



About the City Budget

Information Series on the City of Madison Budget
Part 2: The City's Structural Deficit and Referendum

Series Overview

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- a. Budget Overview and Process
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Part 2.a.

The Structural Deficit

Takeaways:

- The City is required to adopt a balanced budget.
- The City has faced a structural deficit since 2011, when the State of Wisconsin enacted strict levy limits. As a results, the growth in revenues is slower than the growth in expenditures.
- The main causes of the structural deficit are 1) limited revenue options, 2) increasing expenses, and 3) lasting impacts of the COVID-19 pandemic.

The City faces a persistent structural deficit

What is a structural deficit?

- A structural deficit is when projected expenses are greater than projected revenues, despite economic conditions. The cost to provide the same level of services next year is more than we think we will bring in through revenues.

Why are we in this situation?

1 Limited Revenues

- State of WI places strict limits on revenues, so revenues do not keep pace with inflation
- Madison receives less State Aid (\$29/resident compared to statewide average of \$142/resident)

2 Increasing Expenses

- Annual increases for cost of living adjustments, higher healthcare costs, and inflation
- Expanding services to meet resident needs as the City grows (for example, maintaining emergency response times)

3 Impact of COVID Pandemic

- City revenues have not fully recovered from the pandemic
- Federal COVID relief funding helped with revenue losses in prior years, but relief funding ended in 2024

1 Revenues: State laws restrict revenue growth

Property Tax and the Levy Limit

- The State Legislature controls the growth of local property taxes through a “levy limit.” Growth is limited to a “Net New Construction” (NNC) factor and does not factor in inflation or population growth. Levy growth has averaged 2% annually, which is less than the increasing cost of providing services.
- Increasing property values (assessments) **do not** increase the City’s overall levy authority. Assessments do determine the tax rate and what portion of the levy a property pays. See Part 4 of this informational series for details on the property tax calculation.

Other Local Revenues

- Cities in Wisconsin need the approval of the State Legislature to raise revenues. For example, many cities around the country have a sales tax. Wisconsin law does not authorize a sales tax for cities, with the exception of Milwaukee.
- Restrictions on other sources make City revenues heavily reliant on property taxes, particularly residential property taxes.
- State Aid has not kept pace with costs. Madison received lowest per capita increase from 2023 State Shared Revenue Legislation.

2 Expenses: The cost of maintaining services grows faster than revenues

Personnel is the primary cost driver. This includes cost of living adjustments (COLAs), fringe benefits (e.g. increasing health insurance rates), and increasing staffing levels to address population growth and service needs. The table below summarizes major increases from 2021 – 2024. This excludes inflation adjustments for supplies, the general fund subsidies to Metro and Public Health, and other adjustments.

	2021	2022	2023	2024
Cost of Living (COLA) increases = \$18.4 Million	3.75% Police and Fire Increases (\$2.7m)	1% COLA for general municipal employees (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 (OIM) and 4 community paramedics (\$525,000) for CARES (Community Alternative Response Emergency Services)	33 new positions including 6 police officers and 4 streets workers to serve Town of Madison, 3 Dept. of Civil Rights (DCR) community connectors, and 10 firefighters to reduce overtime (\$2.8 million)	21 new general fund (GF) positions including CARES expansion, Fire emergency management coord., Parks Volunteer Coord., 10 Public Works laborers, City share of Public Health (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 OIM, expand Community Development Division (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, Police 3 rd party transport, and more (\$717,000)

2 Expenses: Context on Staffing Levels

In raw numbers, the total number of FTEs has increased each year since 2011 (except for a decrease in 2012). The average growth rate is 25 new FTE positions per year. However, the City has **fewer staff per capita**. The City has 10% less staff per capita in 2024 compared to 2011.

Some city services have a more direct relationship with population growth (for example, Police, Fire, Streets crews). Not every service will grow proportionately with population. The FTE numbers below do not factor in the types of positions being added. Despite this limitation, FTE positions per capita is a useful proxy measure that shows the challenges of keeping pace with growth.

