BUDGET BRIEF

CITY OF MADISON

2023 PROPOSED BUDGET

WISCONSIN POLICY FORUM

BUDGET BRIEF

City of Madison 2023 Mayor's Budget

October 2022

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INTRODUCTION

The city of Madison may no longer be dealing as directly with COVID-19, but it is still grappling with its consequences. In many ways, the outlook for 2023 shows a city in recovery: revenues have been boosted by new development, more motorists parking downtown, and a returning travel industry, opening the way for new potential investments in city services.

Yet, as deliberations continue on Mayor Satya Rhodes-Conway's proposed budget for 2023, the city also faces the challenges brought on by the pandemic and recent economic shifts. A lack of affordable housing and homelessness persist while city revenues from transit riders and parking have yet to fully rebound. Inflation and a rise in turnover in key agencies like the police department are pushing the city to increase pay for workers, which adds to its long-term costs.

Here, the Forum digs into the city's budget with its fourth annual brief. We find a city with largely healthy finances, including a strong local economy, robust reserves, high service levels, modest liabilities for pension and retiree health care benefits, and the best possible bond rating from Moody's Investors Service.

At the same time, however, we see some cause for long-term concern. Increased borrowing and rising debt payments are pushing relatively high property taxes upward and gobbling up a larger share of the budget. Within two years, federal pandemic aid to the city will run out and, over the longer term, state caps on property taxes and some fees will limit Madison's ability to increase its revenues to keep up with other rising costs, including inflationary pay increases for workers.

Compared to the budget problems facing city leaders in Milwaukee, officials in Madison are in an enviable position. The capital city's stronger economy and finances allow the mayor to propose a variety of new positions to provide new mental health services aimed at improving safety, better transit service, greater access to contraception, additional funding for affordable housing, and more.

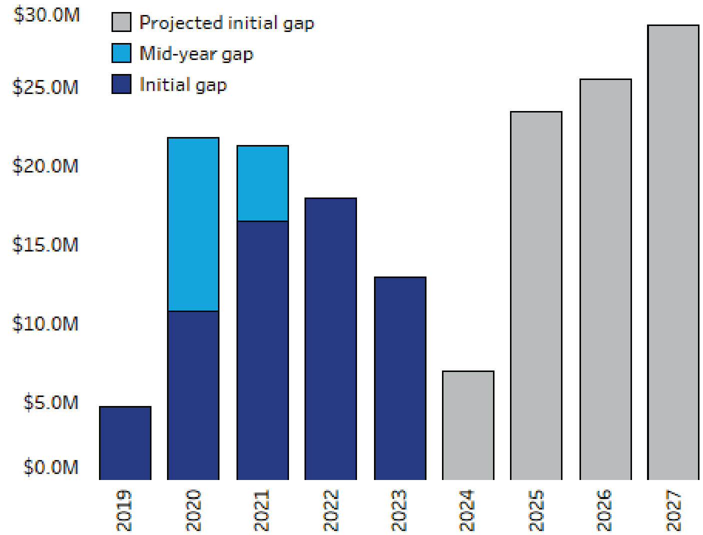
Still, Madison has its own challenges, including the need to manage a growing population with lower levels of state aid, which creates greater pressure on local revenues like the property tax. That makes the wise use of those local dollars an even greater priority for the city's residents and taxpayers.

In this brief, we provide details on the city's financial strengths and challenges and how they play out in the 2023 budget. Our hope is to provide greater clarity about Madison's current and future fiscal outlook as the city's leaders and the public consider the city's tax and spending plans for the year ahead.

HOW THE BUDGET IS BALANCED

After several difficult years, Madison officials face a more manageable task in crafting the 2023 budget. The city has a $13 million potential gap in its budget to continue its current level of services, down from $18 million at this time last year (see **Chart 1**). The gap is mainly due to the city's use of $13.1 million this year in one-time federal pandemic aid. Greater than expected city revenues help cover much of the gap but the proposal would also add $11 million in other ongoing and one-time spending items that add to the shortfall (see **Chart 2**).

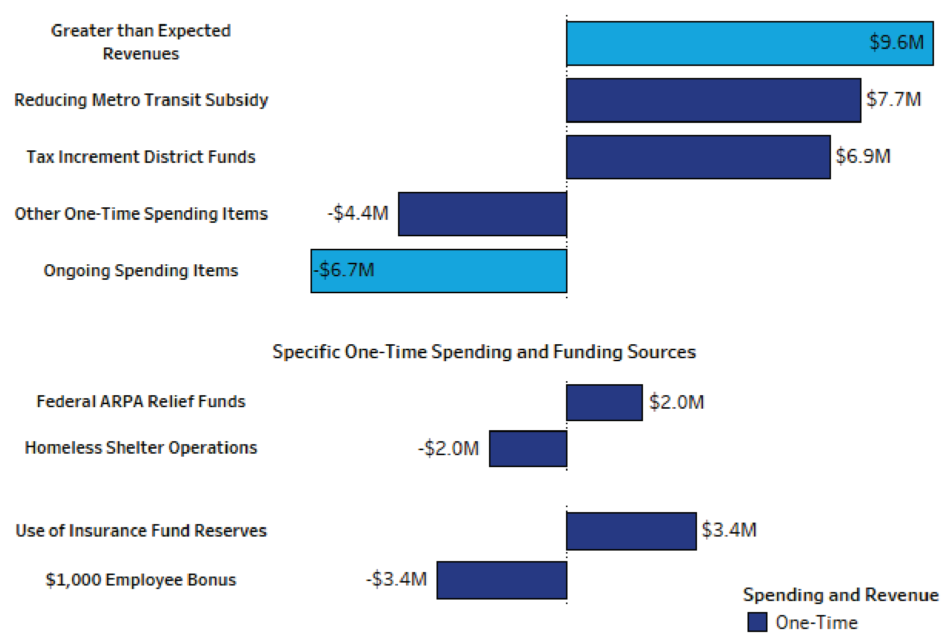
Chart 1: General Fund Gaps in Millions (2019-2023)



Source: City of Madison Finance Department; initial budget gap reflects projected shortfall between projected revenues and cost to continue (including scheduled wage increases and debt payments) at time of mayor's proposed budget.

