From:	Schmiedicke, David
To:	MY GROUP; All Alders
Cc:	Dept Division Heads; Budget Contacts; FN GROUP; Committee Staff List
Subject:	Information Series on the Outlook for the 2025 City Budget -- Part 4 -- Revenue Options
Date:	Friday, February 9, 2024 1:30:20 PM
Attachments:	image001.png Information Series on the Outlook for the 2025 City Budget.msg Information Series on the Outlook for the 2025 City Budget -- Part 2 -- The Structural Deficit.msg Information Series on the Outlook for the 2025 City Budget -- Part 3 -- Expenditure Strategies.msg Outlook for 2025 Budget -- Part 4 -- Revenue Options.pdf

Mayor and Alders:

Three parts of the informational series on the outlook for the 2025 City budget have been released. Today's edition is the fourth and final part of the series – Revenue Options.

A link to Part 4 of the information series – Revenue Options -- can be found here. A PDF of the slides for Part 4 is attached to this email. The summaries, presentation slides, and links to the recorded presentation for Parts 1 through 3 of the Information Series are also attached.

In addition, a webpage on the 2025 Budget Outlook is now available on the Finance Department's City Budget site. The website has links to all of the summary materials, presentation slides, and recorded presentations of this information series. More information will be added to this site as it becomes available.

Introduction

A number of Alders have reached out to me recently with questions regarding the upcoming 2025 budget process. In addition, there were a number of questions raised as part of the discussions around the 2024 budget. This four-part series is an attempt to help answer those questions.

As you know, the City of Madison has faced a budget shortfall of some degree every year for the past 14 years due to state-imposed restrictions on City revenue and growing need for services. We have used a variety of measures to close these gaps over the years and balance the budget while maintaining services, even as the City continues to grow.

The City has been fortunate over the past 5 budget years to have sufficient funding from short-term federal pandemic relief and economic recovery funding, along with strong city reserves, to weather revenue losses and maintain service levels. As you know, the last of these short-term funding sources were used to balance the 2024 budget. As we look to the future, the City is facing significant challenges to maintain service levels for a growing population in the face of the State Legislature's limits on property taxes, state aid, and other revenue sources.

In order to help the Mayor and Council understand and address these challenges, the Finance Department has developed a four-part series of recorded presentations on the outlook for the 2025 budget. This final edition of the series focuses on budget balancing strategies from the revenue perspective.

Part 1: Budget Foundations

- Understanding the City's fund structure & main components of the operating budget

Part 2: The Structural Budget Deficit

Internal and external factors driving the deficit

Part 3: Budget Balancing Strategies – Expenditures
- Impact of personnel costs and debt service

Part 4: Budget Balancing Strategies – Revenues
- Options for raising local revenues, special charges and the property tax

A briefing on all four parts of the series is planned for the Council meeting on February 13th.

One goal of the series is to provide a general understanding of the overall City budget as a first step, followed by an explanation of what has been termed the "structural deficit". A "structural deficit" is a persistent annual gap between what the City is allowed to raise in revenue under state law and what it needs to spend to maintain current service levels to a growing population. The City has used a broad array of approaches to close this deficit in each years' budget. The economic effects of the pandemic made the deficit worse, but federal fiscal relief funding to state and local governments, along with City reserves, helped close the gap in the short term. With those short-term funding sources fully expended, the projected deficit for 2025 is $27 million and the options to close that gap and deficits in future years are limited.

Parts 3 and 4 of the informational series explore the options the Council has for addressing the deficit. Part 3 focuses on putting into perspective the impact of closing a $27 million budget gap solely through cutting expenditures and service reductions. Part 4 focuses on revenue options available to balance the budget and maintain current service levels.

This informational series is a first step toward deciding on an approach to balancing next year's budget. Additional discussion and analysis will be necessary to support the Mayor and Council in their efforts to make decisions on top priorities, service levels, and revenue approaches.

Part 4 – Revenue Options

In the previous part of the series, we discussed the size of the 2025 budget gap ($27 million) and what it would mean to pass a balanced budget (i.e., revenues = expenditures) solely by cutting City services. In this part, the goal is to outline revenue options available to the Council to balance the budget. Madison is very reliant on property taxes to fund its services, with over 70% of its revenues from this source. This reliance on property taxes is primarily due to the restrictions the Wisconsin Legislature placed on cities in 2011, along with Wisconsin's approach of collecting sales and income taxes on a statewide basis rather than at the local level. Under Wisconsin law, the state collects income and sales taxes and "shares" those revenues with local governments, rather than allowing cities to levy their own sales and income taxes. These "shared revenues" were reduced significantly by State Legislatures since 2003. In the most recent state budget, shared revenue was increased by $275 million. However, Madison was shortchanged in the formula used by the Legislature to distribute this increase in funding, receiving an increase of less than 1% of our entire budget.