City Full-Time Equivalent (FTE) Positions per 1,000 Population

Excludes Public Health of Madison and Dane County (county employees)

Sources: Authorized FTE from Adopted City Budgets; Population Estimates from Wisconsin Department of Administration

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
City FTE Positions	2,784.85	2,732.35	2,765.35	2,779.60	2,825.55	2,866.75	2,883.55	2,928.45	2,931.10	2,947.60	2,949.00	3,010.55	3,099.70	3,115.65
City Population	233,890	234,625	238,000	240,153	242,216	247,207	250,073	252,546	255,650	257,197	259,233	279,012	286,785	289,653
FTE/1,000 Population	11.91	11.65	11.62	11.57	11.67	11.60	11.53	11.60	11.47	11.46	11.38	10.79	10.81	10.76
Change from 2011		-2%	-2%	-3%	-2%	-3%	-3%	-3%	-4%	-4%	-4%	-9%	-9%	-10%

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Expenses: Recently Enacted State Law Public Safety Maintenance of Effort (MoE)

New state law requirement for Public Safety MoE adds pressure to cost to continue and limits options for reducing expenses in our largest agencies. Penalty for failure to comply is a 15% reduction in shared revenue (municipal aid) = ~\$1.2 million

Police

At least one of the following remains the same or greater from previous year:

- Spending for employment costs of law enforcement officers
- Percentage of budget
- Number of FTE law enforcement officers employed

