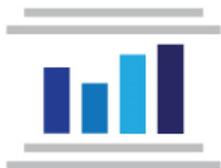


BUDGET BRIEF

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# CITY OF MADISON

2021 PROPOSED  
BUDGET



WISCONSIN

**POLICY FORUM**

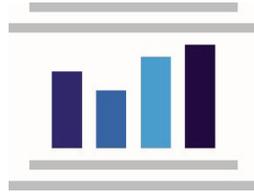
# ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

## PREFACE AND ACKNOWLEDGMENTS

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Mayor's proposed City of Madison budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming budget deliberations.

Report authors would like to thank Madison fiscal officials and staff – including the Budget Director and his staff – for their assistance in providing information on the City's finances.



# BUDGET BRIEF

*City of Madison 2021 Mayor's Budget*

October 2020

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# INTRODUCTION

In a time of turmoil, the proposed 2021 budget maintains most of the city of Madison's core services. Many observers will greet that as a welcome accomplishment given the crisis now unfolding but others may have some misgivings, either because they were hoping for more rapid changes in some agencies or because they see many of the city's fiscal difficulties will extend into 2022.

As we noted in our first [Madison budget brief last year](#), Wisconsin's capital city relies heavily on a single source of revenue – local property taxes – that is limited by state law. Because of these restrictions, the proposed budget would increase 2021 property taxes on this December's bills by one of the smallest percentages in years even as other forms of revenues – such as charges for city services, interest income, and fines – will remain depressed amid the pandemic. Add in labor contract commitments for healthy raises for police and firefighters and lagging state aid and the result is a \$16.5 million potential budget gap for the coming year.

To avoid the shortfall, Mayor Satya Rhodes-Conway is asking the Madison city council to make some permanent spending cuts and accept some one-time measures such as furloughs and a substantial use of the city fund balance. Together, the current proposal and the city's likely future revenues leave a high probability that a new shortfall for 2022 will appear next fall. In other closely watched areas, the city would increase rather than cut police spending and push off some capital projects such as the rollout of bus rapid transit.

This overall approach may strike many as reasonable – the present challenges are truly without match in living memory and the city must not only address revenue shortfalls, but also consider investments in areas like public health positions that might save lives. Yet policymakers also need to understand that, at best, the proposed budget would address only some of the city's current challenges. State property tax limits are based on new construction in the city, which has been growing more slowly and leaving less room for elected officials to raise taxes.

Last year, we wrote that the city “must manage its short-term finances and long-term concerns while preparing for an eventual recession.” The downturn came more suddenly than any could have imagined and now the city must slowly recover and rebuild – a path that will likely require considering new approaches to its costs and revenues at both the city and state levels.

In extending our Madison budget brief into a second year, the Forum seeks to encourage this informed discussion in the weeks ahead and well beyond. In a modest way, we hope in so doing to elevate not just the debate but the lives of city residents.

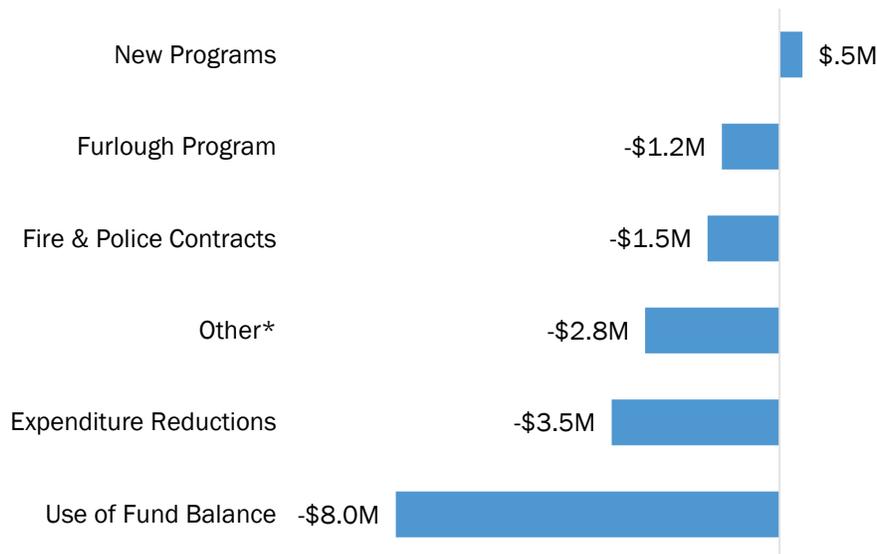
# HOW THE BUDGET IS BALANCED

When COVID-19 hit, Madison was forced to take extensive steps to balance an \$11 million projected budget shortfall in its main fund for 2020 with additional multi-million dollar gaps in some other city funds and agencies. Cost-cutting measures have included a hiring freeze on many positions and purchasing restrictions. For 2020 and 2021, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act also provided \$24.5 million for transit, \$4.1 million for public health through the state Routes to Recovery fund, and smaller amounts for housing.

For the 2021 budget year starting in January, the city's general fund currently faces a \$16.5 million potential gap as the allowable property tax increase will not cover the decline in other revenue streams and the projected increase in the cost to continue current services. The general fund imbalance is more than one and a half times as large as the one faced by the city during last fall's budget process, and more than three times as large as the one the city faced in the run-up to 2019.

The current projection has actually fallen from an even more daunting \$25 million gap that the city had estimated in June. Most alarming, only \$10 million of that larger estimated shortfall was due to lost revenues from COVID-19, while the rest was due to the ongoing mismatch between the growth in the city's revenues and expenses. The projected shortfall shrank to the current \$16.5 million gap due in part to revenue estimates improving by \$5 million and the estimated growth in employee benefits coming in \$2.1 million lower than expected.

**Chart 1: Proposed Changes to Bridge \$16.5 Million General Fund Shortfall in 2021**



\*Other includes increased ambulance fees in Madison, additional revenues related to the Town of Madison annexation, and a reduction in capital project spending that will require a 2/3 vote of the city council.

Source: City of Madison Finance Department



As we noted in [last year's brief](#), the mayor and city council helped finance the 2020 budget with a \$40 registration fee on vehicles kept in the city, making it the highest so-called local “wheel tax” in Wisconsin. That move is one of the few options for new revenues available to cities and villages under state law and its use a year ago means that, as a practical matter, it is not available in 2021.

As **Chart 1** on page 4 shows, in 2021 the city instead would draw down its reserves by \$8 million – the largest use of its general fund balance since 2006 even after accounting for inflation. The bulk of that money, nearly \$7 million, would backfill general fund and room tax revenues lost because of the pandemic. Some use of reserves is justifiable during such an unprecedented pandemic and some revenues will likely be made up in 2022 as the economy recovers and the health crisis recedes.