To help make up the difference, the budget would make a one-time cut in the city's subsidy payment to Madison Metro Transit of $7.7 million over what it was expected to be in 2023 (see **Key #3**) and would use $6.9 million in funds left over after the closure of tax increment districts (TIDs). In addition, the city would make two specific one-time expenditures financed with one-time funds, using $2 million in ARPA grants to help fund operations of the city's temporary homeless shelters and drawing down reserves in a city insurance fund by $3.4 million next year to give city employees a $1,000 bonus.

Chart 2: Proposed Changes to Close $13M General Fund Gap in 2022



Source: City of Madison Finance Department

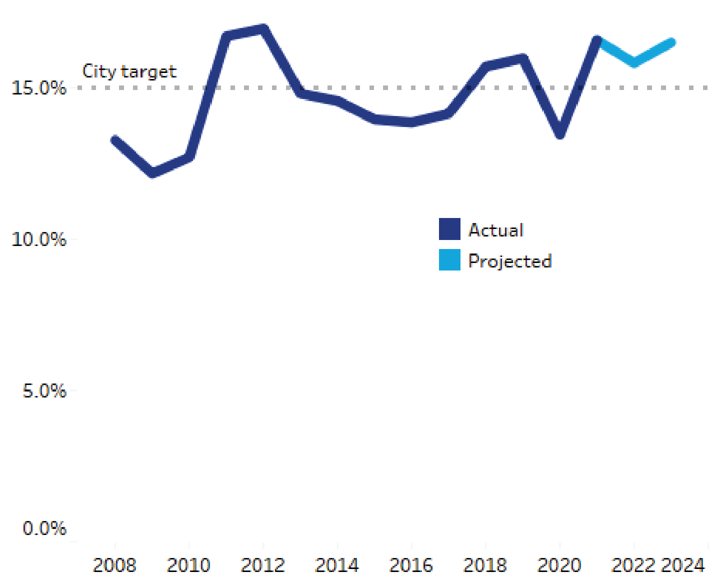
For now, these budget-balancing strategies appear adequate. The economy in Madison is coming back from the depths of the pandemic and generating strong growth in new construction and property values, room tax revenues, interest income, and a variety of fees. The city has plans to secure additional federal grants and much of the new 2023 spending is for one-time items that will not recur next year.

On the other hand, the substantial proposed spending increases for 2023 are still financed with several one-time sources of funds, such as the use of the insurance reserve and funds from closed TIDs. Inflation and the rising cost of the city's debt load (as we will discuss in **Key #1**) also will add to Madison's future expenses, while state limits on property taxes and fees will make it difficult for the city to increase its revenues to keep up with other costs. Finally, as we will discuss, federal pandemic aid will essentially run out by 2023, leaving additional gaps to fill.

All of this adds up to rising budget shortfalls, from a projected $7 million gap heading into the 2024 budget to potential gaps of $20 million to $30 million in the following years. That leaves the city with the possibility of having to either make sizable spending cuts or draw on one of its relatively few tools to raise revenues, such as an increase to the $40 vehicle registration the city implemented in 2020.

One piece of good news for the city, however, is that its unassigned general fund balance – a good measure of its true reserves – remains strong and above the city's target of at least 15% of general fund spending. Under the mayor's proposed budget, the general fund balance would rise from a projected $57 million, or 15.8% of general fund spending, at the end of 2022 to $63 million, or 16.5% of annual spending, at the end of 2023 (see **Chart 3**).

Chart 3: General Fund Balance as % of Budgeted Spending



Source: City of Madison Finance Department

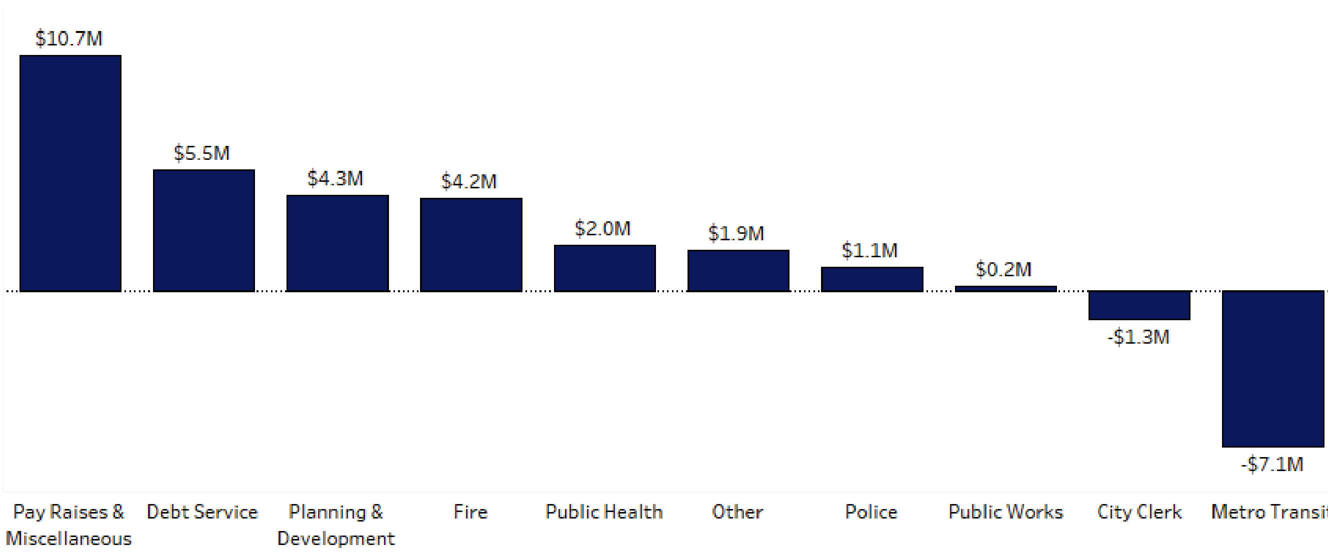
PROPOSED BUDGET OVERVIEW

Where Spending Would Rise (and Fall)

Under the proposed budget, spending within the city's two main funds (the general and library funds) would rise by the most since 2009, climbing 6%, or $21.6 million, from $360.3 million in 2022 to $381.9 million in 2023. The large jump reflects the need to boost city wages in response to rising inflation and worker turnover but also raises questions about both the immediate impact on property taxpayers and its long-term sustainability. City officials, however, point out that nearly half of the increase would also go toward one-time expenditures that could drop out of future budgets.