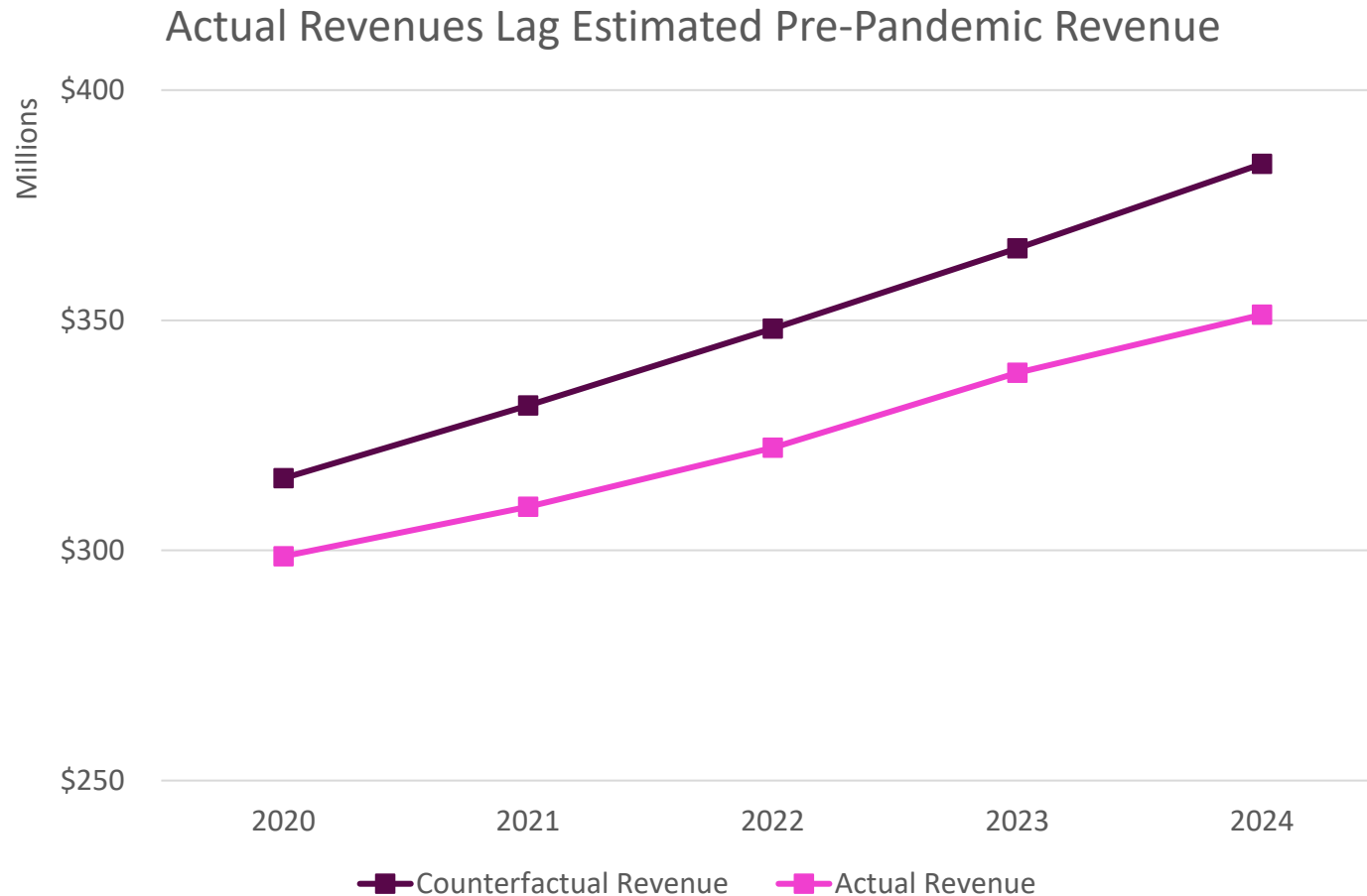
Fire and EMS

At least two of the following remains the same or greater from previous year:

- Spending for fire protective and emergency medical services
- Number of FTE firefighters and EMS employed
- Level of training and licensure
- Response times

3

Lasting impact of COVID-19 Pandemic: Revenues lag pre-pandemic trends



- Pre-Pandemic revenue is based on U.S. Treasury methodology for estimating revenues.
- Actual revenues have lagged counterfactual estimate since 2020, with the gap growing year over year.
- Despite strong economic growth, property taxes are less connected to economic recovery than other revenue sources (e.g. sales tax)



Part 2.b.

Balancing the City Budget

Takeaways:

- Common Council is legally required to pass a balanced operating budget
- The City has utilized many strategies to balance the budget since 2011, including reducing expenditures, utilizing one-time funds, and increasing revenues
- The 2025 budget was balanced through the adoption of a \$22 million property tax levy referendum

Options for Balancing the Budget

The operating budget must be balanced. The amount we spend (expenditures) cannot be more than the money we bring in (revenues).



Reduce Expenditures

The City assumes there will be some cost savings from operational efficiencies and personnel vacancies. However, costs increase as the City grows and services expand. Closing the structural deficit through cuts alone will result in less services.

- Across the board cuts that reduce all agency budgets
- Targeted cuts to specific services or programs
- Cut positions (layoffs) or reduce compensation



Increase Revenues

The City's options for raising revenues are limited by the State. For example, we cannot levy a local sales tax or income tax.

- Create new special charges
- Increase existing local revenues (e.g. fines, fees)
- Ask voters to increase the property tax ("levy") through a voter referendum

History of Budget Balancing Strategies

Allowable levy increases do not keep pace with cost growth

2012	2013	2014	2015	2016	2017	2018
- Debt premium - Police and fire pension contributions - Premium stabilization surplus	- Room tax growth - Ambulance fee	- Room tax – shift from MT projects - Building Permit revenue - Urban forestry special charge (UFSC)	- Room tax - Building permits - UFSC	- Room tax – Overture shift - UFSC - Health Insurance Plan Design	- Room tax - Ambulance fee - Transit fund surplus - Snow and ice removal budget - UFSC	- Increased Room Tax rate - Cost Allocation - Increased investment revenue
2019	2020	2021	2022	2023	2024	2025
- Tax Increment District (TID) 32 Closure - Increased interest revenue - Shift Library Collection to capital	- Vehicle Registration Fee - Shift Parking Enforcement to Parking Enterprise - Increased Forestry staff time to Urban Forestry - Debt premium	\$8 million from fund balance \$6 million in cuts, Workshare/ 'furloughs', and efficiencies \$2 million in fee increases, Town of Madison Fire/EMS contract	\$13.1 million one-time American Rescue Plan Act (ARPA) funds \$1.5 million revenue from Resource Recovery Special Charge (RRSC) \$1.4 million cuts	\$6.9 million in TID proceeds \$3 million RRSC \$7.7 million one-time reduction to Metro Transit subsidy	\$9.2 million in fund balance \$5.6 million ARPA \$3.1 million TID proceeds \$3.0 million reduction to all agencies \$2.4 million vacancy savings	\$22 million property tax levy referendum

Prior to 2012, levy limits had a 3% floor for annual increases rather than 0%; 3% minimum was applied to prior year maximum allowable levy rather than actual levy.