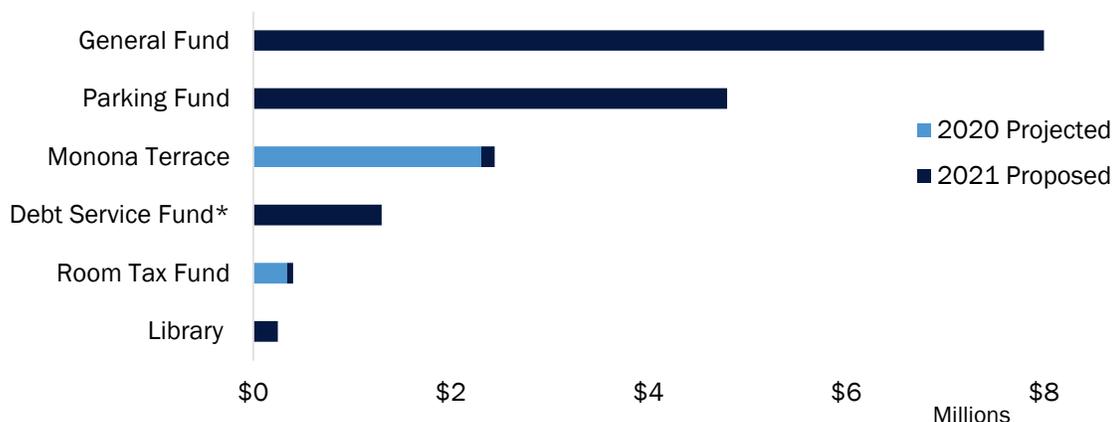
Other moves to avoid a deficit include \$3.5 million in revenue increases and agency budget cuts with some impacts to services; \$1.2 million in two to four days of employee furloughs for general municipal employees; \$2.1 million from increasing ambulance fees in Madison and factoring in new ambulance and other fees as the city takes on some Town of Madison services this year ahead of the October 2022 annexation; \$700,000 from reducing general fund spending on capital projects; and an effort to reopen signed labor contracts with police and firefighter unions to save \$1.5 million.

If the contract talks are unsuccessful, the city would eliminate police positions by attrition, hold positions open, or impose furloughs by March 2021 and would reduce the fire department budget by the summer. The acting police chief states such moves would result in reduced services.

Madison still has significant reserves, but the city has dipped into some fund balances substantially in 2020 and would do so again in 2021 (see **Chart 2**). In 2021 alone, a little over half of the money to bridge the general fund gap comes from one-time measures such as the use of fund balances and furloughs that are difficult to repeat year after year.

To the degree that revenues bounce back strongly in 2022, the city may manage this challenge without great hardship. However, to the degree that revenues such as room taxes, parking fees, investment income, and state aid remain depressed in 2022, then the city will have significant work to do – but somewhat fewer tools to draw on – as it seeks to keep its budget in balance.

**Chart 2: Use of Fund Balances in Select City Funds by Year**



Source: City of Madison Finance Department; \*Debt service fund amount shown here does not include the use of \$7.9 million in certain proceeds from borrowing known as bond premiums (see page 11).

# 2021 MADISON BUDGET OVERVIEW

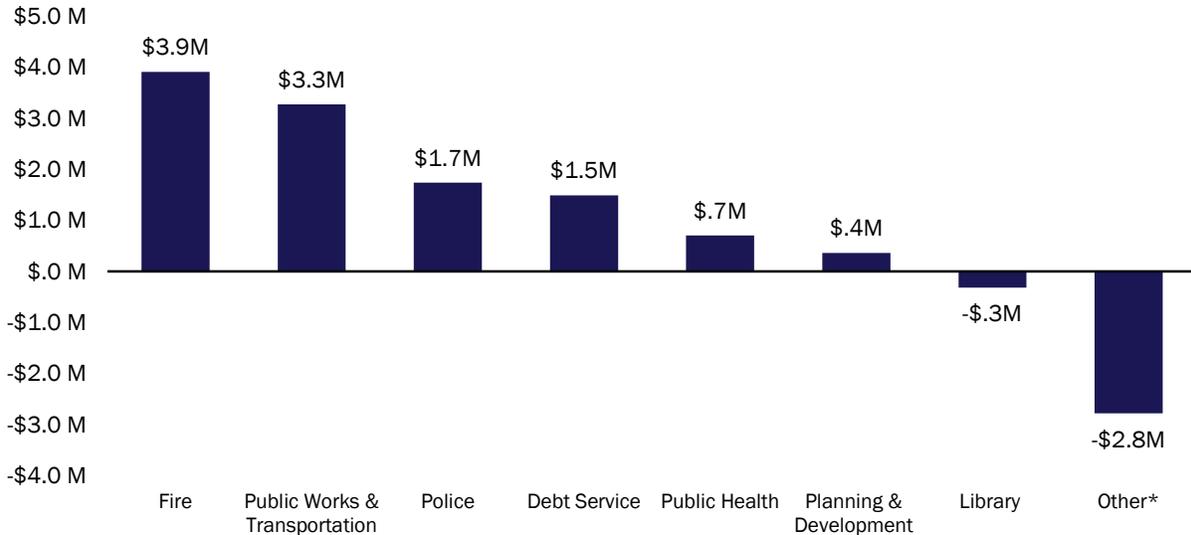
## Where Spending Would Rise (And Fall)

Spending in the city’s general fund – its main vehicle for funding city services – was budgeted to rise 3.6% in 2020 but is now expected to increase less than 1% because of mid-year spending cuts implemented due to the pandemic. Proposed spending for 2021 would rise to \$349.1 million, or a 2.5% increase over the 2020 budget as approved and a larger 5.3% increase over spending this year as projected.

Madison might have increased revenues during the past expansion if it could have levied sales or income taxes like many peer cities in other states, but the city in this moment benefits from its reliance on the relatively stable property tax. Still, smaller sources of general fund revenues such as fines and interest income are expected to fall more than 12% in 2020 and not fully recover in 2021.

As **Chart 3** shows, most of the limited spending increase would go to a handful of functions under the mayor’s proposal. [Labor contracts](#) negotiated by the previous administration play a major role in that, with police and firefighters scheduled to receive 3.75% pay increases in January 2021 and bus drivers represented by Teamsters set to receive 2.5% increases in July 2021. Those contracts, increased benefit costs for all employees, and higher debt payments account for most new spending.

**Chart 3: Proposed 2021 General Fund Spending (Change in Millions)**



\*Other includes administration, mayor, common council, municipal court, and direct appropriations.