As **Chart 4** shows, that's due in part to a $10.7 million increase in the budget for pay increases for workers and certain other items such as a contribution for capital projects. Those expenses include $3.4 million for a one-time $1,000 payment to city workers to recognize their work during the pandemic and offset the impacts of high inflation; $2 million in seed funding for a public-private endowment to support operating costs for a homeless shelter in the city; $2 million in one-time operating support for temporary shelters funded by federal pandemic relief aid; $551,000 for affordable housing; and $350,000 for a study to look at the city's compensation and workflow to seek savings while retaining high-quality employees.

Chart 4: Change in Proposed 2023 General Fund Spending Compared to 2022 in Millions



Source: City of Madison Finance Department. *Other includes administration (minus city clerk), mayor, Common Council, municipal court, libraries, independent police monitor, traffic engineering, and transportation. Metro Transit reduction is being offset by federal funds.

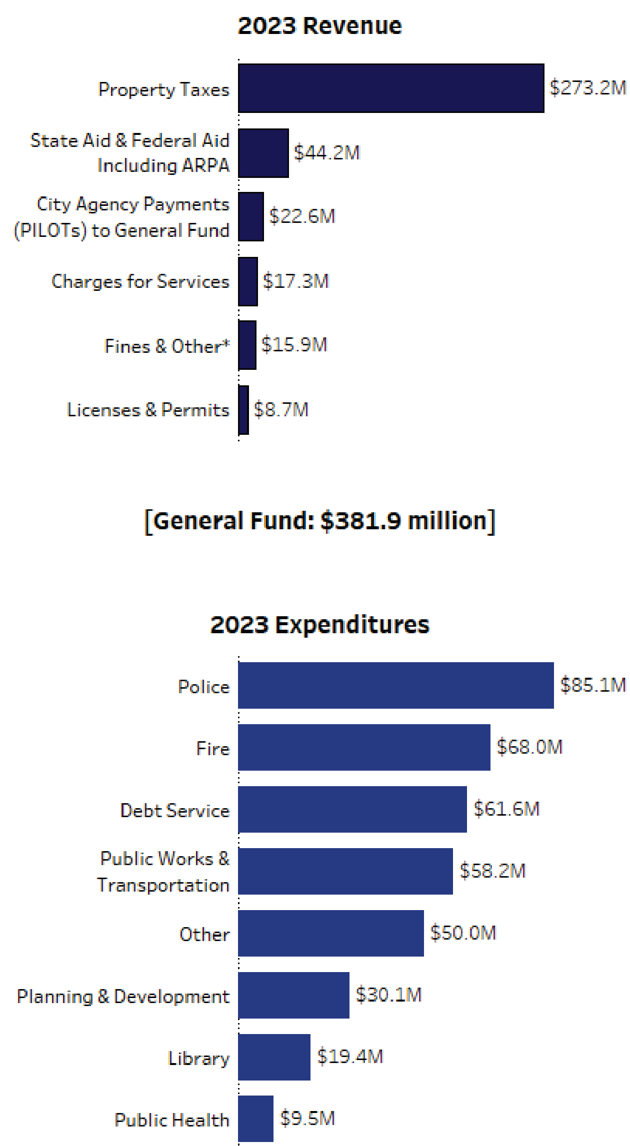
Ongoing spending increases include $5.5 million for the city's rising borrowing costs (see **Key #1**) and additional amounts for employee salary increases and a number of new city positions (see **Key #2**). The Madison Police Department would get relatively few new city tax dollars, though the budget (see **Key #4**) would include new grant funding for the agency as well as other public safety spending increases for the Fire Department and violence prevention efforts through mental health programs.

Spending decreases include a one-year, $7.1 million cut to the current general fund subsidy for Madison Metro Transit, which will lean instead on federal pandemic funds in 2023 (see **Key #3**). The city is also decreasing spending on the city clerk's office, which will have two fewer elections to administer next year.

General Fund Summary

As the financial impacts from COVID-19 recede, the city's projected general fund revenues in 2023 would increase by 6% to $381.9 million. The major contributors are an increase in the property tax, rebounding fee revenues, payments from city agencies, and a drawdown of the city's fund balance (see **Chart 5**). The increase comes despite an $11 million drop in the use of federal ARPA dollars, which in turn is partially offset by $6.9 million in new one-time funds from the closure of TIDs.

Chart 5: 2023 City of Madison General Fund



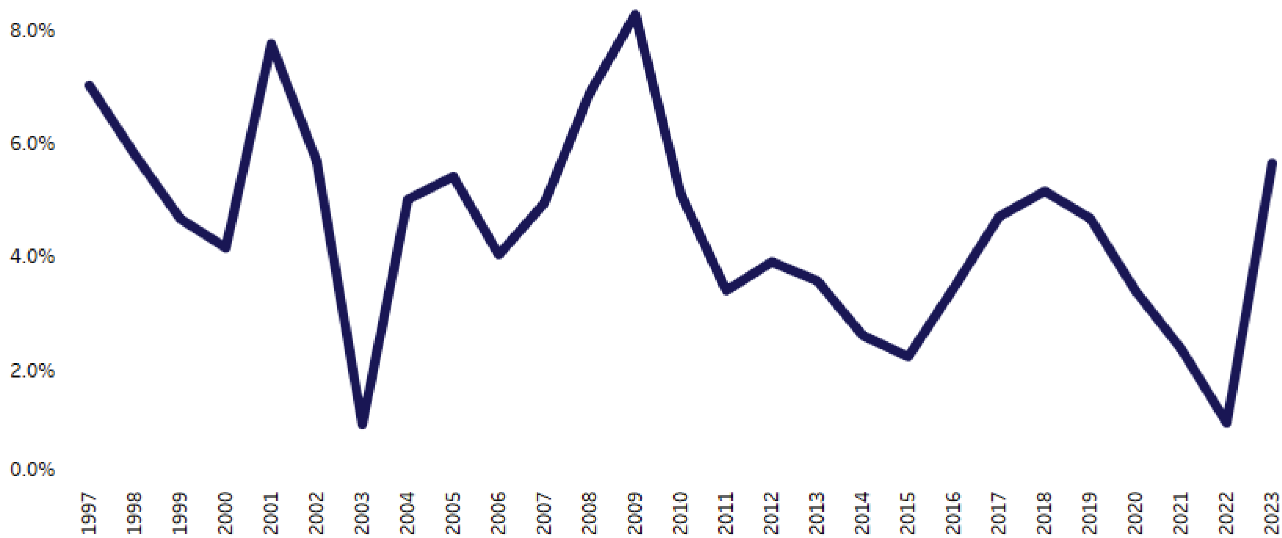
Source: City of Madison Finance Dept.; *Includes use of insurance fund balance

