Frequently Asked Questions on 2025 City Budget

Compiled from Council Community Budget Conversations

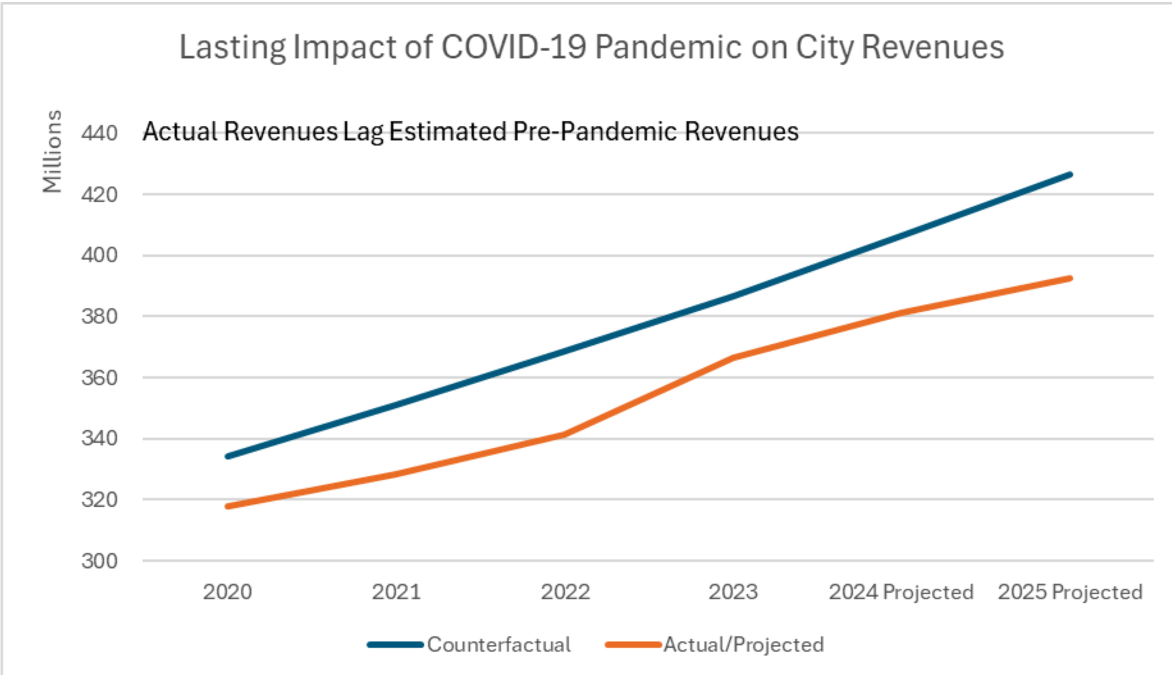
Why does Madison have a structural deficit?

The City's structural deficit is the result of two basic dynamics: a rapidly growing city and harsh restrictions on revenue enacted by the State Legislature and former Gov. Scott Walker. Since 2011, the State Legislature has strictly limited the amount of revenues available to pay for City services. According to the independent Wisconsin Policy Forum, Wisconsin has the one of the tightest restrictions on increases in the entire country. As a result, the City has had to close deficits in every City budget since that time.

- Revenue restrictions have caused deficits each year of approximately $10 million.
- The latest estimate of the deficit for 2025 is $22 million.
- The City has done many things to balance its budget over the past 13 years, such as increasing the amount that employees pay for their pensions and health insurance, increasing existing fees, and creating new special charges.
- Limits on City revenues under state law — property taxes levy limits, no local sales tax, no local income tax, low level of shared revenue — have not allowed the City to keep up with the need for services.

How did the COVID pandemic impact Madison's budget?

The economic effects of the pandemic exacerbated the City's budget deficit.



