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Subject: Information Series on the Outlook for the 2025 City Budget
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[Outlook for 2025 Budget Part 1 -- Budget Foundations.pdf](#)

Mayor and Alders:

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 communication 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:

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

Our plan is to release one part of the series each week over the next four weeks (weeks of January 15th through February 5th). 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 year's 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 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 1 – Budget Foundations

A link to Part 1 of the series – Budget Foundations, can be found [here](#). A PDF of the slides is attached to this email.

In the Budget Foundations presentation, the goal is to provide general background on the overall City budget, including the General Fund budget and property taxes.

Overall City Budget

The entire City budget for 2024 totals nearly \$800 million. The budget is divided into several funds according to the type of activity that is supported by the fund.

The largest fund is the City's General Fund, with \$405 million in revenues. It supports the full range of services that residents rely on – public safety and health, public works, transit and transportation, planning and zoning, economic and community services, libraries and parks, elections and licensing, and the administrative support and general government activities necessary to support those direct services. The property tax supports 71% of the General Fund expenditures, with other major sources including local revenues (16%), state aid (11%), and fund balance applied (2%). The General Fund is facing on-going deficits due to state law limits on revenues.

The “business-like” activities of the City can be found in its “Enterprise” Funds (i.e., Water, Sewer, Stormwater, Metro Transit, Monona Terrace, Parking, and Golf Funds). Expenditures in these funds are supported primarily by user fees, dedicated taxes and, to a lesser extent, subsidies from other funds (e.g., the General Fund transfer to the Metro Transit Fund). Any reserves in these funds are set-aside to ensure operations can continue and debt service can be paid in the event of short-term reductions in fees or other revenues.

Other funds include those for internal city services (e.g., Fleet), legally required (e.g., Debt Service, Tax Increment Districts), and other purposes (e.g., Room Tax).

In short, the enterprise and other funds largely “support themselves” through user fees, dedicated revenues, or transfers from other funds.

Property Taxes and the General Fund Budget

Wisconsin has the highest reliance on property taxes to fund municipal budgets in the entire Midwest. Most states allow cities to collect local sales and/or income taxes. However, with the very recent exception of Milwaukee, Wisconsin law does not allow cities these options. Instead, the state collects income and sales taxes and “shares” a portion of those revenues with cities. Those “shared revenues” were cut several times to close state budget deficits between 2003 and 2011. Increases to “shared revenue” in the most recent state budget were significant, but still fell well short of inflation since 2000 (and largely excluded Madison, as we will discuss in Part 2 of this series). Another reason for the high reliance on property taxes for Wisconsin cities is that most state aid to local governments goes to schools to meet the goal of paying for “two-thirds” of school costs.

The vast majority (64%) of the City's General Fund pays for city staff that deliver services to residents. A much smaller amount (16%) goes toward repayment of debt issued to fund city assets, such as streets, library buildings, fire stations, refuse and recycling trucks, and snow plows. The remaining 20% funds supplies, purchase of services (e.g., contracts with non-profit agencies to provide community services on behalf of the city), and subsidies and payments to other funds (e.g., Metro Transit, Public Health of Madison and Dane County, Fleet Services).

From a functional perspective, 42% of the budget is allocated for fire, police and public health services; another 19% is allocated to public works and transportation – which includes snow and ice removal, refuse and recycling, city parks, transit and engineering services; community services and planning and economic development is 7% of the budget; libraries are 5%; administrative support and general government is 8%; and miscellaneous programs and reserves are 3%. The remaining 16% of the budget is repayment of debt service issued to finance city assets (described above).

The number of city employees per city resident has declined 10% since 2011 – the year the State Legislature enacted strict limits on property tax revenues for cities. While Madison has grown in population over the past 13 years, and is expected to grow even more over the next 25 years, staffing levels have not grown at the same pace. Wisconsin’s way of paying for local government services makes cities very reliant on property taxes – the highest in the Midwest. Wisconsin cities, other than Milwaukee, are prohibited from levying local sales or income taxes to help keep pace with cost growth and reduce the tax burden on city property owners.

Part 2 of this information series will explore how all of these factors – limits on revenues, lack of state aid, reliance on property taxes, growth in population and costs --contribute to an on-going structural deficit in the City budget.

Thank you.