The city's proposed property tax levy would total $273.2 million and rise by 5.5% overall on December bills – the largest increase since 2009 (see **Chart 6** on page 8). Taxes on the average home valued at $376,900 would rise by 4%, or $111, to $2,899. Most of the $14.2 million increase in the overall levy – more than $8 million – is authorized for debt payments, which are not subject to state-imposed property tax caps. An additional $2.1 million of the overall increase would come from the city annexing part of the town of Madison at the end of October and adding the town's levy to its own on December tax bills.

In addition, the city's property tax would increase by a larger amount this year to reflect strong growth from construction projects in 2021. In general, state law limits city property taxes used for operations to the rate of net new construction in the city. In 2021, Madison's new construction rate actually dipped to roughly the statewide average for the first time in a decade. This year, the city's new construction rate grew to 2.4%, once again outpacing the state average of 1.7% (see **Chart 7** on page 8). This stronger growth allows the city to raise property taxes somewhat more under state law and, for this part of the levy at least, does not raise tax rates on existing property owners since the increase is covered by the new development in the city.

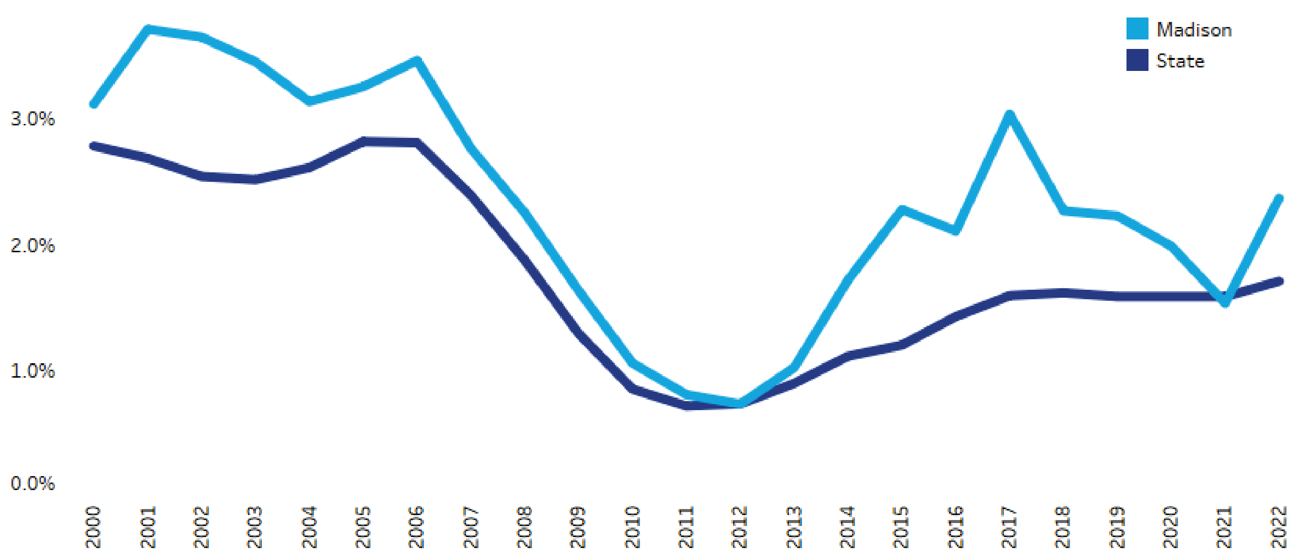
This stronger growth may weaken at least somewhat in the future. Rising interest rates and a cooling housing market are already putting some downward pressure on real estate activity both locally and nationally.

Chart 6: City of Madison Property Tax Increases by Year (1997-2023)



Sources: City of Madison Finance Department, Wisconsin Department of Revenue. The proposed amount for 2023 would be levied on December 2022 tax bills.

Chart 7: Rate of Net New Construction* (2000-2022)



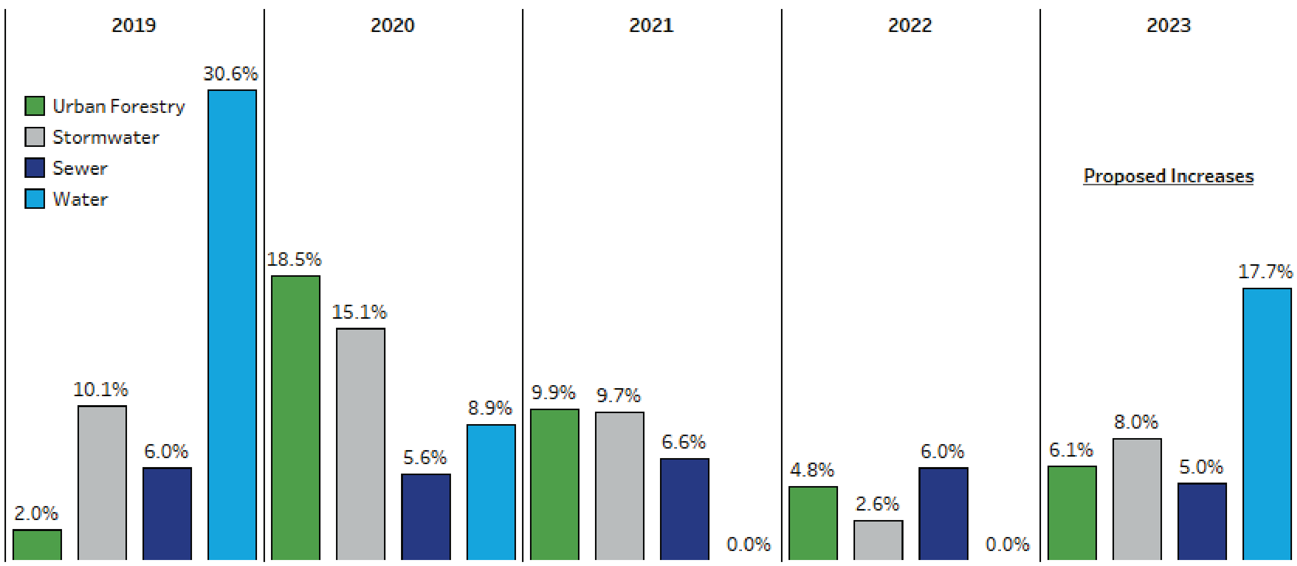
Source: Wisconsin Department of Revenue; *Represents value of annual net new construction as share of equalized property values.