- The COVID pandemic significantly reduced City revenues, which remain below pre-pandemic levels to this day.
- Meanwhile, costs have increased in the last couple of years due to the high rate of inflation.
- Federal ARPA funding helped address the deficit while maintaining basic city services over the past 5 years. That funding is no longer available.

What are the options for balancing the budget?

Balancing the budget means either reducing costs, increasing revenues, or a combination of the two.

- Spending reductions would mean reductions in services due to layoffs of employees.
- There are very few options for increasing revenues – one is to raise the property tax, which requires a public referendum, the other is to increase fees and special charges.

Can the City levy a local sales tax?

No. State law does not allow local sales taxes for cities. The exception is the City of Milwaukee, which as of 2023 was authorized to enact a local sales tax by the State Legislature in order to avoid bankruptcy.

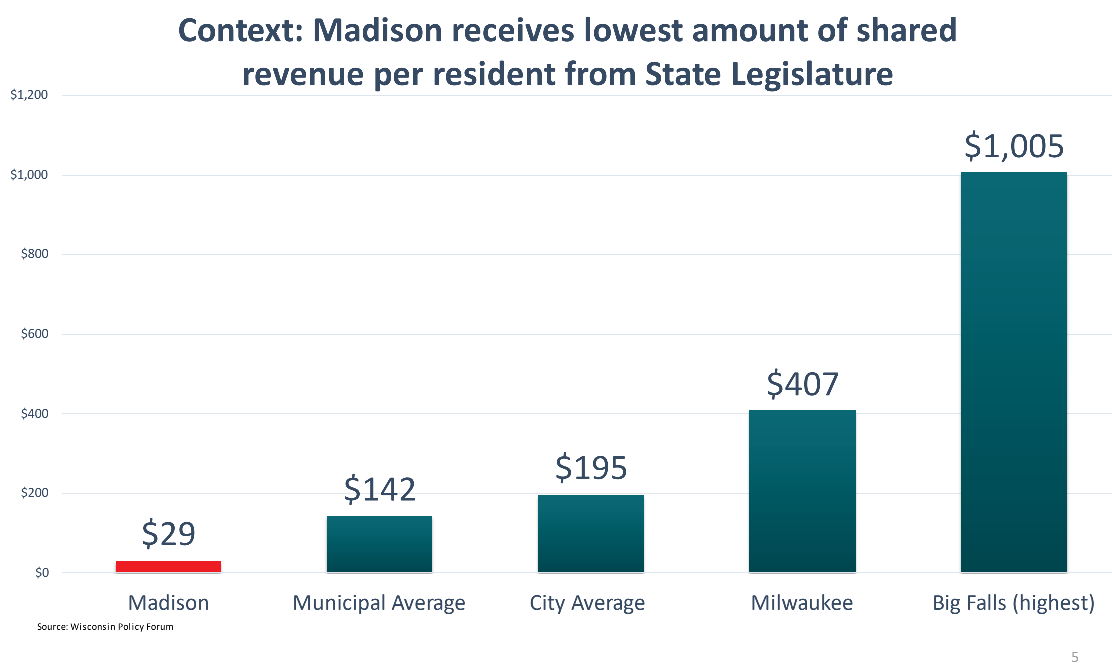
- The State Legislature would have to pass a law allowing Madison and other cities to levy a sales tax; it has repeatedly declined to do so despite being asked by Madison and other cities across the state for that authority.
- Gov. Tony Evers has requested a 0.5% sales tax for cities in his recent budgets. The State Legislature has stripped that language from each and the current legislative leadership has made it clear that they have no intention of granting that authority.

Is the City lobbying the State to get a local sales tax or a greater portion of shared revenue?

Yes. Madison has worked for years and under several Mayoral administrations with its partners in the Wisconsin League of Municipalities and other cities to lobby the Governor and state lawmakers for more revenue options for Wisconsin cities.

How much of the City budget comes from the State of Wisconsin?