David Schmiedicke

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

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Pronouns: he, him, his



Outlook for 2025 City Budget

Information Series on the General Fund Budget

Part 1: Budget Foundations

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 1: Budget Foundations

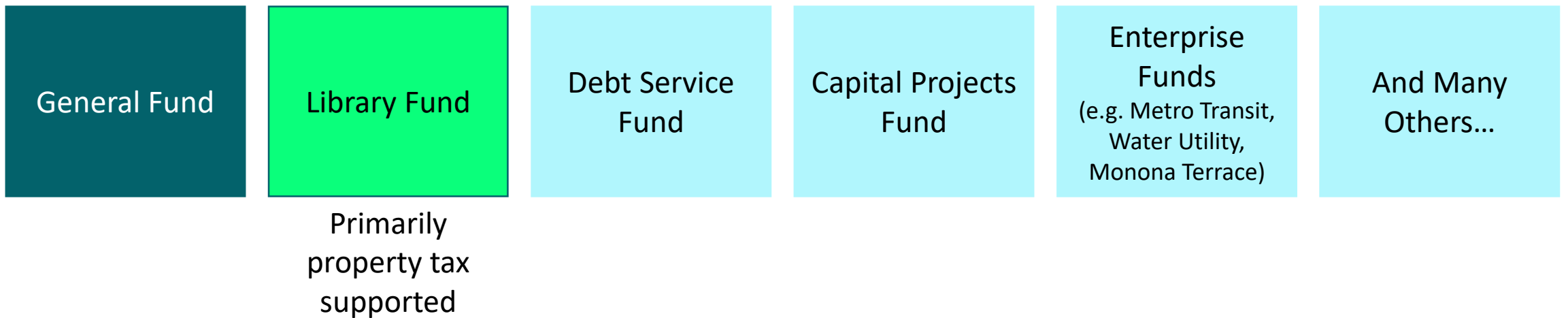
Takeaways:

- The General Fund is the focus of the Budget because property taxes are the main revenue source
- The City is heavily reliant on property taxes as its primary revenue source
- Personnel and Debt Service are the largest expenses categories; Public Safety and Health is the largest functional area

Funds Overview: General Fund

A **Fund** is a sum of money segregated for specific activities.

The **General Fund** is the City's primary Operating Fund. This Fund is the main focus of the City's budget because it is primarily supported by property tax revenues and pay for the cost of day-to-day City services. The **Library Fund** is also primarily supported by the property tax and is considered part of the General Fund for budget discussion purposes.



Funds Overview: All Other Funds

In contrast to the General and Library Funds, other Funds are supported by non-property tax revenue sources.

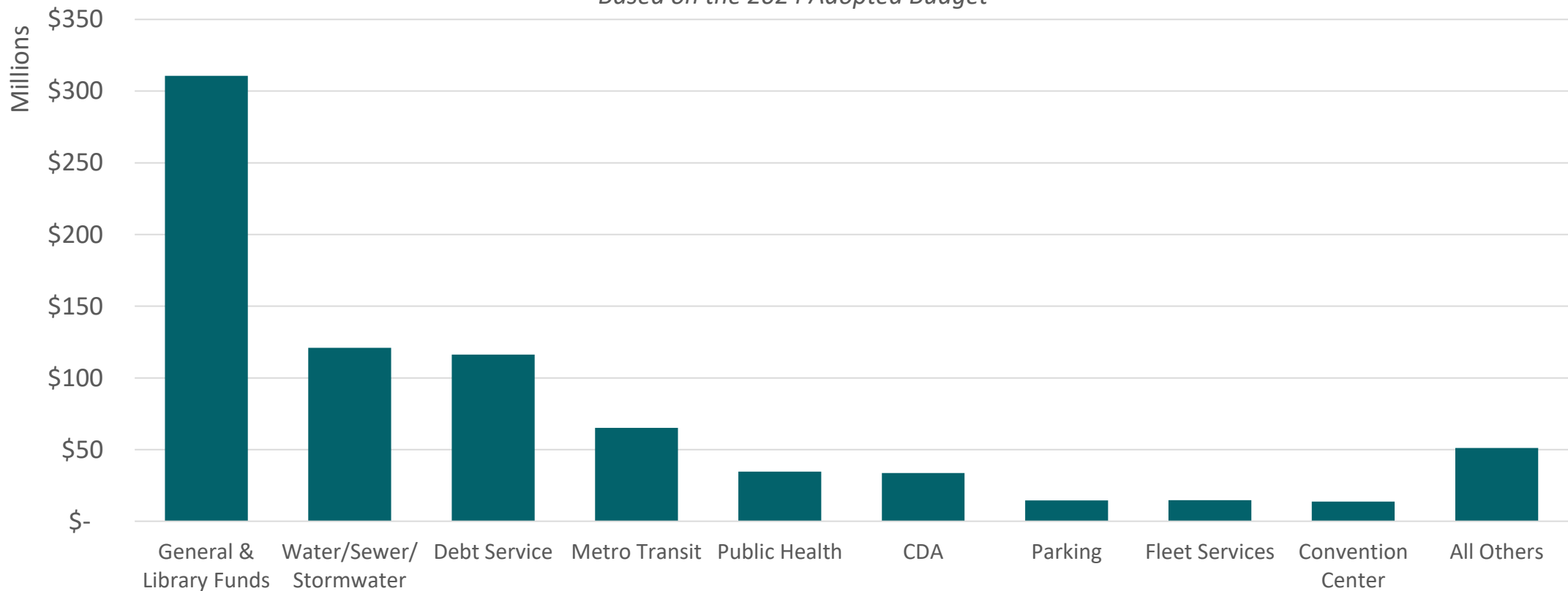
- Revenues raised by other Funds cover the direct and indirect costs of providing a service and are not used to generate a profit.
- Transfers from these funds are regulated and can only be used in specific circumstances.