Fees and the Rest of Madison's Budget

In addition to the services that are mainly supported by property taxpayers, the city also has programs and entities, such as the parking utility, that charge fees and are run more like businesses. With these enterprises, the city's proposed 2023 operating budget would total $729.4 million, an 8.5% increase from $672.2 million in 2022.

Under the proposed budget, fees paid by property owners for sewer and stormwater services would continue to rise rapidly to replace aging infrastructure as well as upgrade it to ensure it can handle the greater rainfalls resulting from climate change. As **Chart 8** shows, fees would increase by 8% in 2023 to offset reduced interest income for the stormwater utility, as well as $5.4 million in spending for flood mitigation projects and $3.6 million in spending for stormwater quality improvements. Sewer utility fees would rise by 5% under the proposed budget, covering increased treatment charges and capital costs. Combined, the two fee increases would cost the average residential customer $30.96 more per year, with $10.56 attributable to the stormwater utility and $20.40 to increased sewerage charges.

Chart 8: Fee Increases for City of Madison Services (2019-2023)



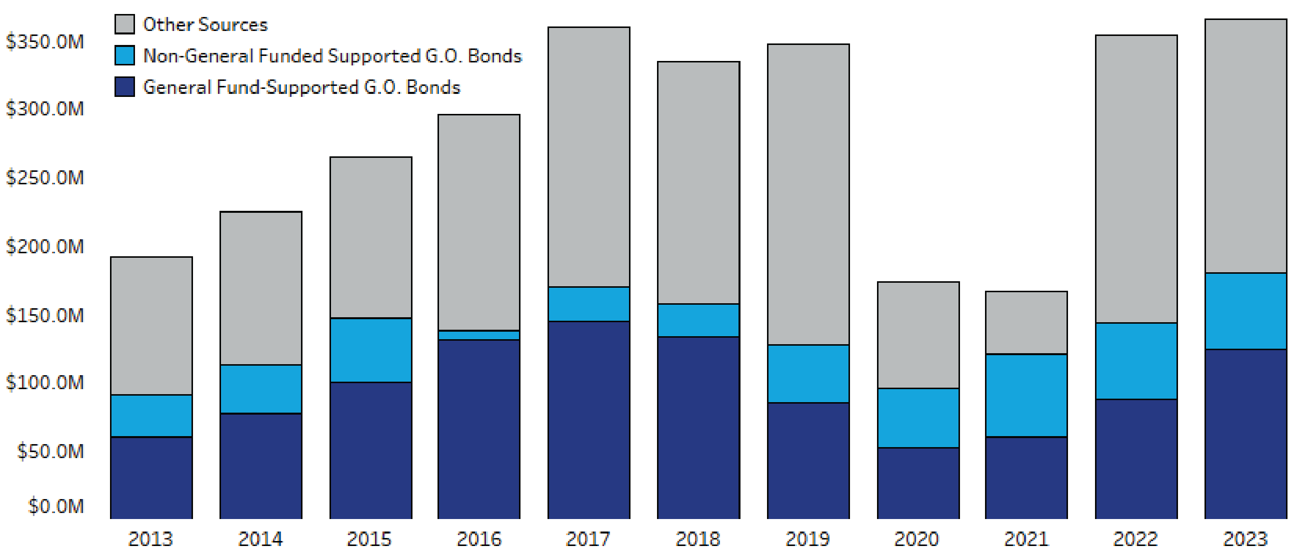
Source: City of Madison agencies; water utility increase was requested in 2022 but has yet to be approved by state regulators. A decision is expected in late 2022.

The Madison Water Utility sought a 17.7% increase in fees for this year but is still waiting on approval from state regulators, with a decision expected in the coming weeks. The budget also proposes a 6.1% boost in the Urban Forestry Special Charge, resulting in an increased residential bill of $4.80 per year to cover three positions currently covered with other funds. Last, the 2023 budget would fully phase in – but not increase – the city's resource recovery special charge, which totals $4.08 per month and which helps to cover the cost of Madison's recycling program.

CAPITAL BUDGET

The mayor's proposed 2023 capital budget, as amended by the city's Finance Committee, would total $365.6 million, increasing 3.2% from $354.2 million in 2022. As **Chart 9** shows, capital investments fell significantly in 2020 and 2021, bottoming out at $166.4 million in 2021 as the city prepared to fund Bus Rapid Transit (BRT) projects in 2022 and beyond. The proposed amount for 2023, however, would be in line with pre-pandemic levels of capital spending for the city. Transportation investments dominate the 2023 capital budget, with funding for a parking garage, major street improvements, and ongoing BRT work as the leading expenditure areas. The plan also includes substantial investments in affordable housing and community development.

Chart 9: Source of Funding for Capital Spending in Nominal Dollars (2013-2023)



Source: City of Madison finance department

While federal funding covers a substantial share of these projects, this budget would also increase city borrowing and future debt payments. The proposal draws on $181 million of new general obligation (G.O.) borrowing – bonds that the city pledges property tax revenues to repay. That's a 25.7% increase over 2022 borrowing of $143.9 million, and is $10.5 million more than the previous record of $170.5 million in the 2017 approved budget (though it is less after adjusting for inflation).

A substantial portion of the G.O. borrowing for the 2023 budget – $124.6 million – will have to be repaid using property taxes and other city general fund revenues, which in turn puts pressure on other city services such as public safety. The remaining G.O. borrowing will be repaid with other revenues such as sewer and stormwater fees charged to property owners.