Source: City of Madison Finance Department



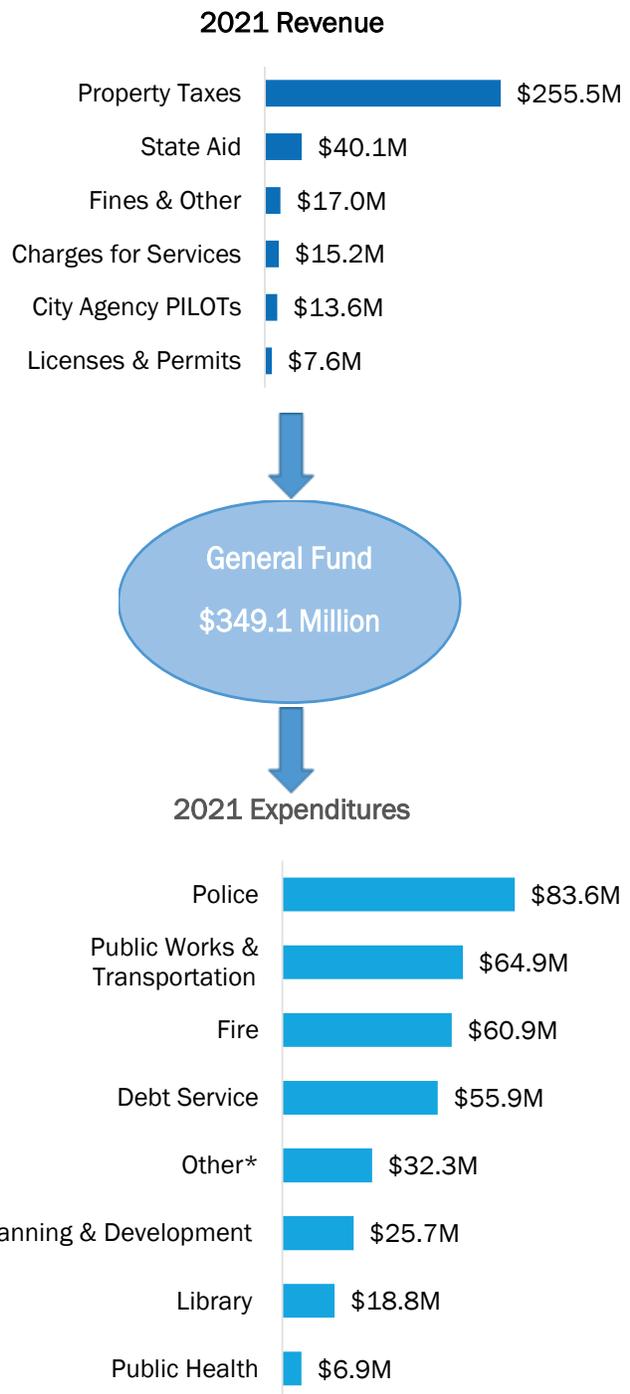
## General Fund Summary

With COVID-19 hammering at revenues such as parking fines, the city's general fund is projected to lean on property taxes for more than three-quarters of its overall 2020 revenues – the highest since at least 2006. That share is expected to shrink somewhat in 2021 but remain relatively high at 74.9% (after netting out the city's one-time use of reserves). That's a reflection of Madison's low levels of state aid compared to other cities (see the [2020 budget brief](#)) and COVID-19's effects.

After less than 1% growth projected for the current year, 2021 revenues would increase 5.3% under the proposal thanks in large part to the use of general fund reserves (see **Chart 4**). Property taxes levied by the city (not counting other local governments such as the school district, county, and technical college) would total \$255.5 million and rise by a proposed 2.2% - the smallest increase since 2003 (see **Chart 5** on page 8). Property taxes on the average home assessed at \$315,200 would rise 1.4% to \$2,723, much less than the 4.7% increase in the home's assessed value.

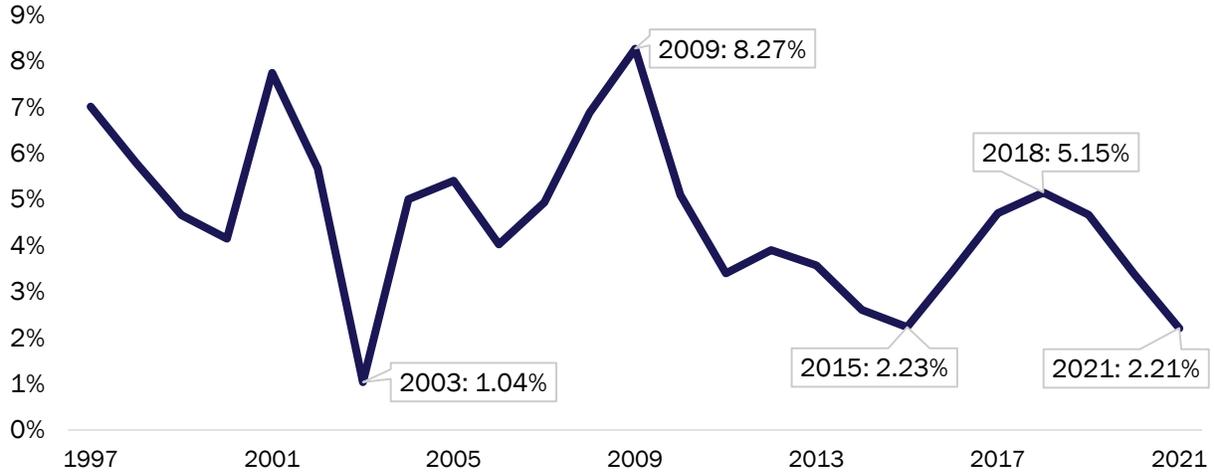
All other ongoing revenues, including charges for services such as ambulance fees, and permits and licenses such as building permits, are expected to increase by 5% in 2021 as they recover from the current pandemic levels. However, even if that growth happens, the \$85.6 million currently budgeted for these other revenues in 2021 would be the lowest amount since 2016 and well below the \$90.7 million the city was expecting for 2020 prior to the coronavirus.

**Chart 4: 2020 City of Madison General Fund (Millions)**



Source: City of Madison Finance Department; Fines and other includes \$8 million in use of general fund balance.

**Chart 5: City of Madison Property Tax Increases by Year (1997-2021)**

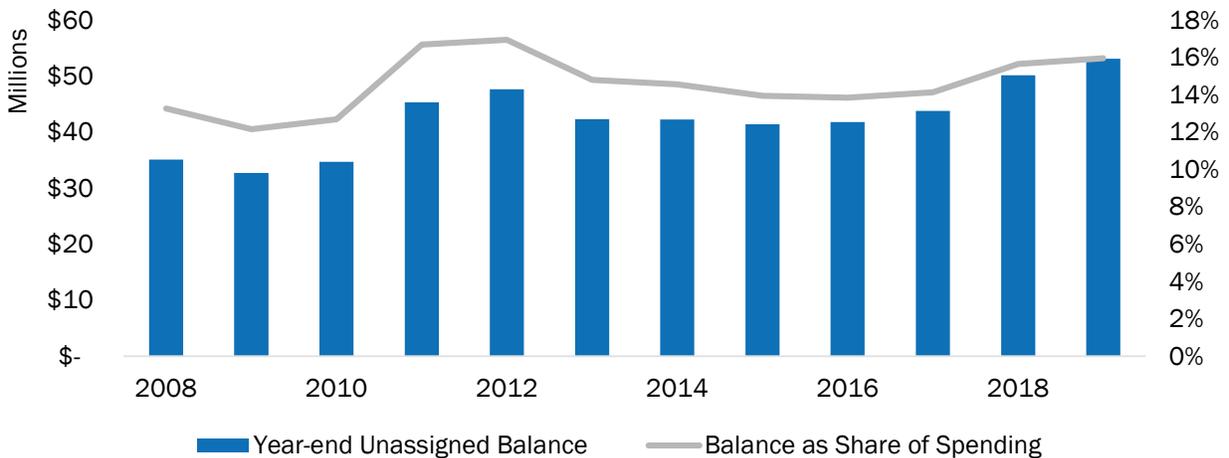


Source: City of Madison Finance Department; Wisconsin Department of Revenue

Though imperfect, one barometer of a city’s reserves is its unassigned general fund balance. To cover unexpected needs, the city seeks to keep this balance at or above 15% of budgeted general fund spending. The city met this target in 2018 and 2019 and will likely do so in 2020 (see **Chart 6**).

However, we recently noted that at the end of 2018 most of the 10 largest cities in Wisconsin had [somewhat higher general fund balances](#) than Madison as a share of spending. In addition, the \$8 million drawdown proposed for 2021 would further reduce the city’s reserves.