Local revenue options, such as taxes, charges for services, licenses and permits, and fines and forfeitures, are extremely limited under current state law and, therefore, account for only 16% of the General Fund budget. Some of these charges and fees could be increased, but there are tradeoffs and equity issues that need to be considered regarding increasing user fees and charges versus authorizing additional property taxes through referendum.

Madison's Property Taxes and State Aid

As stated above, Madison receives relatively little from the state relative to most other Wisconsin cities: compared to the 35 largest cities in the state, we rank 25th in shared revenue and 23rd in all state aid. The largest single category of state aid is General Transportation Aid – the City receives $13 million from this program annually. State aid to the City totaled $45.6 million in 2024 (excluding state transit aid, which can only be used to support Metro Transit), or about 11% of our total budget. In the recent state budget, despite an increase in state shared revenue of $275 million, Madison received the lowest per capita increase of any municipality in the state.

Non-Property Tax Revenue Options are Limited

Madison collects about $55 million in local revenues. These include charges for services (e.g., ambulance fees), licenses and permits (e.g., building permits), fines and forfeitures (e.g., parking violations) and other revenues (e.g., room taxes and investment earnings). Statewide, Madison is ranked 11th or higher for local revenues, including fines, forfeitures and penalties (6th), charges for service (10th) and licenses and permits (11th).

- The **room tax** is the largest of these revenue sources at about $20 million per year. Only 30% of room tax revenues can be used to support General Fund services; the remainder must be used for tourism-related activities, as defined under state law.

- **Ambulance fees** total about $11 million, and are the second largest non-property tax revenue source. Madison charges $1,410 for each conveyance to a hospital by the Madison Fire Department. This is about average for other Emergency Medical Services (EMS) providers in Dane County. Each $100 increase in the fee yields about $700,000 in revenues. Most of these revenues are collected from private insurers; low-income individuals may be eligible to qualify for a full or partial waiver of the fee.

- State law allows Wisconsin municipalities to levy a local option **vehicle registration fee** (also known as a "wheel tax") to pay for transportation costs. Many cities, towns, villages and counties across the state have opted to levy a wheel tax over the past decade to help offset the impact of state-mandated limits on property taxes. Madison instituted a wheel tax in 2020 at $40 per year (Dane County also levies a $28 per wheel tax – vehicles in Madison pay both the City and County wheel taxes). The nearly $7 million raised annually by the City's wheel tax is deposited in the Metro Transit fund, consistent with state law. A $10 increase in the wheel tax would raise about $1.7 million annually that could be used to pay for transportation-related services that are currently supported by General Fund revenues.

- State law also allows Wisconsin municipalities to levy **"special charges"** to pay the cost of specific services for which a "broad-based" public benefit can be identified. The City currently has two special charges – urban forestry and resource recovery (recycling). Other possible options for new special charges include transportation (e.g., traffic engineering), libraries, and parks. Each $1 per month per residence raises about $1 million in revenue annually. Special charges for certain activities (garbage collection, snow removal, fire protection, street sweeping and storm water management) do not increase revenue to the City due to requirements under the state levy limit law. Special charges require a study to determine and provide evidence for the public benefit, along with a methodology for allocating the cost of the service.

Closing the budget gap solely from these sources would require a 50% increase in each individual tax, fee, and charge in these categories. Since user fee revenues cannot exceed the cost to provide the service, an increase of this magnitude might not be possible in some of these revenue types.

Property Tax Considerations

Increases in property taxes above state law limits requires approval by the voters at a referendum. Proceeding to a referendum must be approved by a majority vote of the Common Council, and the form and content of the referendum ballot is defined by state law. In even-numbered years, such as this one, levy limit referenda must be held at either the Spring or Fall primary or the November General Election. Either one-time or on-going levy increases are allowed. The increase on the referendum ballot must be a fixed dollar amount, not a percentage of the levy each year. With state law only allowing a fixed dollar amount on a property tax referendum, the structural deficit is only addressed for a short period of time under this option. In other words, a voter-approved property tax increase shrinks as a share of the total budget in each subsequent year after a referendum is approved. In 2022, over 30 municipalities proposed referenda to increase local property taxes, with the vast majority (29) of those passing.

