis, the City receives less than most other large cities, and received the lowest per capita increase from the 2023 State Aid Legislation (Act 12)
  - The operating budget includes $55 million in local revenues, which includes charges for services, licenses and permits, fines and forfeitures, and other source (e.g. Room Tax)
  - Increasing existing fees and/ or implementing new special charges are some options for closing the budget gap; some of these changes would require additional studies to determine the cost of services
- **There are tradeoffs and equity considerations to increasing user fees and/or pursuing a property tax referendum**
  - Another option to increase revenues is to pursue a property tax referendum, which would require approval by voters.
  - There are tradeoffs between pursuing revenue increases through user fees versus charges, including differences in who pays, how amounts are calculated, and potential relief to payers. These tradeoffs should be evaluated to make a policy decision on the budget.

Next Steps

Presentation to the Full City Council on February 13, 2024 @ 6:30pm

- Presentation will summarize the 4-part budget series, provide an opportunity to ask questions, and begin discussion on the approach for 2025
- Members of the public may register to speak on this topic during Public Comment or submit written comment to allalders@cityofmadison.com
- Alders may participate in discussion during the presentation; we recommend alders review the recording prior to the Council Meeting
  - Part 1: Budget Foundations
  - Part 2: Structural Budget Deficit
  - Part 3: Expenditure Strategies
  - Part 4: Revenue Strategies
- If alders or members of the public have specific questions you would like addressed during the presentation, email citybudget@cityofmadison.com

Closing the $27 million gap will likely require multiple strategies

- As demonstrated in Part 3 of this budget series, closing the budget gap solely through expenditure reductions would require drastic actions that would cut back services to residents and have significant operational impacts
- At the same time, closing the budget gap solely through revenue increases will also have impacts on residents and taxpayers; issues related to equity and affordability must be considered
- Deciding on a path forward will require evaluating tradeoffs between strategies and may require taking multiple approaches

- Revenues
  - Create new special charges
  - Increase existing local revenues
  - Increase property tax (“levy”) through voter referendum

- Expenditures
  - Reduce all/most agencies by same percentage
  - Roll back new programs
  - Cut positions/services
  - Reduce employee compensation

Next Steps

- Continued discussions with the Council:
  - February 13 – Overview and discussion
  - March 5 – Step-by-step discussion of values, priorities and possible paths forward.
- Possible legislation to set direction for 2025 budget development
- Finance Department will develop various scenarios to help policymakers understand tradeoffs and assist with decision-making