**Chart 6: General Fund Balance as Share of Annual Spending in the Fund (2008-2019), Figures in 2019\$**



Sources: City of Madison budgets and Comprehensive Annual Financial Reports



## Fees and the Rest of Madison's Budget

In addition to the services that are mainly supported by taxpayers and paid for out of the general fund, the city also has programs and entities that charge fees and are run more like businesses such as Metro Transit, the city parking utility, and the Monona Terrace Community and Convention Center. Including these enterprises, the city's proposed 2021 spending would total \$670 million.

New or phased-in fees include a Madison Water Utility rate increase that was put into effect in July 2020 and works out to 12.8%, or \$3.40 per month, for the average residential customer. The 8% overall increase for the year followed a larger one approved in late 2018 and reflects pressures from aging infrastructure and other capital project needs and declining water consumption.

The 2021 budget assumes a 10% increase in sewer rates, which would mean an additional \$36 per year for the average residential customer and would come on top of increases of 10.5% in 2020 and 6% in 2019. The proposal would also raise stormwater rates by 9.1% to cover projected debt service costs of \$1.8 million, which works out to a \$10.90 increase per year for the average residential customer and follows increases of 9% in 2020 and 10% in 2019. The sewer and stormwater utilities need to replace infrastructure and respond to recent flooding and the sewer utility also is expecting a \$3.1 million increase in charges from the Madison Metropolitan Sewerage District.

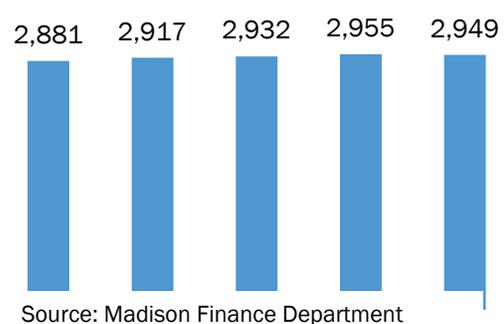
The proposed budget would eliminate fines for library patrons and avoid increasing parking fees (last raised in 2018), or fares for Metro Transit (last raised in 2016). But it would increase revenues from ambulance and building inspection fees in the city by nearly \$1.2 million and also draw on additional revenues from the city taking on those services from the Town of Madison as part of the annexation.

## City Employees

After adding about 19 full-time equivalent (FTE) positions in the 2020 adopted budget, the mayor's proposal would reduce the city's workforce by just over six positions to 2,949 (see **Chart 7**). The budget would eliminate a number of vacant positions and also add four community paramedics, two solar energy apprentices, and five bus cleaners in response to the pandemic. To that end, the city would also provide ongoing funding to retain nine public health positions first added through the CARES Act.

Madison has held percentage increases in city workers below those in the city's population in recent years. However, increases in wages for union workers such as police, firefighters, and bus drivers have proven difficult for the city to sustain and contributed to the shortfall heading into the current budget. For example, a 2.5% increase to base wages for both rank-and-file police officers and firefighters and supervisors took effect in July 2019 followed by an additional 3.25% increase in January 2020 and a final 3.75% that will take

**Chart 7: City Workforce Would Shrink (Budgeted FTEs)**



effect in January 2021. These raises were negotiated by the previous administration and the current mayor has sought to reopen the 2021 contracts and reduce the upcoming salary increase.

## SOME CAPITAL PROJECTS WOULD HAVE TO WAIT

Despite low interest rates nationally and the highest possible credit rating for the city ([Aaa from Moody's](#)), Mayor Rhodes-Conway proposes decreasing spending on capital projects for the second year in a row in part as a response to Madison's challenging financial picture. The capital budget proposes total spending of \$161.6 million, or \$12.3 million (7.1%) less than the 2020 capital budget. The proposed 2021 spending is also nearly \$30 million less (15.5%) than what the 2020 budget had included in the city's five-year improvement plan.

On the positive side, this decision helps hold down borrowing for the city. The tradeoff, however, is the delay of a number of projects to later years, including:

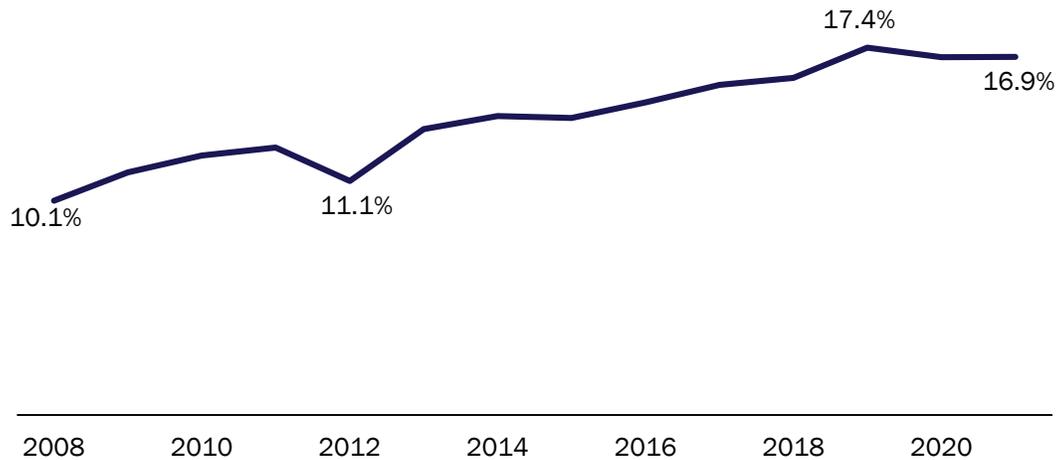
- As of last year, the city was expecting to spend \$9.2 million on bus rapid transit in 2021; this would be lowered to just \$2 million in the proposed executive budget. Meanwhile, expected 2022 spending on the project is now \$148.2 million.
- \$10 million in Metro Transit facility repairs and upgrades are pushed from 2022 into 2023
- Reindahl Library, scheduled to be built on Madison's East Side, would have \$15.5 million deferred from 2022 to the following two years.
- Reconstruction to University Avenue would have \$15.6 million deferred from 2021 to 2022.

Meanwhile, a "Small Business Equity and Recovery" project would be funded from the 2020 "Horizon List," receiving \$2.5 million in 2021 and \$2 million each in 2022 and 2023. Revenue going towards development projects for affordable housing would increase by \$500,000 in 2022 and \$1 million in 2023 through 2026. To reduce the severity and frequency of car crashes, the city would fund a "Vision Zero" project and convert all city streetlights to LED.

Nearly three-quarters (71.9%) of the proposed capital budget, or \$116.2 million, would be financed through general obligation borrowing. This would be an increase of \$20.5 million from what was adopted last year, when general obligation borrowing represented only 55.0% of the capital budget.

The mayor's proposed operating budget would spend \$55.9 million on general fund debt payments, an increase of \$1.5 million, or 2.7%. This increase is the third-largest across spending categories, behind only Public Safety & Health (\$6.8 million) and Public Works (\$2.2 million). For the third straight year, debt payments will take up more than 16% of all general fund spending (not including library spending; see **Chart 8**). City officials also expect that under the current proposal debt payments in 2022 and beyond would be higher than projected under the budget approved last year.

