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Subject:	Information Series on the Outlook for the 2025 City Budget -- Part 3 -- Expenditure Strategies
Date:	Friday, February 2, 2024 3:23:56 PM
Attachments:	image001.png Outlook for 2025 Budget -- Part 3 -- Expenditure Strategies.pdf

Mayor and Alders:

Two parts of the informational series on the outlook for the 2025 City budget have been released. Today's edition is Part 3 of that series – Expenditure Strategies.

A link to Part 3 of the information series – Expenditure Strategies -- can be found here. A PDF of the slides is attached to this email.

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 week's edition focuses on budget balancing strategies from the expenditure 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 3 – Expenditure Strategies

In this part of the series, the goal is to outline what is needed to pass a balanced budget (i.e., revenues = expenditures), the interaction of debt service with the state-mandated levy limit (reductions in debt do not result in a higher levy limit for operations), and options for reducing operating expenditures – in essence, balancing the budget entirely by cutting services.

Balanced Budget

As you are aware, the Common Council must enact a balanced budget each year. That means revenues must be equal to or greater than expenditures. The budget process starts with City agencies working with the Mayor to develop a balanced executive budget, which is then submitted to the Council for review and adoption. The Finance Committee and full Council may amend the executive budget, but the sum total of those amendments must still result in a balanced budget.

As discussed in previous parts of this series, the projected budget for 2025 currently has a $27 million deficit. That gap can be closed and the budget balanced either through more revenues, less expenditures or a combination of the two. Revenue options for closing the gap include special charges, increases in existing local revenues (e.g., charges for services, licenses and permits, etc.), and increasing property taxes above the maximum allowed by state law through a voter referendum. Expenditure options include across the board reductions to all or most city agencies, roll backs of recently enacted new programs, cuts to positions and the city services they support, and reductions to employee compensation.

Impact of Debt Service on Expenditures

Most capital projects are partially or wholly supported by general obligation debt issued by the City. Repayment of that debt (“debt service”) is through a pledge of a property tax levy by the Common Council. Debt service cannot be reduced – to do so would put the City in default. A default would have a series of significant financial and reputational costs to the City, including lack of accessibility to financial markets and much higher interest rates on its debt.

Under the state levy limit law, debt service is a separate calculation in the overall formula. The property tax levy for operations is increased by a “net new construction” factor, and debt service for the upcoming year is added to that amount. Questions are often raised during deliberations on the budget regarding the City’s capital budget and its connection to making more funding available for the operating budget. While lower debt service is good and reduces the impact on taxpayers, it does not provide more room under the levy limit to fund operations costs.

Current Expenditures

Comparing Madison’s expenditures to other Wisconsin cities highlights our City’s values, priorities and unique situation with regard to certain services. Madison ranks first among the top 35 Wisconsin cities in population (20,000 or more in population) for its spending on health and human services programs. It ranks second on transit costs, and 7th in culture and education spending per capita. All three of these rankings reflect both the City’s priorities and the fact that in most Wisconsin cities, these services are provided by the county in which the city is located.

In most other functional areas (e.g., law enforcement, fire/emergency medical services, solid waste collection and disposal, general government, etc.), Madison is close to the average. Street construction and maintenance plus transit costs is at about the statewide average. Parks and recreation costs are about 12% below the statewide average per capita. Operating, capital and debt service costs rank 8th among Wisconsin cities, or about 12% above the statewide average per capita. Again, this ranking reflects both Madison's priorities and the types of services it provides in contrast to services that are often provided by the county in other cities.

Closing the Current Budget Gap by Cutting Expenditures

No matter how it is framed, closing the budget gap by cutting $27 million from the budget would require extremely significant cutbacks in City services. To put that amount in different and very general contexts, at the agency level, $27 million is equal to the Streets Division budget. The entire Planning, Community, and Economic Development budget (including Building Inspection, Community Development, Economic Development, Planning, etc.) totals about $28 million. All of the administrative agencies (Assessor, Attorney, Civil Rights, Clerk, EAP, Finance, HR, and IT) total about $30 million. From a percentage of the budget perspective, $27 million is equal to an 8% across the board reduction to all agencies (excluding debt service). If public safety agencies (Police and Fire) are excluded, as they are essentially required to be by state law, that percentage increases to a 15% reduction to every other City agency.