Approximately 11% of the City's operating budget comes from the state, mainly in the form of "shared revenues," which are income and sales taxes that the state collects and then returns to cities. The City received $8 million in shared revenue in 2024.



- Madison receives the lowest amount per resident of any city in Wisconsin ($29). The average received by municipalities (cities, towns and villages) is $142 per resident. The average for cities is $195 per resident.
- Despite being a primary driver of the state economy and contributing over $1 billion dollars in state taxes, Madison residents get back less than 20 percent (18 cents) for every

dollar they pay in state taxes. And that includes state aid provided to the City, School Districts, and Dane County.

- The main reason for the lower amount for Madison is cuts in shared revenues made to balance the state's budget between 2003 and 2011.
- The State Legislature has also distributed shared revenue to specifically give less to Madison.
- If shared revenue had increased at the rate of inflation since 2003, Madison would be receiving nearly $20 million in 2024. If Madison received the per-resident average for Wisconsin cities, we would get $54 million!

What revenues can the City use to pay for services?

Madison is limited mainly to using property taxes to pay for services. Over 70% of the City's budget comes from the property tax. In fact, Wisconsin municipalities are the most dependent on property tax of any state in the Midwest and are some of the most limited in the entire country due to the state legislature's restrictive policies. Moreover, Madison has over 1500 tax-exempt properties, including many extremely prominent and high-value locations such as the UW Campus and state government buildings that are cut out of the City's property tax base, further shifting the burden of property taxes onto residential property owners.

- The State constitution and state law requires that property taxes be uniformly applied. This means that there cannot be different tax rates for different property nor surcharges for certain types of property. For instance, the City is not allowed to reduce property taxes just for seniors or for those living on fixed incomes.
- The City can charge for services (for example, ambulance fees), collect fees for licenses and permits (such as building permits), and issue fines and forfeitures (parking tickets). Revenues from these charges and fees cannot exceed the cost of the service provided; that means, for instance, that Madison cannot charge large commercial developers more money and then use that money to fund other services for residents.
- Madison has a 10% room tax. Each 1% on the room tax generates about $2 million. Under state law, only 30 cents of every dollar raised can be used for general City services. The remaining 70 cents must be used for "tourism-related activities."
- The City is allowed to have a local vehicle registration fee under state law. In 2020, the City created a $40 annual vehicle registration fee.
- Wisconsin cities are allowed to have special charges for certain services under state law. The City has created an urban forestry special charge and a resource recovery special charge. These special charges raise a total of about $10 million annually for those services.
- Special charges could be created for other city-wide services, such as transportation infrastructure and parks.

Do City agency budgets get audited or examined for a lack of efficiency?

Madison is continuously reviewing its processes and seeking efficiencies. In fact, the City is currently operating with 11% fewer staff per resident than it did just a decade ago.

- City agencies are audited on a 5-year cycle for review of internal controls and identification of ways to improve efficiency.
- The Results Madison initiative is a strategic framework intended to align city services with the outcomes that matter most to Madison residents. To further improve efficiency, City agencies are currently in the process of developing performance measures related to the services and activities they provide.

Why did City staff get a pay increase while we are dealing with the deficit?

In 2011, the State Legislature effectively banned collective bargaining for most public employees.

- Police, fire and transit labor unions were excluded from this ban. Since then, pay increases for Madison police and fire commissioned staff have increased at a faster pace than general municipal employees in the City.
- Eventually, that gap in wage increases reached 6%. The 2024 budget closes that wage gap to maintain equity for city employees and also responds to the large increases in inflation over the previous couple of years to help recruit and retain staff.
- The 2024 budget includes a 1% across-the-board reduction to city agency budgets and an additional reduction to larger agencies to reflect savings from vacancies. Not re-hiring eventually means that services to residents needs to be reduced.

How much funding did the City receive from the American Rescue Plan Act (ARPA) and other federal COVID-related funding and how was that funding used?