**Chart 8: Debt Payments as Share of General Fund Spending**



Source: City of Madison Finance Department

Under the budget, the city would use \$7.9 million in proceeds from borrowing to make debt payments that would otherwise be paid out of sources such as the general fund and Metro Transit budget. The amount being drawn from debt reserves would be slightly more than last year and would help bridge the city's budget shortfall.

When Madison uses its debt reserves in this way, city ordinances require spending the same amount out of the general fund on capital projects to keep the city on track with its long-term plans. However, that spending in the proposed budget would drop 44% to just \$905,000. Bypassing this rule requires a 2/3 vote from the city council and might not be available as a strategy to balance future budgets.

Madison's debt is worth monitoring. In 2018, Madison had \$1,919 in general obligation debt per capita. That was 9.9% higher than the statewide municipal average of \$1,746, and third-highest (behind Waukesha and Oshkosh) among the 10 largest cities. However, Madison's high property values give it more capacity than most other large cities to pay what it owes.

In addition to funding projects this year and beyond, the mayor's capital budget also would put new projects on a Horizon List to be considered in the future. These include a replacement for the State-Lake parking garage that could include "an intercity, intermodal bus terminal," as well as a new men's homeless shelter and remodeling to the 4<sup>th</sup> and 5<sup>th</sup> floors of the City/County Building. Though many major capital projects would be retained in the city's long-term plan, the projects put off to 2022 and 2023 would still require significant borrowing that would add to Madison's debt service costs moving forward.

# FIVE KEYS TO THE CITY BUDGET

## Key #1: More pressure from police, fire spending

The death of George Floyd in Minneapolis in May has sparked demonstrations around the country and calls in Madison and elsewhere for re-examining police tactics and resources. Proposed general fund spending on police in 2021 would rise, however, from \$81.8 million in 2020 to \$83.6 million, an increase of 2.1%. This is slightly less than the \$84.3 million that was requested by the department, and slightly less than the overall general fund increase of 2.5%.

This increase would have been somewhat higher except for the loss or transfer of several police department positions. The budget proposes moving 1.7 civilian crossing guard supervisors and the program to traffic engineering and finalizes an earlier decision to eliminate four full-time, sworn School Resource Officers (SROs) from each of Madison's four traditional high schools.

Still, despite this 0.9% drop in FTEs within the police department, the 2021 budget proposes a 3.3% increase in salaries and benefits over the 2020 adopted budget. This is due in large part to the January 2021 salary increases included in fire and police union contracts negotiated under the previous mayor's administration. Before factoring in the 5.7 FTE reduction, compensation changes are expected to increase by more than \$3.8 million.

In response, the mayor is seeking to save \$1.5 million by dialing back the scheduled salary increase or making other changes, with \$1 million of the savings coming from police and the rest from the fire department. The police budget mostly goes to personnel, so further cuts sought by some reform proponents would likely result in fewer positions. The mayor's administration has stated a 5% budget cut would correspond to 52 positions.

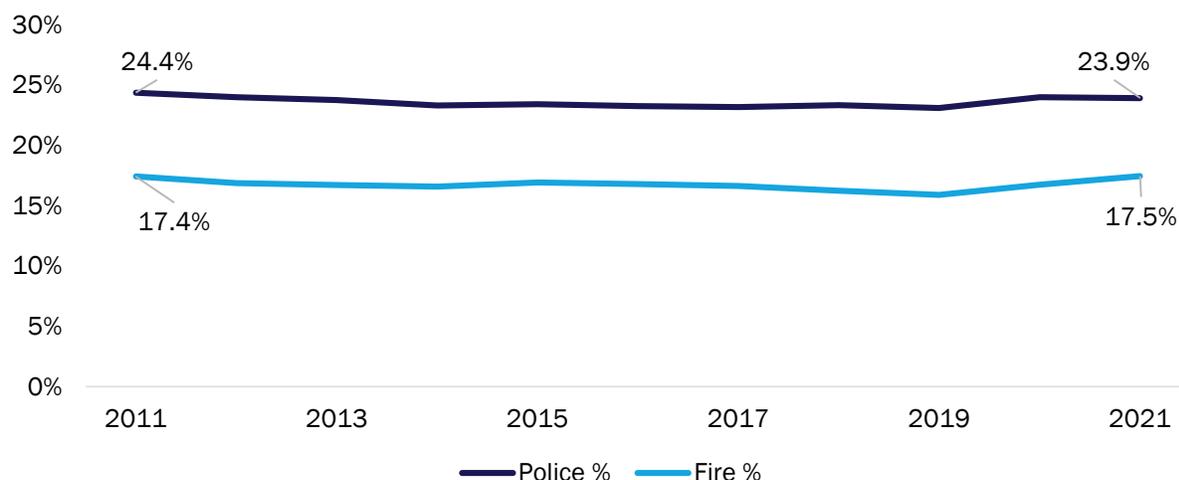
Though it would not cut spending on police, the budget would add funding in other areas to enhance public safety and police department accountability. This includes:

- \$350,000 in funding to the fire department for the creation of a "Crisis Response Team" to help respond to behavioral health emergencies
- Funding a Violence Prevention Unit and two new positions within the Public Health department at \$250,000
- Retaining \$233,000 for youth restorative justice efforts and \$142,000 towards early intervention and prevention programming
- The creation of an Independent Monitor and Civilian Oversight Board for the police department. The standalone agency will have three FTE positions and a \$450,000 budget.

Still, despite calls by some to "defund the police," spending on the department would rise and would make up 23.9% of the city's general fund budget, the most for any single department by more than six percentage points and similar to levels over the past decade (see **Chart 9** on page 13).



**Chart 9: Police and Fire Spending as % of General Fund Spending, 2011-2021**



Source: City of Madison Finance Department

The need remains high for effective public safety efforts inside and outside the city's police department, with [media reports and initial data suggesting](#) at least certain types of violent or potentially violent crime (such as shots fired) are up this year. Violent crime reports did fall last year compared to previous years. Yet data from the FBI's Uniform Crime Reporting tool show 2019 was the third straight year with more than 1,000 violent offenses reported in the city compared to the fewer than 900 violent crimes reported each year between 2011 and 2016.

At 389 per 100,000 residents, Madison's violent crime rate was fourth-highest among the state's 10 largest cities and above the statewide average of 293, but barely above the U.S. average of 379. At 19.2 sworn officers per 10,000 residents, Madison's police staffing levels were fourth-highest among the state's 10 largest cities, but were below the state (21.8) and U.S. (21.0) averages.

Meanwhile, the fire department would see a general fund increase of \$3.9 million, or 6.9%, with most of that going to the salary and benefit increases mentioned earlier. Sworn fire staff would stay at 384 FTEs, while four civilian FTEs would be added to the new Crisis Response Team.

Fire department spending – the second-highest among city agencies – has remained relatively consistent but at 17.5% would take up the largest share of the general fund since at least 2011. Over the past decade, the city has opened two fire stations and added 45 FTE positions including the proposed crisis team and in 2021 is also absorbing the loss of federal grant funding for Station 14.

Taken together, the \$5.7 million increase going towards the fire and police departments represents over two-thirds of new general fund spending in 2021. Yet the two agencies make up only 41.4% of the total budget – a sign of the financial pressure they are bringing to bear on the city.