Over 270 current staff positions would need to be eliminated to achieve $27 million in expenditure reductions. That's equal to nearly 10% of all City positions – and if Police and Fire are excluded, that percentage increases to almost 20% of all other City staff. If the Council chooses to close the budget gap by reducing staff compensation rather than position reductions, the compensation (salary and fringe benefits) of all General Fund-supported positions would have to be cut by nearly 10% to achieve $27 million. If public safety agencies are excluded, that percentage reduction increases nearly three-fold. A change of that magnitude – cutting staff compensation by nearly one-quarter – would clearly have a massive impact on the City's ability to recruit and retain talent, if it was even possible to achieve.

Reducing positions would almost certainly result in mass layoffs of existing staff. That layoff process is defined through collective bargaining agreements and city ordinances, and is usually a seniority-based system, with seasonal and hourly employees laid off first, followed by the most recently hired employees; departments would have relatively little discretion as to which employees would be let go. Staff with more seniority may be able to bump into similar positions held by less senior staff. Layoffs come with significant financial cost – the City must pay unemployment costs of laid off employees – and a service cost – investments in training, skill building and experience are lost and services to City residents are directly impacted. No matter how layoffs are apportioned, they would result in significant reductions to City services, and the Council would have to make tough decisions about what services would no longer be provided to our community. For example, would the City close library branches or reduce hours at all branches? Would the City scale back neighborhood centers or violence prevention efforts? These and many other trade-offs would have to be considered.

The impacts described above are at a very large scale and are meant to explain the equivalent of $27 million in the context of the overall General Fund budget. Any final path forward would need to balance community values, equity considerations, and service priorities with employment market realities and the need to have City staff with the skills and experience necessary to deliver those services to City residents. There are also multiple reduction options that could be considered – including elements of programs and varied approaches in reducing employee compensation.

The final part of this information series will discuss some of the revenue options for closing the City's $27 million deficit.

Thank you.

David Schmiedicke

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

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Outlook for 2025 City Budget

Information Series on the General & Library Fund Budget

Part 3: Expenditure 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 3:
Budget Balancing Strategies – Expenditures

Takeaways:

- Common Council is legally required to pass a balanced operating budget
- Reducing Debt Service has a limited effect on structural deficit due to levy limit exemption on debt
- Options for reducing expenditures includes reducing personnel costs or rolling back new initiatives, which would have significant operational impacts

The City Operating Budget Must be Balanced

- By law, the operating budget must be balanced (Revenues = Expenses)
- The Executive Budget submitted by the Mayor to Common Council is balanced
- Finance Committee and Common Council may amend the budget, but the final budget must be balanced

Ways to Balance the Budget

- 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

Projected 2025 Gap = $27 million

Impact of Debt Service on Expenditures

- City cannot cut debt service on already issued debt; otherwise will default

- Levy Limit Calculation
  - Increases prior year levy by net new construction factor, ***excluding debt service***
  - Adds debt service for upcoming year based on amount borrowed in current year (ex. 2025 debt service in levy limit = 2024 borrowing = 2024 adopted capital budget)

- Interaction between Levy Limit and Debt Service
  - Less debt service ***does*** lower allowable total property tax
  - Less debt service ***does not*** increase the allowable levy for operations
  - Debt service paid from other funds (e.g., Stormwater projects) helps the operating budget by creating allowable levy that does not need to be used for debt service
  - ***Reducing borrowing in the capital budget does not address the structural deficit***

Example: Reducing Debt Service

reduces total levy increase but does not increase allowable levy

Actual Levy Limit Calculation for 2024 Budget

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	170,172,778	116,324,921	286,497,699
Difference	3,468,195	8,338,308	11,806,503

If Debt Service was $1 million lower ($7 million reduction in borrowing in 2023 capital budget)

	Allowable Levy	Debt Service	Total Allowable Levy
Prior Year Levy	166,704,583	107,986,613	274,691,196
Current Year	170,172,778	115,324,921	285,497,699
Difference	3,468,195	7,338,308	10,806,503

Reducing debt service lowers total levy but does not change allowable levy for operations