Raising $27 million (the size of the 2025 budget gap) from additional property taxes would add $284 to the annual tax bill of the average value home – or about a 9% increase above the City levy approved for the 2024 budget, which is equivalent to about an additional 3.7% on the total tax bill. In considering how this tax rate would compare to neighboring communities, using last year's numbers, it would not have dramatically changed Madison's tax rate ranking compared to other communities in Dane County. Sun Prairie and Waunakee would still be higher the Madison, and Fitchburg, Verona and Middleton would all remain lower. In the future, these comparisons could be affected by referenda in other communities and school district property tax referenda.

Equity Considerations

Property tax increases affect residents somewhat differently than increases to user fees and charges.

- <u>Ways that user fees and charges are less equitable / more regressive than property taxes</u>: User fees and charges are a flat dollar amount no matter the situation of the person paying –

thus, higher income groups pay a smaller share of their income for the service compared to low- and moderate-income groups. By contrast, property taxes are allocated through a percentage rate – therefore, higher value properties pay more taxes than lower value properties. Additionally, user fees and charges can be levied on all property regardless of tax status; whereas government and non-profit owned property do not pay property taxes. In contrast to property taxes, user fees and charges cannot be deducted on federal income taxes.

- Ways that property taxes are less equitable / more regressive than user fees and charges: Relief available for payers also varies between property taxes and user fees and charges. Under the Wisconsin Constitution, taxes must be uniform. For property taxes, this means that all property, with certain limited exceptions, must be taxed at the same percentage rate. A residence has the same tax rate as a business; a large property with a significant amount of improvements has the same tax rate as a small property with proportionally fewer improvements, etc. In addition, no direct relief to any specific group of taxpayers is allowed on the property tax bill. In other words, the City cannot create a program to directly reduce the taxes of certain property owners (e.g., lower income, seniors, etc.). There are programs at the state level that provide targeted property tax relief through the state's income tax (e.g., the Homestead Tax Credit).

  By contrast, the City can provide relief for user fees and charges. For instance, the State's Public Service Commission recently allowed Madison to develop a "customer assistance program (CAP)" to use revenues from water utility ratepayers to help offset some of the cost of water bills for qualifying lower-income individuals. The City expanded the "MadCAP" program to all elements of the Municipal Services Bill (sewer, stormwater, landfill, urban forestry, resource recovery) by allocating General Fund revenues to support the cost.

In summary, the 2025 budget must be balanced via significant cuts (in the range of 10% to 20% of every City agency), or by increasing revenues from fees (at least a 50% increase) or the property tax (a 10% increase), or a combination of options. We look forward to discussing the issues described above and the concepts highlighted in the other three parts of this informational series at the Council meeting on February 13th.

Thank you.

David Schmiedicke

[Please share this email with members of Boards, Committees and Commissions, and others]

DAVID SCHMIEDICKE | Finance Director
Department of Finance
City-County Building, Room 406 | 210 Martin Luther King, Jr. Blvd
Madison, WI 53703-3345
(608) 267-8710 PH | (608) 267-8705 FAX
www.cityofmadison.com | dschmiedicke@cityofmadison.com
Pronouns: he, him, his