The projects in the 2023 capital budget include:

- $49.7 million for replacing the 1,000-stall State Street Parking garage on Lake Street with a larger project that would include a housing development, parking structure and an intercity bus station to replace a nearby outdoor bus stop. The proposed funding includes $31.3 million in G.O. bonds to be repaid using parking fees and revenue from a tax increment financing district; federal funding to build the intercity bus station; and parking utility fund balances, which mainly derive from $18 million being paid by Mortenson Development for the private development rights above the parking structure.

- $54.9 million for major street projects, with $20 million going to the full replacement of key corridors and $16 million to maintenance. G.O. bonds would provide $31.4 million of the funding, with the remaining $23.5 million covered mostly through a mix of local and federal funds.

- $33 million in new funding for BRT routes, including $23 million for the city's East-West route from an additional federal grant and $10 million in new G.O. bonding to cover cost increases due to inflation, bringing the total project budget to a little under $200 million (see **Key #3**). The total project budget includes spending from federal grants and local borrowing authorized in earlier capital plans and the value of city-owned land used to match federal funds. To facilitate planning and design of an eventual North-South BRT route, the 2023 capital budget would include $7 million for design and a local match with a plan for 2024 to authorize $63 million for construction, including an additional $7 million of G.O. bonding and $56 million of potential federal funding.

- $12.5 million on a satellite bus facility for Metro Transit and $15.4 million for renovations at the transit agency's East Washington Avenue facility. Federal funds would pay for $18.9 million of these projects, with the remainder covered through G.O. bonding.

- $10 million for affordable housing projects (up from $7 million this year), as well as $11 million for a permanent men's shelter on Bartillon Drive and $3.2 million to provide loans so residents can acquire homes, finance repairs, and pay property taxes.

Notably, the mayor is not including more funding for the Madison Public Market, a long-discussed proposal to establish a center for food retail, wholesaling, and community space on the city's northeast side. The $20 million project was expected to begin construction in November 2022 with a mix of federal, local, and private funding. It now sits $5.2 million short of the required funding, as project costs have grown due to inflation, delaying the project and potentially imperiling it altogether if the city council opts not to increase funding

Each capital budget includes a "horizon list" of future projects that are important but not far enough into the planning process to warrant inclusion in the budget. The 2023 horizon list recommends the city consider replacing the Goodman Pool and also provides cost estimates for two major parks projects: $14 million to implement the Vilas Park master plan and $16.1 million for an Elver Park community center. The horizon list also includes $14.2 million for a new North District police station and $20.9 million for a new police property and evidence facility.

KEYS TO THE CITY BUDGET

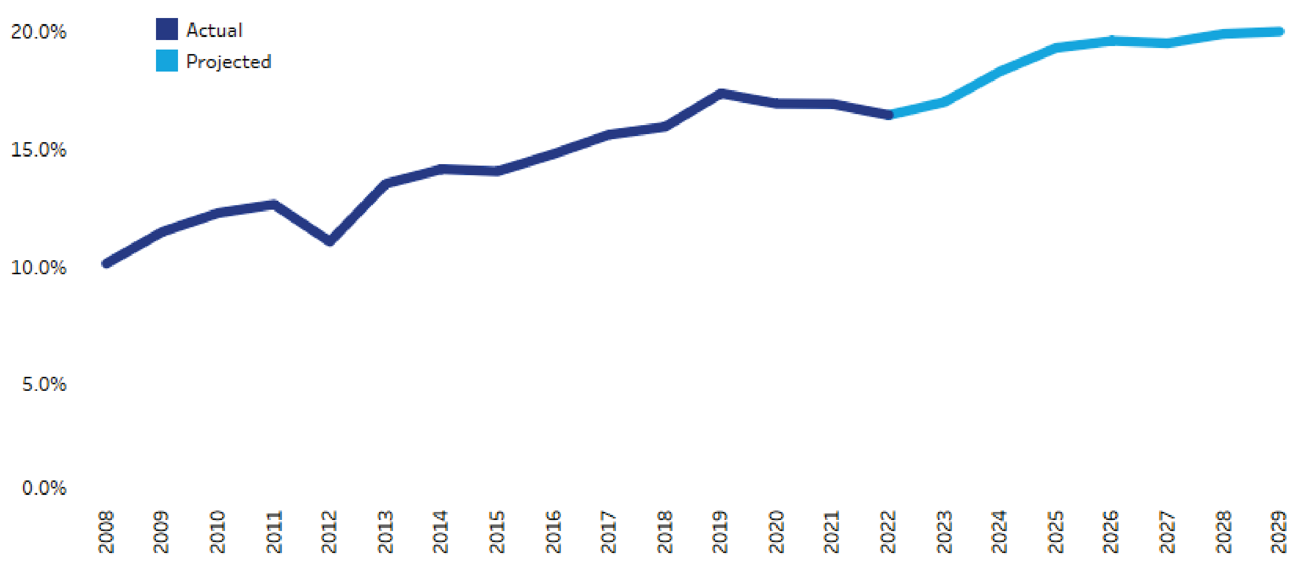
Key #1: Borrowing and Debt Payments Grow

After several relatively stable years, the city's general fund debt payments would rise more rapidly under the proposed budget. In 2023, debt payments would increase by 10%, or $5.5 million, to $61.6 million, making them the third-largest item in the city's operating budget after the police and fire departments.

The city has reaped benefits from its overall borrowing. Since 2011, Madison has allocated $3.5 billion to infrastructure and other capital projects and financed it, in part, with $1.8 billion in G.O. borrowing. The projects have ranged from major road reconstructions of University Avenue, Fish Hatchery Road, and East Washington Avenue to the construction of parking garages, transit upgrades, and economic development.

Yet, there has also been a cost. Under the budget, debt payments would account for 17% of the city's general fund spending in 2023, up from 16.4% in 2022 and near the all-time high percentage set in 2019 (see **Chart 10**). The increase matters because it means that debt payments may be starting to crowd out the city's other budget priorities such as public safety, libraries, and street maintenance.

Chart 10: Debt Payments as a Percentage of General Fund Spending



Source: City of Madison finance department

Under the mayor's proposed six-year plan for capital projects, this share is projected to rise to more than 19% by 2025 and 20% by 2029, putting added pressure on other city priorities. It's important to note that these projected debt payment levels are based on borrowing in the city's capital plan that would still have to be approved in future years; as a result, the estimates are subject to change.