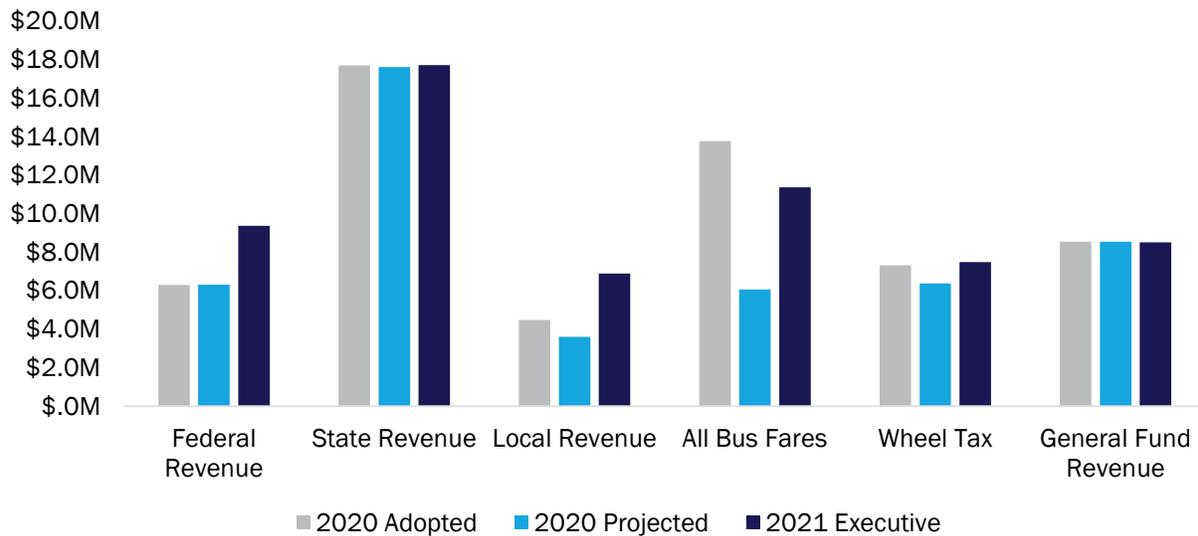
## Key #2: Metro faced with far fewer riders

Metro Transit was hit hard by the pandemic, which forced many residents to work from home, depressed ridership to a greater degree here than nationally, and led city officials to waive fares altogether from [March 24 through September 1](#). Though federal aid and the return of UW-Madison students could help both revenues and ridership, Metro likely has a long route ahead to recovery.

Under the 2021 plan, the agency’s budgeted spending on operations would rise by \$2.8 million to \$62.2 million, a 4.7% increase over the available 2020 projections. Because of the crisis, 2020 revenue is projected to finish at \$49.3 million – just 83.0% of budget. This is due almost entirely to a decline in bus fares, which in 2020 are projected to total only 42.8% of the \$14.8 million budgeted (see **Chart 10**).

For 2020, the city is still deciding whether to provide Metro Transit with the \$8.6 million general fund subsidy that is currently in the budget. The city, however, did receive \$24.5 million in CARES Act funding for transit, which gives Madison options for getting through the current difficult year.

**Chart 10: Major Sources of Metro Transit Operating Revenue, 2020 and 2021 Budgets**



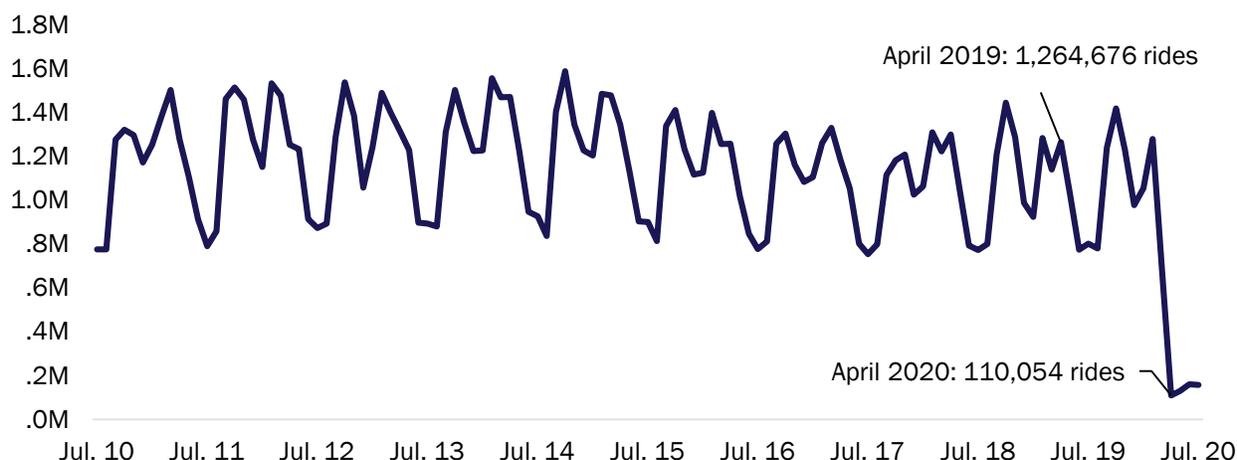
Source: City of Madison Finance Department

The 2021 budget projects fares to remain depressed at just over \$12.0 million. The agency would make up this gap with \$3 million in CARES Act funding, as well as through increases in revenues generated by the city’s \$40 vehicle registration fee and payments from other local governments. Subsidies from the general fund are budgeted to drop slightly from \$8.6 million in 2020 to \$8.5 million in 2021. State aid – the largest single source of Metro Transit revenue – is expected to stay flat at \$17.7 million.

Going forward, city officials will have to account for the pandemic’s effect on transit ridership as they seek to forecast revenues and set service levels. Data from the Federal Transit Administration (FTA) show that in April, the first full month of the pandemic, bus ridership in Madison fell to just over 110,000, just 8.7% of the nearly 1.3 million rides in April 2019 and greater than the decline nationally. Metro Transit ridership goes up and down at different times of the year. Yet as of July (the most recent month for which data are available), monthly ridership had not reached above 200,000 and remained well below ridership levels going back to 2002 at least. (see **Chart 11**).



Chart 11: Madison Bus Ridership by Month, July 2010 to 2020



Source: Federal Transit Administration; Note: Fluctuations represent seasonal patterns of use by riders such as students.

The budget proposes a level of bus service that would be about 85% of pre-pandemic levels with reduced ridership and fare revenue. One bus driver position would be eliminated and five would be converted to cleaners, meaning the department would lose one FTE (out of a total of 462.3). Growth in overtime costs also would be limited.

The budget proposes to delay work on Bus Rapid Transit (BRT), a major priority for the mayor, with an appropriation of \$2.0 million in 2021, down from \$9.2 million approved as part of the 2020 budget. This means that the vast majority of BRT spending – \$148.2 million – would now happen in 2022. The city expects \$105.8 million of that total to come from federal sources, an increase from the \$98 million expected a year ago. Most of the rest would come from borrowing.