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

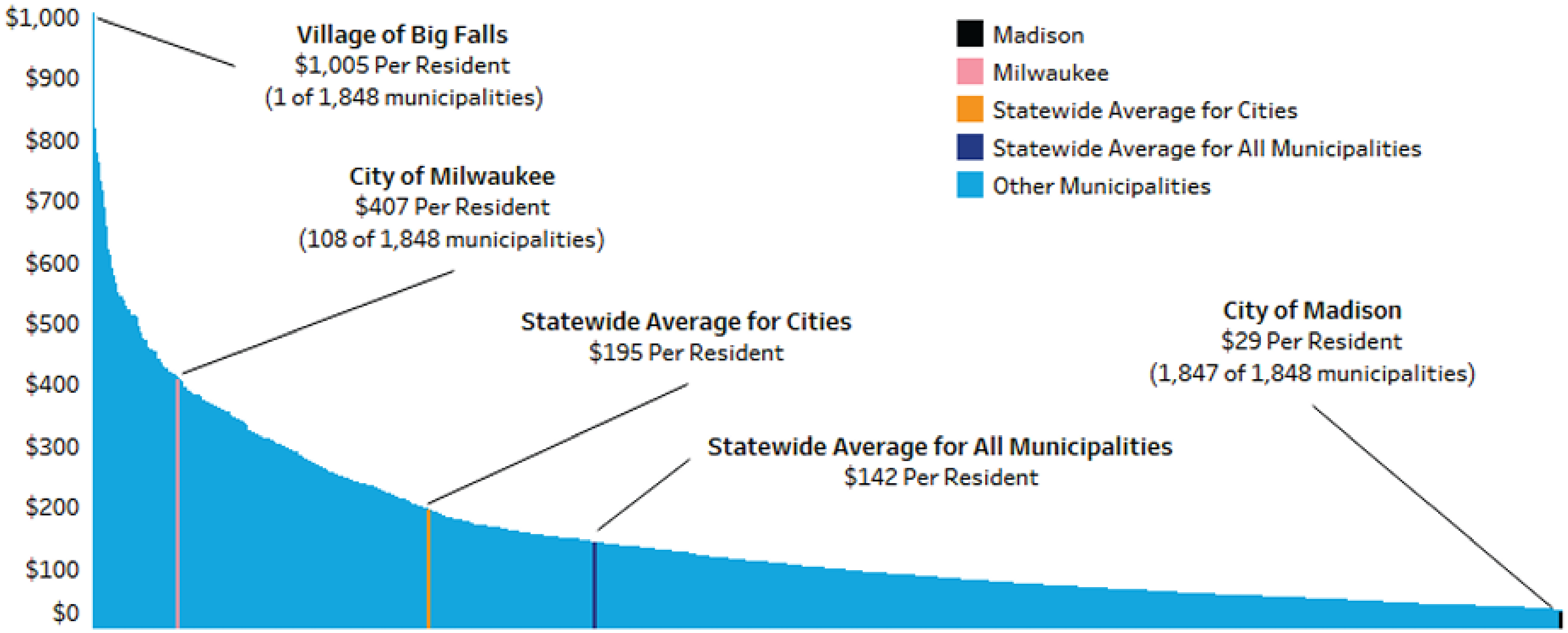
Revenue	2024 Budget
General Transportation Aid	$13.3 million
Municipal Aid (Shared Revenue)	$8.1 million
Municipal Services Program	$8.0 million
Expenditure Restraint Incentive Program	$6.9 million
Exempt Property Aid (computer, personal, utility)	$6.3 million
Fire Insurance Dues	$1.7 million
Recycling	$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 <u>all</u> 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

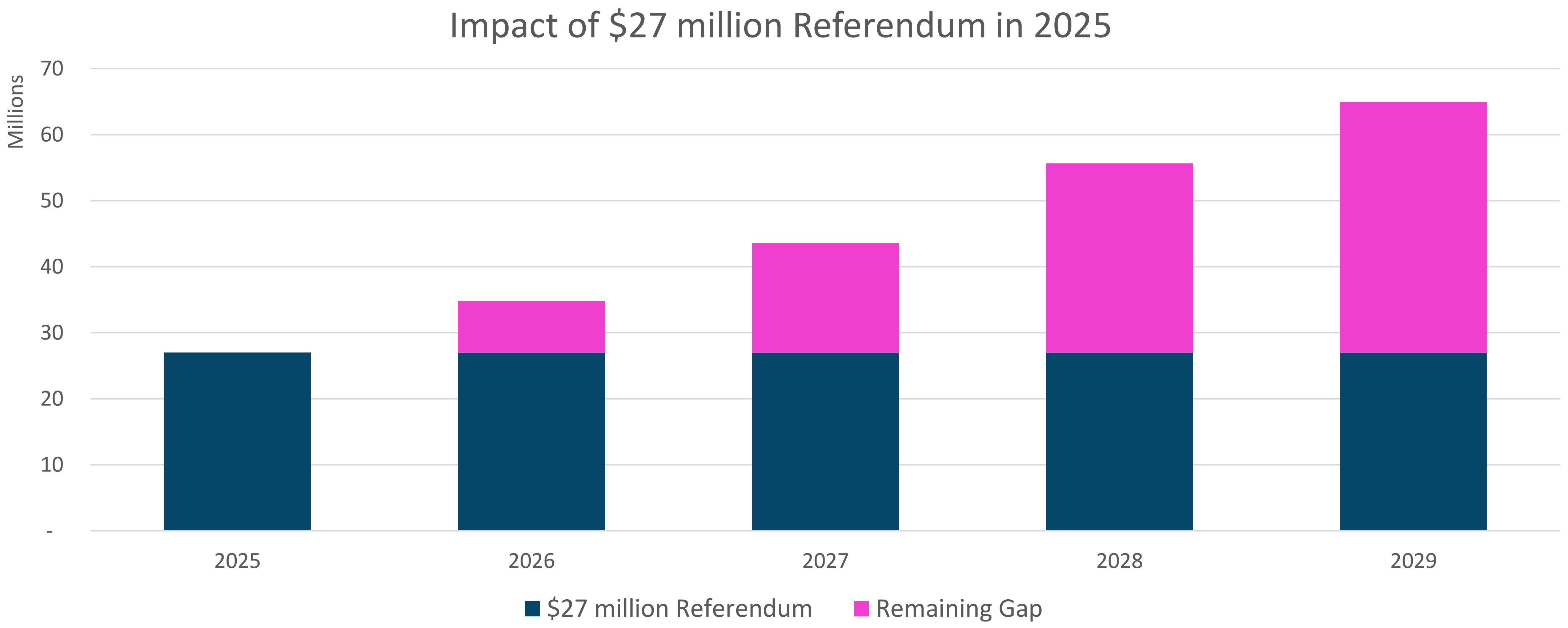
- State law allows the implementation of special charges to pay for the cost of specific services for which a "broad-based" public benefit can be identified.
- New fees for garbage collection, snow removal, fire protection, street sweeping, or storm water management do not result in net new revenue if 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