The budget would also use proceeds from borrowing to make some debt payments that would otherwise be paid out of the general fund. For just over $5 million of those payments, the city would not make a matching investment in capital projects out of the general fund – a practice that is normally required by a city ordinance. Bypassing this rule requires a two-thirds vote from the city council and might not be available as a strategy to balance future budgets.

Key #2: Budget Would Add City Workers and Raise their Pay

At a time of high turnover, the proposed budget would seek both to increase wages for city employees and add to their ranks. After three years of more limited growth in the city's workforce, the mayor's request would create 76.6 new full-time equivalent positions, increasing the total from 3,010.3 in the 2022 adopted budget to 3,086.9, a 2.5% boost.

The new positions would seek to expand and strengthen transit services, local access to contraception, services to the newly annexed town of Madison, and public safety work inside and outside the police department (see **Key #4**). Funding for many of these new positions would come from sources such as federal aid or payments from other local governments for services the city provides to them, but in some cases would add to the current or future costs for city taxpayers.

The largest growth comes in the Metro Transit positions as detailed in **Key #3**, but after that the largest increases are in public health and safety. At a cost of $1.1 million (the city share is $475,600 with additional funding from the county), the mayor is seeking to create seven positions within Public Health Madison and Dane County, including five health care professionals, to expand access to sexual and reproductive health services such as contraception in the wake of the recent U.S. Supreme Court decision on abortion. These hires would be in addition to the 76.6 new city positions listed above, since public health staff are classified as county employees.

In addition, the budget would expand the hours and staff of the Community Alternative Response Emergency Services (CARES) program, a team in the Fire Department that responds to behavioral health emergencies that do not require law enforcement. The proposal would also add six positions in the police department.

With areas within the town Madison being annexed later this month (see Key 1 in our 2022 budget brief), the budget proposal would provide $191,617 of general fund revenue for 2.75 positions to help manage that work in the town, including a fire protection engineer, a city attorney, and a police position to handle additional public records processing. Other new positions across city government include 10 streets division positions to support streets, parks, and other maintenance work across the city. In addition, the city attorney's office, clerk's office, engineering department, human resources department, library, and parks department all would see small increases in permanent or hourly staff.

As noted in a recent Forum brief, state and local workers left their jobs at record rates in 2021. To help attract and retain city workers, the mayor has proposed $8.2 million in additional pay, including a one-time bonus of up to $1,000 per city employee at a cost of $3.4 million, as well as a 2% cost-of-living increase for all employees ($5.4 million) and an additional 1% increase for general municipal employees ($850,000).

Key #3: Transit Outlook Brings Promise, Pitfalls

After cratering during the worst of the pandemic, Madison Metro Transit ridership has risen but remains well below where it was prior to the arrival of COVID-19. As our April 2022 report on post-pandemic commuting habits suggests, work-from-home policies may reduce weekday commuting and depress the rate of transit use permanently or at least for some time to come. The city is hoping to shift that trend through its ambitious plans to add two BRT routes offering residents rapid trips across Madison, but launching these routes while sustaining the city's overall transit service could prove challenging without additional federal assistance.

To expand the BRT routes while coping with higher fuel prices, Metro Transit's budget would total $68 million in 2023, a 6.5% increase over the 2022 adopted budget. BRT service would begin with an East-West route running across Madison, with capital projects beginning in 2023 and service rolling out in 2024 (see **Capital Budget**).

The capital costs of BRT have risen over time due to both inflation and decisions by the city, with federal funding covering some of the added expenses such as making city buses electric. In 2020, the cost estimate for the East-West project was $128 million. The projection increased to $160 million in 2021 as the city folded the replacement of some buses into the project and then the estimate rose to $186 million in 2022 to make the fleet of BRT buses electric ($17 million) and reflect the added cost of inflation ($9 million). Inflation is adding $10 million more in costs in 2023 and could add further expense in future years.

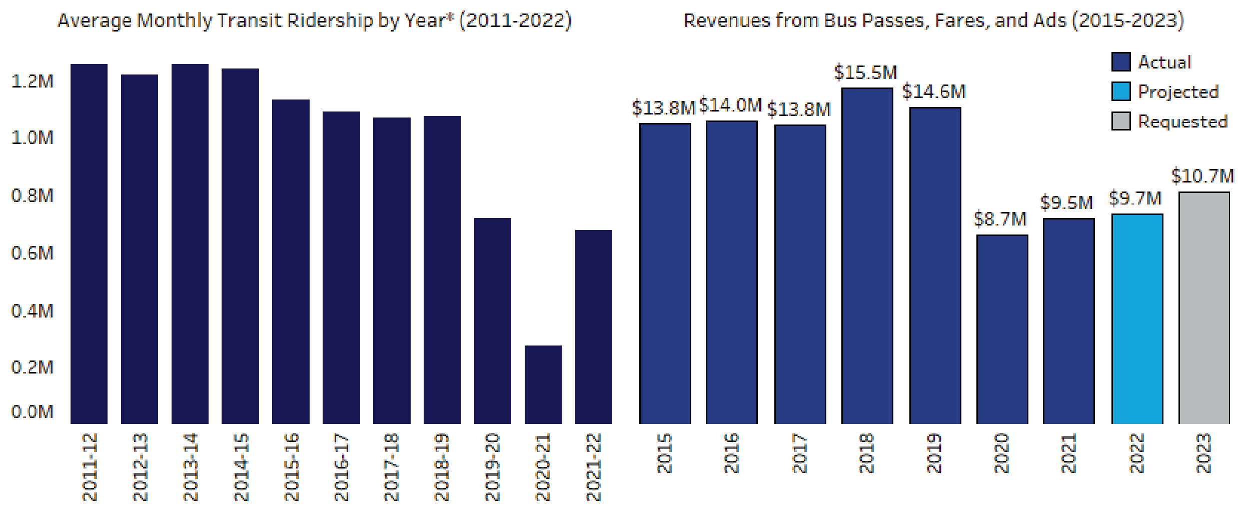
The mayor's operating budget for 2023 also proposes a staffing increase of 21 permanent and three limited-term positions at a cost of $1.5 million in 2023 and $2.1 million annually after being fully phased in. Those include nine bus drivers to provide expanded service to suburban communities with existing partnerships with Metro Transit. The remaining positions would focus on ensuring Madison captures federal transit funds through the Infrastructure Investment and Jobs Act (IIJA) of 2021, and has sufficient resources to manage the new BRT initiative. These positions would be funded through additional federal funds and operating revenue from the neighboring communities.