Fund	Purpose	Primary Revenue Source
Enterprise Funds <i>Golf, Metro Transit, Monona Terrace, Parking, Sewer, Stormwater, Water</i>	Dedicated business-type activities	Fees charged to external users
Internal Service Funds <i>Fleet, Insurance, Worker's Compensation</i>	Dedicated internal service activities	Inter-agency billings
Other <i>Debt Service, Public Health of Madison and Dane County (PHMDC), Capital Projects, Tax Increment Districts, and more</i>	Funds set-aside for legal or other specific purposes	Various, including inter-fund transfers

General Fund Accounts for 40% of the City's Total Annual Budget

City All Funds Budget = \$775.6 million

Based on the 2024 Adopted Budget

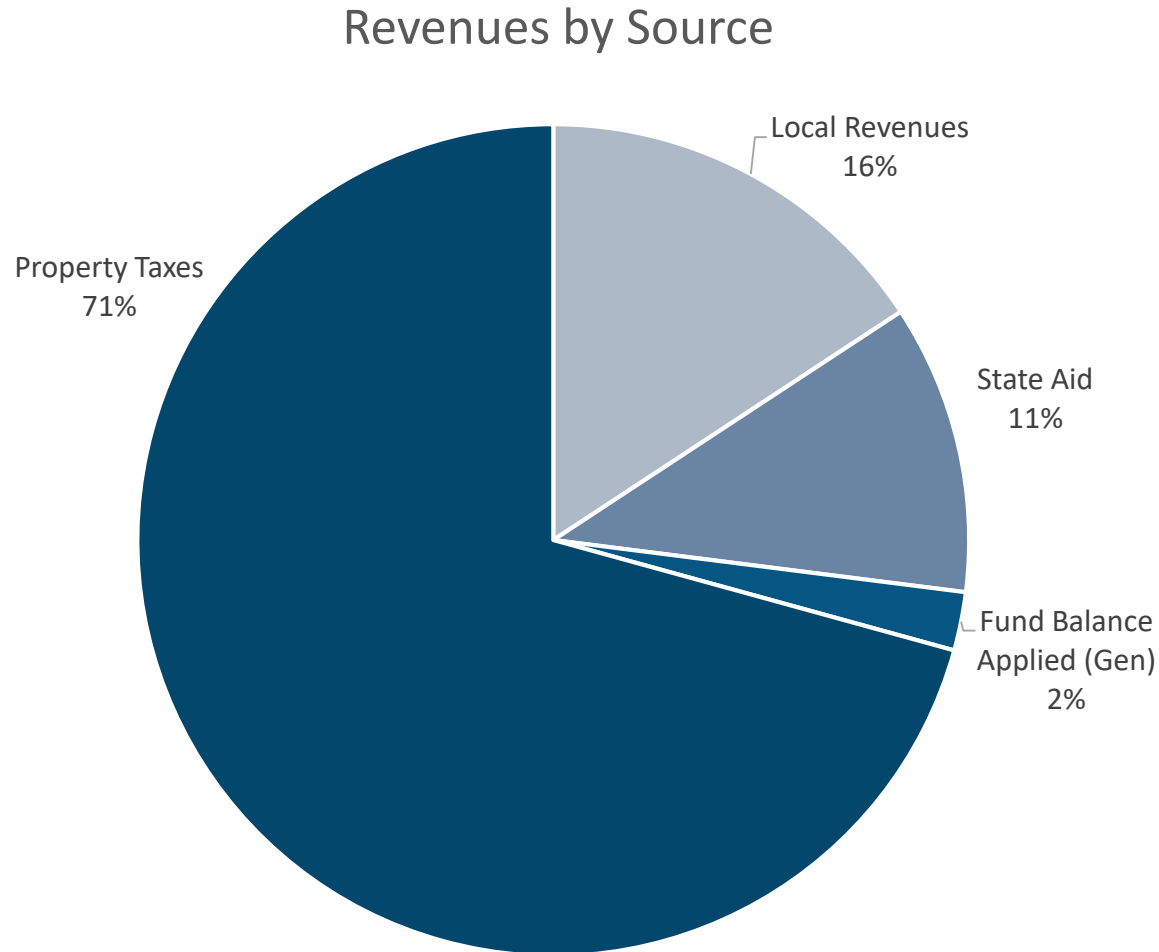


*General Fund (including Library Fund) totals exclude amounts transferred to other funds, e.g., Metro Transit, Public Health, Debt Service, etc.

**"All Others" includes Room Tax, Insurance, Capital Projects, TIDs, Grants, Insurance, Worker's Compensation

Property Tax is more than 70% of Revenues

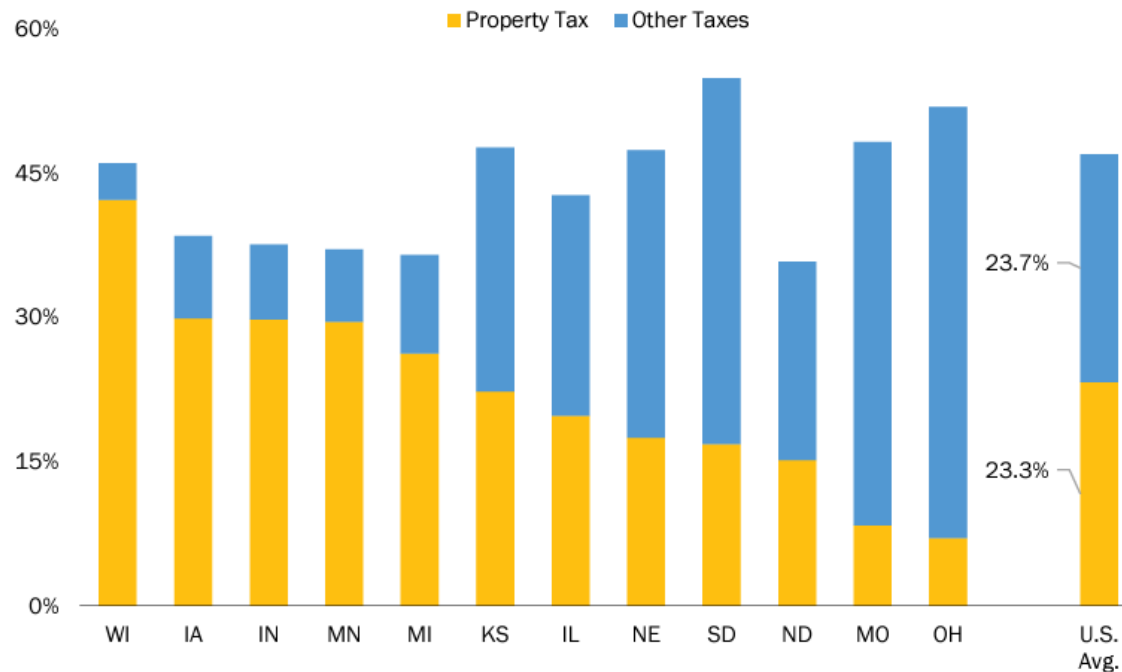
2024 General Fund Budget = \$405.4 million