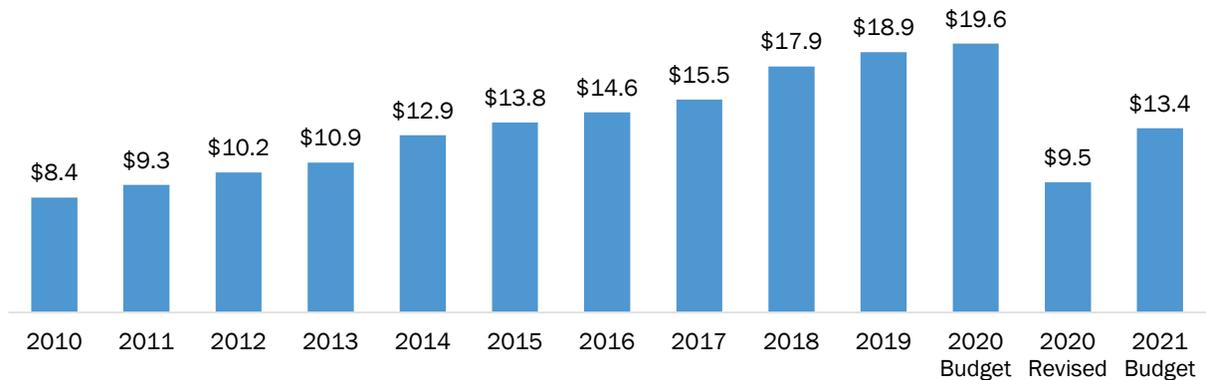
The proposal would also reduce scheduled spending on capital projects for Metro Transit. Instead of the \$38.4 million planned for 2021, the budget proposes \$20.9 million in projects. Most of this gap comes from moving \$16.1 million meant for a Metro Satellite Bus Facility into the 2022 BRT plans.

Of the remaining amount still planned for 2021, \$10.9 million in Metro Transit capital spending would go toward repairs and improvements for the Metro facility located on East Washington Ave. Most of the remaining amount – \$10.0 million – would go towards a new “comprehensive transit technology system” to update dispatch communications, fare collection, ridership data, and more.

### Key #3: Room tax revenues plunge

Few areas of the city’s economy or budget were hit as hard by the pandemic as tourism and hospitality, with the coronavirus cancelling conferences, eliminating events, and radically affecting travel. Room tax collections plunged, causing cascading impacts for the city and other entities that rely on these revenues. Those include the Monona Terrace Community and Convention Center – a city agency – and the Overture Center for the Arts, Henry Vilas Zoo and Olbrich Gardens, and Greater Madison Convention and Visitors Bureau (also known as Destination Madison) among others.

**Chart 12: Room Tax Fund Revenues in Millions (2010-2021)**

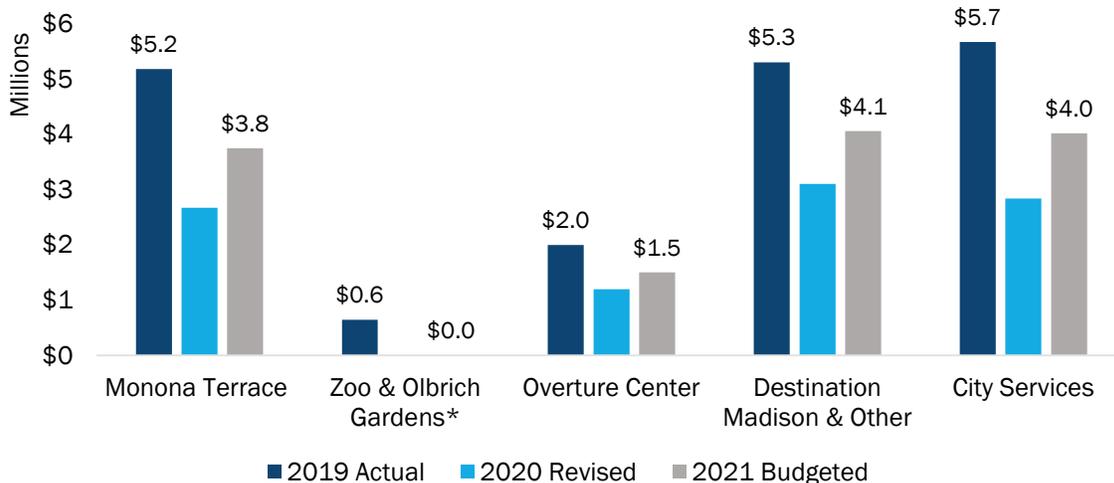


Source: City of Madison Finance Department

The 2020 decline follows years of rapid increases in the revenues from the city’s 10% tax on the cost of hotel and short-term lodging stays. Room tax fund revenues (which also include some interest income) fell from \$19 million in 2019 to an expected \$9.5 million this year and are projected to total just \$13.4 million in 2021 (see **Chart 12**).

By law, the city must use 70% of its room taxes to promote tourism and the decline compounds the difficulties of entities such as Overture and Monona Terrace, which already have been hit by rules limiting large gatherings. As **Chart 13** also shows, their 2020 subsidies declined between 43% and 51%.

**Chart 13: Room Tax Support for Tourism, Attractions, & Other Services Falls**



Source: City of Madison Finance Dept.; \*Zoo and Olbrich instead would receive \$642,000 from city general fund in 2021.

As result of lost business and a lower room tax subsidy, the Monona Terrace is projected to lose more than a third of its revenues in 2020 and draw down its reserves by \$2.3 million, exhausting them by the end of this year. The Frank Lloyd Wright-inspired center expects 2021 revenues to be down roughly 18% compared to 2019 due to ongoing losses in room taxes and convention business.



The city's Room Tax Commission wants to help rebuild the center's reserves to 20% of spending but doing so will not be easy. For now, spending cuts at Monona Terrace include holding positions open, and reducing hourly wages and purchasing.

The Overture Center, an independent non-profit, has canceled performances and sharply reduced its workforce as it absorbs lost ticket sales and a \$800,000 cut in its 2020 room tax payment. Destination Madison and other smaller tourism marketing efforts in the city likewise took a massive cut in their 2020 payments and like Overture would not see their payments fully restored in 2021.

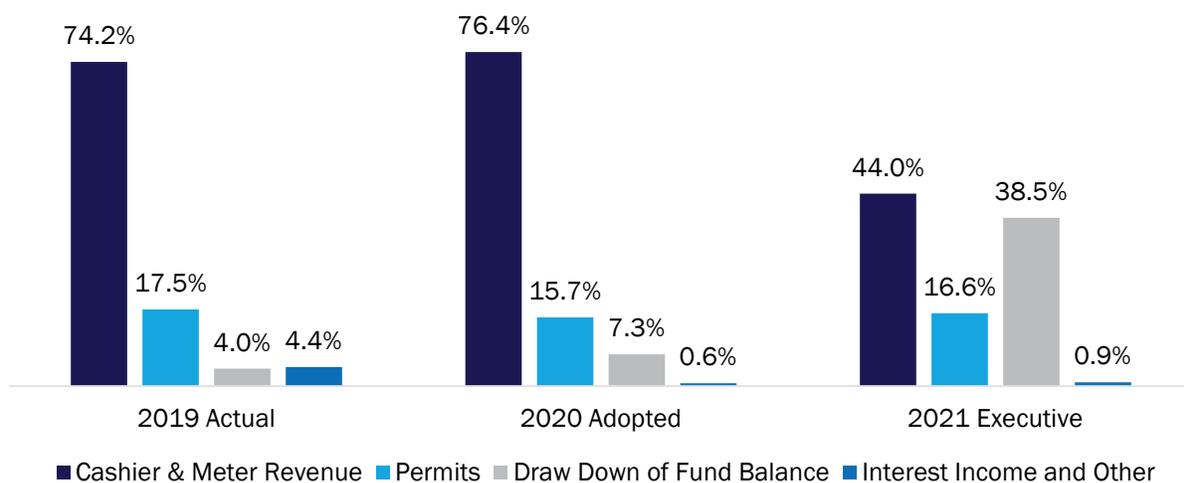
Finally, the city itself will have fewer room taxes left for other services. Under the proposed budget, funding for \$642,000 in annual payments to the zoo and Olbrich Gardens would come from the general fund rather than room taxes, relieving some of the pressure on the room tax fund but heightening it elsewhere in the budget.