Balancing the 2024 Budget

On-Going – \$6 million

- 1% Across the Board Reductions: ***\$3 million***
 - Over the past 5 years, agencies have underspent their authorized budgets by about 4% annually.
 - Agencies will address the reductions primarily by holding positions vacant
- Higher “Salary Savings”: ***\$2.4 million***
 - Turnover in positions due to terminations and retirements generates savings
 - Sliding scale rate based on agency FTE size (very small agencies have no salary savings)
 - Largest savings is 4% of salaries – based on multi-year analysis
- Room Tax for Zoo & Olbrich Gardens: ***\$0.6 million***

One-Time – \$18 million

- American Rescue Plan Act: ***\$5.6 million***
 - City received \$47 million
 - \$23 million allocated to community needs
 - \$24 million allocated to maintaining services
 - Used to balance the budget 2021 to 2024
- City Share of Surpluses in Closed Tax Increment Districts: ***\$3.1 million***
 - Tax increment districts close periodically
 - Large surpluses are rare
- City Fund Balance (“Rainy Day Fund”): ***\$9.2 million***
 - Balance has increased due to one-time revenues and underspending.
 - City Reserve Target = 15% or more of expenditures

Balancing the 2025 Budget

CONTEXT: Madison has faced a budget deficit **every year** since the State imposed strict levy limits in 2011. At the beginning of the 2025 budget development process, the City projected a larger deficit than before because of the lasting impacts of the pandemic and end of federal recovery funds (specifically, the end of American Rescue Plan Act (ARPA) funds which balanced prior year budgets).

How much was the 2025 deficit?

\$22 Million

The 2025 Executive Operating Budget presented a **structural budget deficit of \$22 million**. This amount reflected the gap between the cost to continue existing services and projected revenues.

How was the 2025 operating budget balanced?

Referendum

Ultimately, the budget was balanced by voter **approval of a property tax levy referendum** to exceed the state limit on the property tax levy by \$22 million to continue City services without significant cuts.

Developing the 2025 Budget

OUTREACH AND ENGAGEMENT: The Finance Department engaged the Common Council, Mayor’s Office, and staff throughout the 2024 calendar year on budget development. A history of these meetings is summarized below and in the [Adopted Budget Overview](#).