- **Property Taxes:** Primary source of revenue for the operating budget; Accounts for 71% of total (\$286.5m)
- **Local Revenues:** Includes payments in lieu of taxes; transfers in from grant fund (ARPA); fines and forfeitures; licenses and permits; and other local taxes; Accounts for 16% of total (\$64.0m)
- **State Aid:** Includes shared revenue, general transportation aid and other state aid; accounts for 11% of total (\$45.7m)
- **Fund Balance:** Includes \$4m in lapsed funds from TID 25; Accounts for 2% of total (\$9.2m)

“Wisconsin municipalities depend on the property tax more than their peers in any other Midwestern state” (Wisconsin Policy Forum, 2019)

Figure 1: Wisconsin Relies Most on Property Tax in Midwest
Property Tax & Other Taxes as Share of Municipal Revenue, 2015



Sources: Willamette University, U.S. Census Bureau

- In most states, cities have local sales and/or income tax authority.
- In Wisconsin, the state collects income and sales taxes and “shares” it with cities.
- “Shared revenues” reduced between 2003 to 2011. Increase in recent state budget well below inflation since 2000.
- State has focused aid to local governments through school aid (“two-thirds” goal).
- **Result** -- city budgets are much more reliant on property taxes than peers in other states.

80% of Budget for Staff and Debt Service

(includes impact of Metro subsidy and Public Health contribution)

Personnel = \$253.9 million, 62.6%

- Pays for staff salaries and benefits

Debt Service = \$66.4 million, 16.4%

- Pays back borrowing for capital projects

Non-Personnel = \$50.4 million, 12.4%

- Purchased services and supplies

Other = \$30.6 million, 7.6%

- General fund subsidy to Metro Transit (\$15.7 m), City's share of the joint City-County Public Health Agency (\$10.3 m), and the contingent reserve (\$2.7 m)

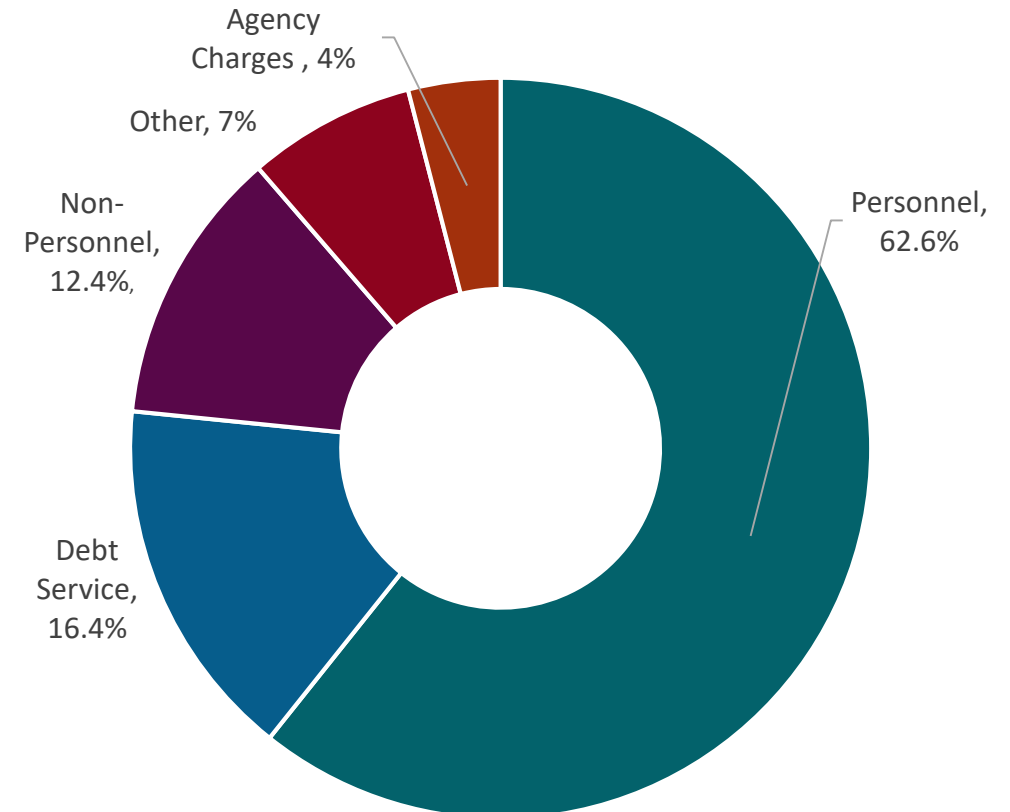
Agency Charges = \$16.8 million, 4.2%

- Inter-departmental billings and charges including Insurance, Workers Compensation, and Fleet Services