Same as Actual table above

$1m less than Actual table above

Madison’s Spending in Context

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

	Per Capita	Rank	Average	Median	% of Average
Health and Human Services	$249	1	$36	$15	698%
Other Transportation (e.g., Transit)	$82	2	$20	$10	421%
Culture and Education (e.g., Libraries)	$98	7	$73	$73	133%
Debt Service	$311	11	$299	$266	104%
Law Enforcement	$300	12	$311	$283	96%
Fire/EMS	$239	14	$219	$221	109%
Conservation and Development (e.g., housing and forestry)	$59	15	$50	$48	118%
Solid Waste Collection and Disposal (includes recycling)	$95	15	$97	$85	98%
All Highway and Transportation	$285	16	$293	$257	97%
General Government	$140	20	$142	$122	99%
Parks and Recreation	$133	20	$151	$138	88%
Highway Maintenance and Construction	$203	25	$274	$235	74%
Operating/Capital/Debt Service Spending	$1,932	8	$1,729	$1,778	112%
Total Spending and Other Financing	$2,355	3	$1,729	$1,778	136%

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

Cost of Living Increases and key initiatives have added over $25 million to budget since 2021

	2021	2022	2023	2024
Cost of Living (COLA) increases = $18.4 Million	3.75% Police and Fire Increases ($2.7m)	1% COLA for GMEs ($1.5m)	2% for all employees and additional 1% for GMEs ($6.3m)	6% for GMEs and 3% for protective service ($7.9m)
New Positions = $5.4 million	7 new positions, including Office of the Independent Monitor and 4 community paramedics ($525,000)	33 new positions including 6 PD officers and 4 streets workers to serve Town of Madison, 3 DCR community connectors, and 10 firefighters to reduce overtime ($2.8 million)	21 new GF positions including CARES expansion, Fire EM Coord., Parks Volunteer Coord., 10 Public Works laborers, City share of PH reproductive health positions ($1.6 million)	7 new GF positions, including civilian EMS trainer, traffic engineer, DCR investigator and multiple shared positions with enterprise agencies and PH ($452,000)
New Initiatives = $2.2 million	Establish CARES program and Office of Independent Monitor, expand CDD Street Outreach ($781,000)	Ongoing Town of Madison attachment costs and other expenses ($102,000)	Expand CARES, CDD young adult employment contracts, Parks Alive, and more ($587,000)	Includes shelter operations, CDD contract increases, PD 3rd party transport, and more ($717,000)

Expenditure Reductions in Context

How much is $27 million in the operating budget?

Compared to an Agency Budget

- Entire Streets Division general fund budget ($27million)
- Most PCED Agency Budgets (Building Inspection, CDD, EDD, Planning, Office of Director = $28.4 million)
- Most administrative agency budgets (Assessor, Attorney, Civil Rights, Clerk, EAP, Finance, HR, IT = $30.7 million)

As a Percentage of Total Budget

- 8% reduction of the total budget, excluding debt service ($338 million)
  - *Each 1% = $3.4 million*
- 15% reduction of the total budget, excluding debt service and public safety ($177 million)
  - *Each 1% = $1.8 million*

Compared to Positions and Salaries

- 270 general & library fund positions
  - *10% of positions including public safety*
  - *20% excluding public safety*
- 9% reduction in salaries
  - *Each 1% reduction in pay = $3 million (including Police and Fire)*
  - *Excluding Police and Fire, each 1% reduction in pay = $1 million*

Considerations for Position Reductions

- Position reductions may result in layoffs of existing staff
- Layoff process defined by either collective bargaining agreements or city employee handbook
- Generally, seasonal and hourly employees laid off first followed by permanent staff with lowest tenure
- Employees in eliminated positions may have ability to bump to similar positions if incumbent has less seniority
- City must pay unemployment costs of laid off employees

Takeaways

- **Operating Budget must be balanced (Revenues = Expenditures)**
  - Executive budget submitted by Mayor is balanced
  - Common Council may amend budget, but amendments must be balanced
- **Reducing Debt Service has a limited effect on structural deficit due to levy limit exemption on debt**
  - City cannot cut debt service on already issued debt; otherwise will default
  - Less debt service lowers allowable total property tax but does not increase the allowable levy for operations
  - Reducing borrowing in the capital budget will not have a meaningful impact on the operating budget deficit
- **Options for reducing expenditures includes reducing personnel costs or rolling back new initiatives, which would have significant operational impacts**
  - $27 million in expenses represents large, significant cuts to existing staffing and services
  - Recent budgets have included COLAs to meet contractual obligations and achieve wage parity, and have funded new initiatives and priorities such as CARES