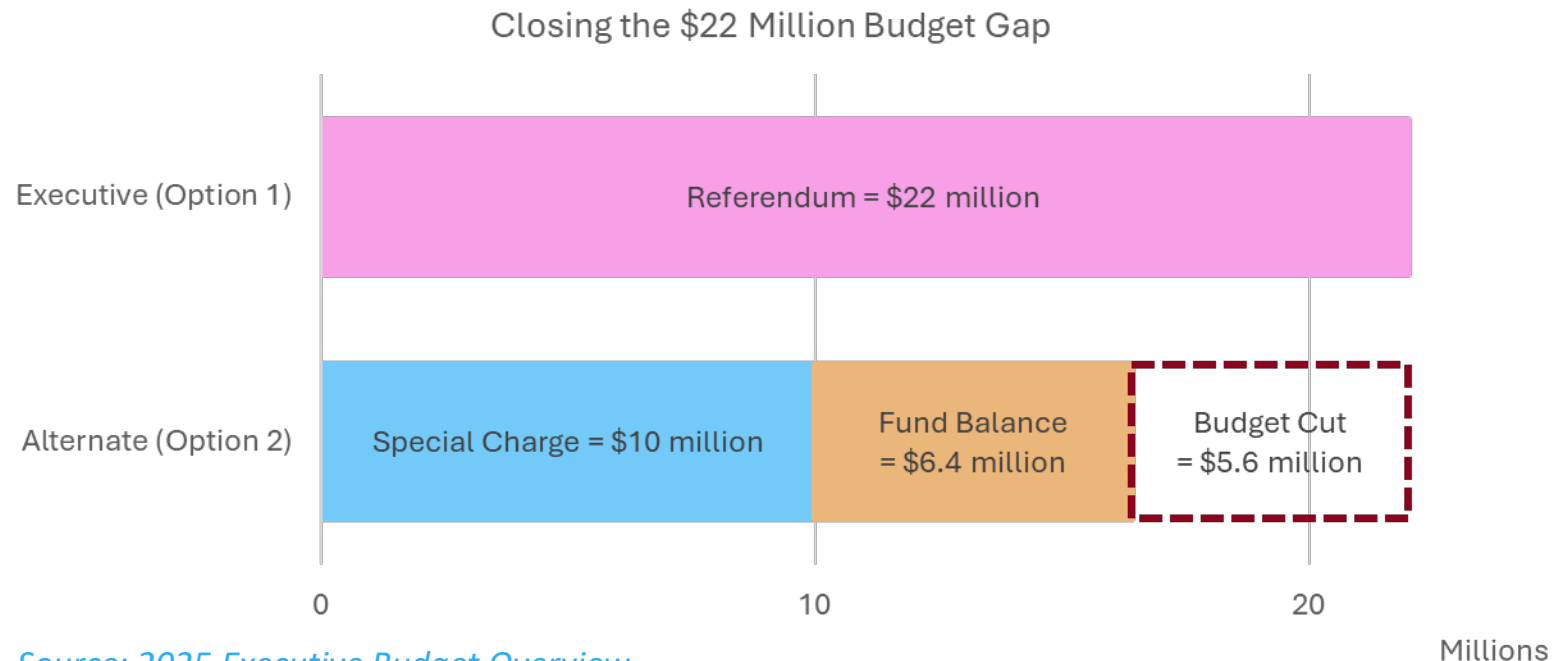
All dates in 2024 for the 2025 budget

Quarter 1 (Jan – Mar)	Quarter 2 (Apr – Jun)	Quarter 3 (Jul – Sep)	Quarter 4 (Oct – Dec)
• January: Finance launched “2025 Budget Outlook” website with informational materials • February 13: Common Council (CC) briefing on key issues facing the budget • March 3: CC Committee of the Whole discussion on budget priorities	• April 6: CC adopted a resolution (RES-24-00266) that established budget guidance for staff • May – June: Series of community meetings hosted by alders and staff	• July 16: Mayor Rhodes-Conway presented a 5-year plan and introduced a resolution (RES-24-00520) to authorize a municipal referendum • August 20: CC adopted the referendum resolution.	• October 8: Executive budget introduced to CC • November 5: Madison voters approved the referendum on the general election ballot • November 12: CC adopted budget

Executive Budget Presented Two Options

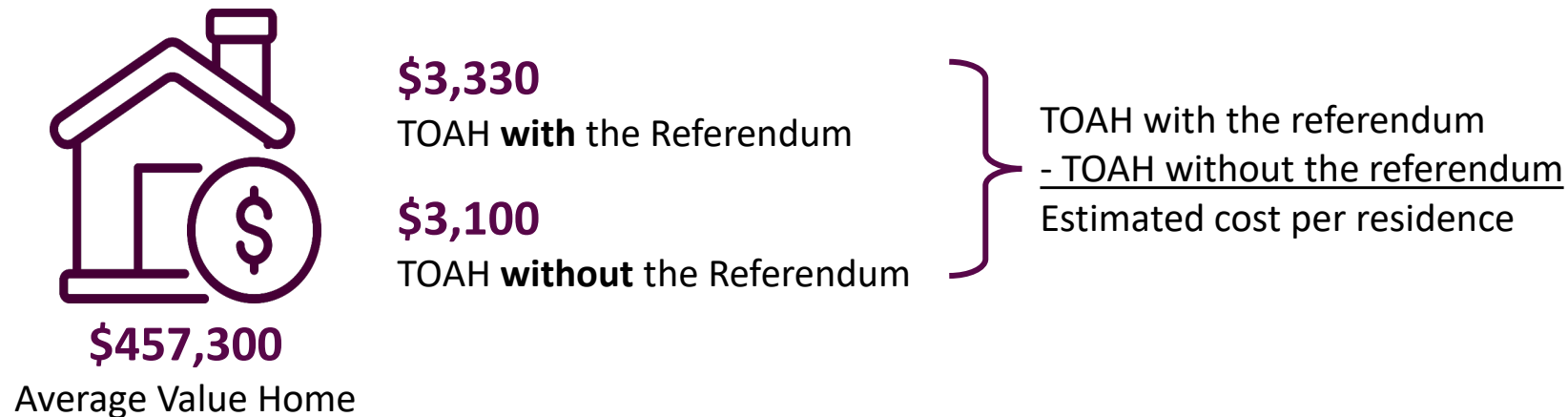
Due to the timing of the referendum vote in November, the executive budget had two options.

- Option 1 assumed the referendum would pass and authorize funding to maintain current services.
- Option 2 presented a plan if the referendum failed. This plan closed the budget gap with a combination of new special charges, service cuts, and the use of one-time fund balance.