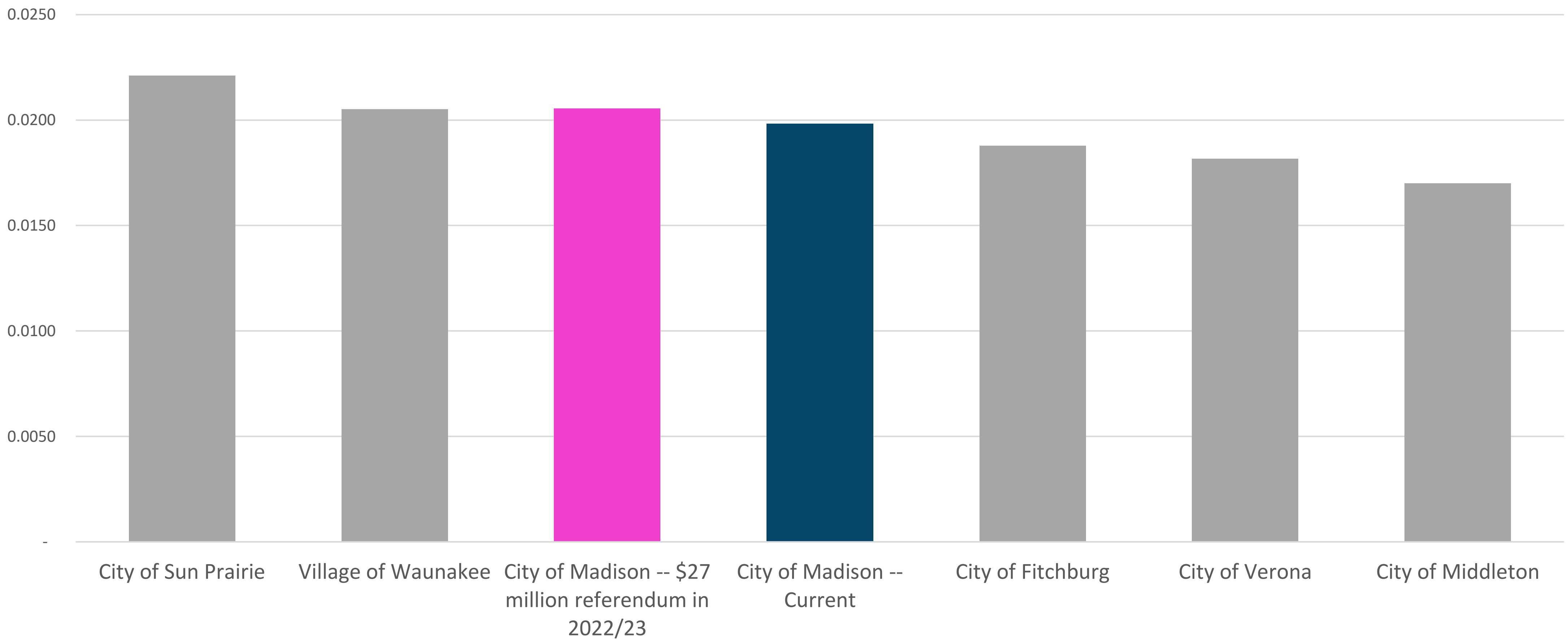
State Law Requires that Referendum be Flat Amount

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