The City received $47 million through the State and Local Fiscal Relief Fund (SLFRF) created by ARPA. The Common Council adopted a resolution in the Summer of 2021 to split that funding in half. One half was allocated for one-time assistance to help our community recover from the pandemic. This assistance included help for the homeless, programs to reduce violence, funding for youth employment, and grants to help small businesses. The other half of the funding was used to maintain current service levels to City residents.

- The City lost tens of millions of dollars of revenue due to the economic effects of the pandemic. For example, City room tax revenues fell 70% in 2020 compared to 2019. The federal funding through the SLFRF was meant to be used to help replace these lost revenues so that services to residents could continue at current levels.
- No new permanent positions or programs were created by the ARPA funding. Under federal law, the ARPA funding must be allocated by the end of 2024 and fully spent by the end of 2026.

How much one-time federal and other funding was used in the 2024 budget?

One-time funding such as surpluses from closed TIF districts, and allocations from the City's "Rainy Day Fund" used haves been used in many previous City budgets.

- The 2024 budget includes one-time funding of $9 million from the City's fund balance ("rainy day fund") and one-time funding of $3 million from surpluses in closed tax increment district, as well as the final $5.6 million of the ARPA SLFRF funding is allocated in the 2024 budget.

Do projects such as Bus Rapid Transit or the Public Market impact the 2025 budget deficit?

These and other large infrastructure projects are part of the City's capital budget, which is funded by long-term debt, and were previously approved by the Common Council. That funding does not come out of the City's operating budget that pays for City services, nor can it be used to pay for the ongoing cost of those services. The interest on that debt, or "debt service," will eventually need to be paid back but does not directly impact the $22 million budget gap. Moreover, the vast majority of the bus rapid transit project is funded by federal infrastructure spending, and not via local taxes.

How does debt service impact the Operating Budget?

While debt service is paid from the operating budget, the State formula for calculating how much money the City can levy in property tax exempts debt service.

- While lowering the amount of borrowing for City capital projects will lower the amount of future debt service the City pays, it does not translate to more money to pay for other operating cost. This is because our allowable increase in property taxes is adjusted down by that amount.

Why do we do a cost-to-continue budget rather than zero-based budgeting?

As a local government, the services we provide are dictated by the needs and vision of Madison's residents and their elected officials.

- The City currently uses what is called a "cost-to-continue" budget process, which allows us to account for inflation in the cost of providing the same level of service year over year.
- "Zero-based budgeting," which means starting from scratch each year, is another way to evaluate services.
- Both processes include a review of every budget line item. And under either system, the Common Council may vote to discontinue a service or to add a new service to any agency's budget during their deliberations.

How will the Rainy Day Fund surplus factor into the 2025 Budget?

The 2023 surplus of $31 million was the result of savings due to a higher rate of turnover in positions than budgeted, as well as more investment income than budgeted due to the sustained high interest rates at the federal level.

- This surplus becomes part of the City's Rainy Day Fund, which contributes to the City's AAA bond rating and protects the City against emergencies such as the pandemic. In order to continue to save Madison taxpayers money in the long run, we need to retain our triple-A bond rating, which gets us more favorable interest rates on our debt.
- Since this is a structural deficit, using one-time funds would help reduce the deficit in 2025, but does nothing to address the long-term nature of the deficit each year after 2025; in other words, the budget deficit would be even larger in 2026 and the City would no longer have a surplus to use to help close it.
- Additionally, if we remove funds from the rainy day fund, we do not earn interest on them. Therefore, the City considers any use of "rainy-day" funds with caution.

Can the City sell land to help with the structural deficit?

Most properties owned by the City house important City services such as police, fire or refuse collection and cannot easily be sold. The City is continuously reviewing the list of properties it owns to identify opportunities to develop or sell the property, where it makes sense to do so. However, selling a property generates one-time revenue for the City, which will not help address the on-going gap between the City's revenues and cost-to-continue current services. In other words, the deficit will be even larger the following year.