Agency Revenues = -\$12.8 million, -3.2%

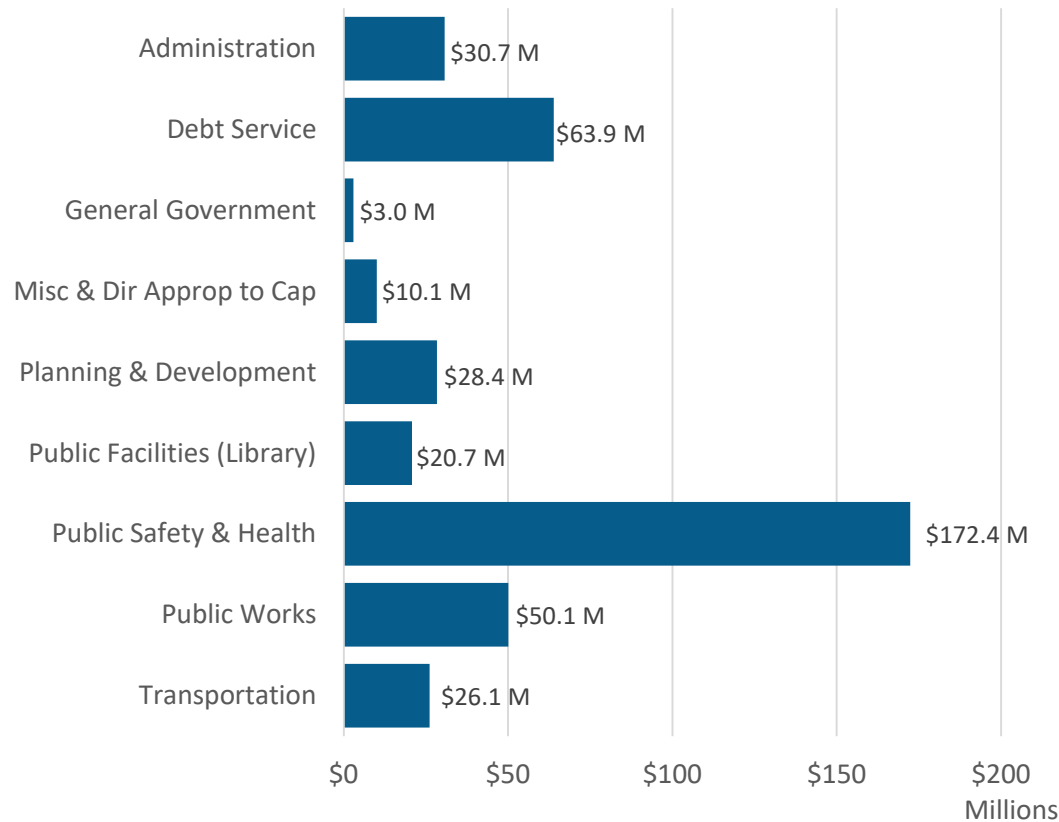
- Charges for services, facility rentals, permits, and other sources that offset expenses

Expenditures by Type



Public Safety & Health Agencies Account for Largest Share of Budget (42.5%)

2024 Adopted Operating Budget by Function



General Fund Budget

- Public Safety & Health accounts for the largest share of the budget (\$172.4 million; 42.5%).
- General Fund Debt Service (\$63.9 million, or 15.8%). Library Debt Service is in the Library Agency budget
- Public Works is the third largest functional area (\$50.1 million, 12.4%)
- Miscellaneous and direct appropriations to capital are centrally budgeted functions that address city-wide expenses, including contingent reserve

Takeaways

- **The General Fund is the focus of the Budget because property taxes are the main revenue source**
 - The City's budget is made of many Funds (Enterprise, Internal Service)
 - Other funds are paid through non-property tax sources, such as user fees
 - Transfers from other funds are highly regulated
- **The City is heavily reliant on property taxes as its primary revenue source**
 - Over 70% of the general fund operating budget is from property tax
 - State laws and limitations on local revenues create reliance on property taxes
- **Personnel and Debt Service are the largest expenses categories; Public Safety and Health is the largest functional area**
 - Personnel (salary and benefits) are a majority of expenses (63%), followed by debt service (16%)
 - Public Safety and Health is the largest functional area (43%); most of these costs are for Police and Fire