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Madison City Budget Preserves Services, Launches New Initiatives with Minimal Tax Hike *Federal aid helps balance budget for now, but long-term challenges remain*

Unprecedented levels of federal pandemic relief aid have positioned the city of Madison to consider a 2022 budget that would avoid large tax increases and service cuts while launching a handful of new initiatives.

The Wisconsin Policy Forum's annual City of Madison Budget Brief finds Mayor Satya Rhodes-Conway's proposal for 2022 would keep core city services largely intact. In addition, it would launch in earnest a Bus Rapid Transit project, give modest raises to some employees, finalize a long-planned annexation of the Town of Madison, and invest in priorities such as affordable housing and violence prevention. It also would raise property taxes by just 1.1%, the lowest increase in nearly two decades.

To do this, the proposed general fund budget relies on \$13.1 million in federal relief funds from the American Rescue Plan Act (ARPA). This is the most recent of a succession of pandemic relief measures that together are providing the city with \$191.7 million since last year (including federal funds passed on by the state). But this budget's reliance on one-time funding has a downstream effect: when the 2023 budget process starts in a year, city officials say they expect to once again face a shortfall of about \$18 million.

"Three generous rounds of federal pandemic legislation, balances within the general fund, and a dissolving tax increment district have helped the city bridge its budget shortfalls so far," the report finds. "Yet most of the one-time funds for the current budget fixes will be exhausted by 2023 and even if the city's pandemic woes resolve themselves, it will almost certainly be left with its pre-pandemic budget gaps and few tools to address them."

Five keys to the 2022 budget identified in the report are:

1. **ARPA funds keep services afloat for now:** ARPA channeled massive amounts of federal funds to local governments through several separate streams. In just one of those, Madison received the second-largest amount among the state's cities – though less than most on a per-capita basis – at \$47.2 million total in 2021 and 2022. Madison is using almost all these recovery funds in those two years and saving less than 10% for 2023. These funds would help address shortfalls in the city's general fund as well as for Monona Terrace and the city's Room Tax Fund, which supports a range of efforts to promote tourism.
2. **Town of Madison to dissolve two decades after deal:** 18 years after the annexation deal was struck, this budget would pave the way for the cities of Madison and Fitchburg to absorb the Town of Madison in 2022 – with Madison receiving 90% of the town's lands and 79% of its population. The proposed budget provides more than \$2 million in new funding to ensure

adequate services for the town and other parts of the city, with the bulk of that to add fire and police staffing.

3. **Transit ridership has yet to rebound:** Despite improved public health conditions, ridership on city buses remains far below 2019 levels. An infusion of federal relief funds for transit systems has shored up Metro Transit's budget for now and may last through 2024. On top of challenges in funding existing services, the city is advancing plans to extend Bus Rapid Transit (BRT) service in an East-West corridor starting with capital projects in 2022 and service beginning in 2024. Our April 2021 report found the city had estimated a net cost of \$3.5 million annually to operate BRT but city officials are now saying they can cover that cost by eliminating current routes on the same roads – an important issue to watch.
4. **Room tax revenues show little recovery:** In 2020, room tax revenues plunged as travel and hotel stays declined to unthinkable low levels; this year, revenues have yet to make a robust recovery. The upshot will be continued financial difficulties for city-funded efforts to promote tourism in Madison as well as for the city's main fund. To keep the room tax fund afloat, Madison temporarily suspended payments of room tax revenues to its general fund and gave it an infusion of surplus funds from a closed tax increment district. ARPA funds will run out in 2023 before room tax revenues are projected to recover fully, and at that point, the city could face difficult decisions and even potential cuts to certain services funded by the room tax.
5. **Meter running down for city parking:** With parking revenues still weighed down by the pandemic, the proposed budget would burn through parking utility reserves for another year - setting up the agency to run out of funds in 2023 absent a strong rebound in motorists parking downtown. One option would be to halt the \$1.2 million payment in lieu of property taxes the agency is budgeted to make to the general fund in 2022. While that move would provide modest help to the parking utility's budget, it would put greater pressure on general fund services such as public safety.

Ultimately, the budget brief finds the city may gain time to make improvements in certain areas by pushing some tough budget decisions into the future, as challenges such as low transit ridership, depressed room taxes, and reduced parking revenues will likely recede to some degree along with the pandemic. Yet leaving more lasting budget solutions for the future also opens up the possibility that other areas of the city's finances might fail to improve or even grow worse.

"Absent outside forces delivering some unexpected reprieve," the report concludes, "city officials will likely face greater pressure in future years to find efficiencies where they can and cut services where they feel they must."

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