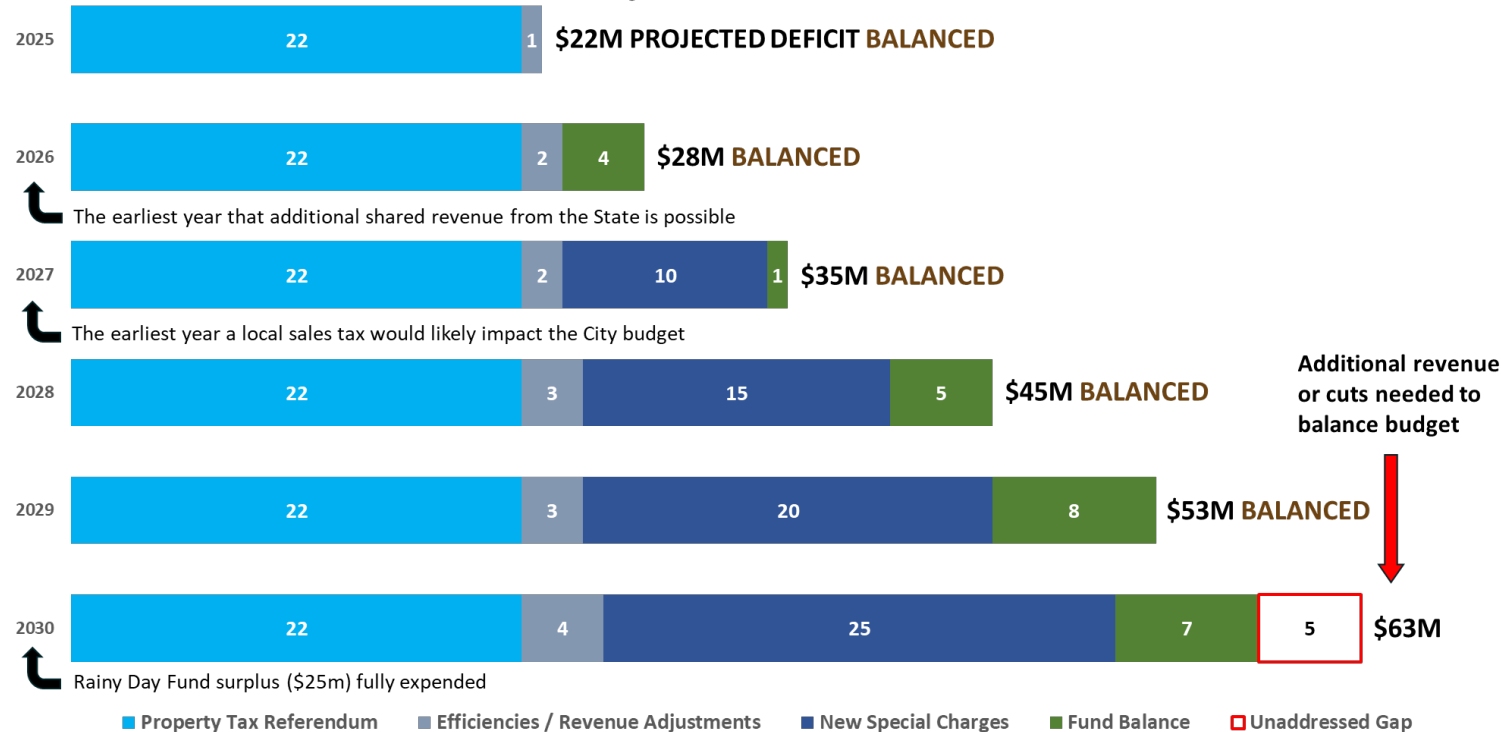
Impact of the referendum

- The referendum authorized the City to exceed the levy limit by \$22 million beginning in 2025. This increase was approved to continue on an ongoing basis.
- **Taxes on the average value home (TOAH):** The cost of the \$22 million referendum for the average value home is \$230/year (\$19/month).



Five Year Budget Outlook: Need for Ongoing Budget Balancing Strategies

With A Referendum, Madison Can Avoid Significant Cuts or the Need for More Revenue for Another Five years



The 2025 Adopted Budget includes a 5-year plan to address future deficits.

- The referendum amount is fixed (\$22 million) so it will not grow with inflation or keep pace with increasing costs.
- Due to the structural nature of the deficit, this means a budget gap will reemerge in future budgets.
- Additional strategies will be needed to balance future budgets.
- The 5-year plan will be updated annually.