### Key #4: What to do about no one parking?

The city has seen a huge drop in commuters and visitors parking downtown as more workers log in from home and fewer customers visit stores, bars, and restaurants. The city was already planning for a substantial drop in parking revenue to \$16.8 million in its 2020 budget, but with the pandemic the city parking utility is now projecting to receive just \$7.4 million, leaving it with a more than \$7 million shortfall this year.

In light of that, the 2021 proposal budgets only \$12.5 million in parking fund spending, a 26.0% decline from last year's adopted budget. More concerning, because of drops in revenue from parking garages, meters, and permits and from interest income, the city plans to draw down \$4.8 million in parking fund reserves in 2021 (see **Chart 14**), leaving it with a \$13.4 million projected balance, or about a year of spending.

**Chart 14: Makeup of Parking Utility Revenue by Major Sources, 2019 to 2021**



Source: City of Madison Finance Dept.; Note: Fund balance drawn down in 2019 and 2021; 2020 still has a shortfall.

In 2020, the parking utility helped pay for services such as police and fire protection by transferring \$1.8 million to the general fund. The proposed budget would reduce that transfer to \$1.2 million in 2021.

The revenue decline may be lasting and could require changes to the city’s approach to parking and its financial framework for the parking fund. For instance, the Bureau of Labor Statistics (BLS) noted that the [“ability to telework” rate](#) was the highest for three industries: professional and business services (69.9%), information (71.2%), and financial activities (77.9%). [BLS data also shows](#) those industries represent 25.6% of Madison-area jobs in July 2020, up from 21.2% in July 2010.

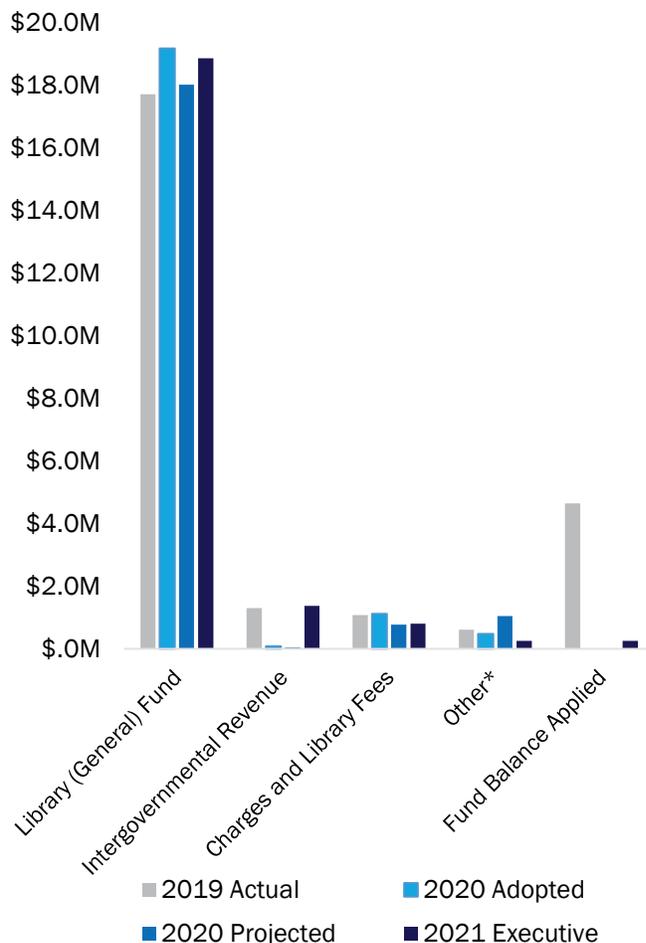
Madison may find fewer residents are paying for parking even after the pandemic subsidies, and bus rapid transit may also limit growth in driving and parking. The Lake Street Garage replacement was moved from 2023 and 2024 back to the Horizon List and the city may need to consider similar adjustments going forward.

## Key #5: Reduction in library services

Like many city agencies – including the offices of the mayor, attorney, clerk, finance, and human resources – Madison’s public libraries would see a decline in general fund support. Libraries would receive \$18.8 million in the 2021, a drop of 1.6% from the adopted 2020 budget (see **Chart 15**).

Total budgeted spending, however, would increase from \$20.8 million in 2020 to \$21.5 million. This difference would be made up in part by the use of \$250,000 in library fund balance.

**Chart 15: Total Library Revenue by Source**



The tight budget would have an impact on services. For example, more than three permanent FTE positions and additional hourly positions would be eliminated at various libraries, and library staff payroll would decline by about \$450,000 (4.0%). Additionally, hours would be changed or reduced at a number of libraries:

- Stopping youth services at Central Library at 6 pm as opposed to 9 pm
- Reducing hours or days of the week at the Ashman and Monroe branches
- Shifting hours at other branches

The [Library Board also eliminated](#) all fines during summer budget deliberations, meaning “the library will no longer charge 25 cents per day for overdue adult materials, and thousands of borrowers will have their fines erased, their accounts unfrozen, or both.” The policy was adopted in light of the [disparate impacts](#) that library fees tend to have on low-income families. It will reduce revenue by a projected \$226,300 or a little more than 1%.

Source: City of Madison Finance Department



# CONCLUSION

Riding on years of rapid growth in its local economy, Madison officials adopted a sizable new wheel tax a year ago and laid plans to start work in earnest on bus rapid transit by 2021. But like so many others amid this pandemic, those plans have had to be put aside to accommodate disappointing revenues and new spending priorities.

Still, with some exceptions the 2021 budget proposal avoids harsh cuts to most city services. For example, Madison has steered clear of the dozens of police positions being eliminated in Milwaukee, in part because it has avoided crushing long-term pension and retiree health care liabilities, relies less on stagnant state aid, and has benefited from stronger growth in property taxes. Despite the blows from COVID-19, the area's economy remains fundamentally sound and may recover relatively quickly once the coronavirus is brought to bay.

The pandemic, however, also serves as a reminder that the city is not invulnerable. Some of its most stable anchors – from its three major hospitals to UW-Madison – have been sorely tested amid this epidemic and that has been sobering to see. Future good fortune is not a given even in this prosperous city.

For that reason, the city's ongoing budget challenges have grown more urgent than ever. The longstanding imbalance between the typical growth in the city's revenues and the rising cost of maintaining its current services has hindered its efforts to respond to the current crisis and is likely to extend far beyond it.

For now, the city has focused rightly on making its way through a perilous time for many of its citizens. Going forward, Madison's leaders will be under increasing pressure to reconcile their outlays with their means. Doing so will not be easy under a system in which the state mandates many duties and also limits key revenues such as the property tax. Yet the past year has shown that healthy finances are an essential tool to managing these uncertain times.