For now, federal pandemic funding would continue to fill the budget gap left by lower revenues from bus fares and a proposed one-time reduction in the city's transit subsidy in 2023 (see **How the Budget is Balanced**). Metro Transit has received $74.7 million in federal pandemic aid and the proposed budget would spend the last of it by the end of 2023.

To help replace these federal revenues, the city hopes to see a rebound of ridership in 2024. However, ridership is still below pre-pandemic levels and revenues in 2023 are projected to hit only $10.7 million, a healthy increase over this year but still nearly 27% below the $14.6 million received by Metro Transit in 2019 (see **Chart 11** on the next page). The city faces a further challenge in that some bus pass payments such as those from the University of Wisconsin are paid based on a four-year average ridership.

So even if passengers fully return by 2024 – an optimistic scenario – revenues would still lag. City officials currently expect 2024 fare revenues to remain 10% to 15% below 2019.

Chart 11: Madison Metro Transit Only Partly Recovered from Pandemic



Sources: Federal Transit Administration and City of Madison. *Yearly values from September of first year to August of second year.

The payments to Metro Transit based on multi-year averages will continue to rise in the future and agency leaders will be able to draw on new federal IIJA funds for certain expenses including capital costs and preventive maintenance. At the same time, those particular federal funds cannot be used for operating expenses and city officials acknowledge that over the long term, Metro Transit's costs are likely to increase faster than its revenues from fares, vehicle registration fees, and state and federal aid.

In the proposal for 2023, federal, state, and other local revenue would account for $47.8 million (70%) of total Metro Transit funds, with state aid returning to historical levels after a one-time cut in 2022. Revenue from the city's $40 vehicle registration fee would contribute $6.8 million. In a major change, the mayor's proposal would reduce the city's general fund transit subsidy in 2023 to $2 million, or $7.1 million less than this year. The mayor proposes that the city increase its subsidy to $14 million in 2024 to start repaying the 2023 loss over the following three years.

In 2024, the city would have to both make up for the lost federal transit aid and come up with additional general fund dollars to replace the proposed 2023 cut. The requests by partner cities for expanded services, ridership increases on the new BRT, and new federal grants could help generate additional revenue to ease these challenges and Metro Transit officials believe they can manage their finances through 2026. However, there is some risk that the transit budget could face a substantial shortfall in future years that would force the city to consider options such as route reductions or an increase in either fares or the city's vehicle registration fee.

Key #4: Police Department Facing Higher Turnover

Within a budget that would raise general fund spending by 6% overall, the mayor's proposal lists a general fund spending increase for the Madison Police Department of only 1.3%, or $1.1 million, to $85.1 million. However, state and federal grants would provide the agency with some additional funding and staff. In addition, a higher rate of turnover has lowered spending within the department, at least in the near term.

A major portion of the police department budget would provide funding for an academy recruit class of 45 officers to fill existing vacancies and six newly created positions. Recruit class sizes are based on the department's three-year vacancy average, which currently sits at 39 officers, or 8.0% of the sworn force, according to budget documents. This vacancy rate has grown substantially since 2018, when the three-year average was 19, or 4.0% of sworn officers.

This turnover has reduced salary costs, both because fewer officers are temporarily on the city payroll and because the newer officers typically enter at lower pay ranges than experienced officers. Projected salary expenditures for 2022 are currently $4.1 million less than budgeted. Though helpful for the city's budget in the short term, a high vacancy rate and rapid turnover may impact public safety or other aspects of the department's work and may put upward pressure on wages in the future. As our research indicates, public employers are facing difficulties finding and retaining workers, and the particular needs and challenges of law enforcement may be adding to that problem for the Madison police. If turnover remains elevated, it could pose a problem for the department and ultimately the public.

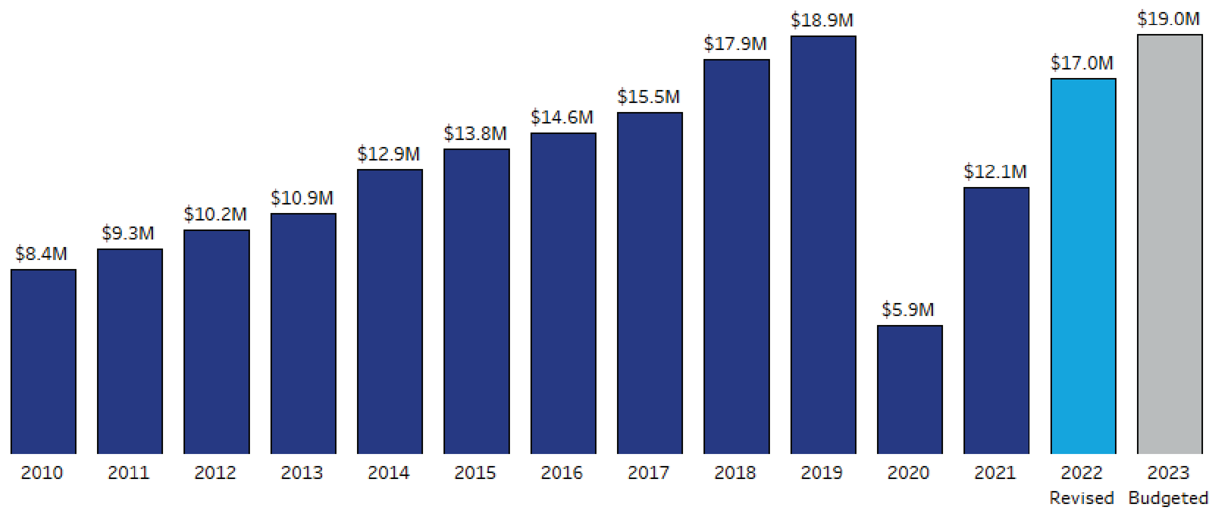
As discussed in **Key #2**, the mayor's proposal would provide 2% pay increases to police officers, which might help the city attract recruits to fill these vacant positions. The mayor's proposed budget has not yet detailed out how much that pay increase would add to police department spending, which makes the budgeted increase for the department look smaller than it actually is. Further, the department intends to use state grant funding to offer recruitment bonuses to attract recruits. The mayor's budget would also use $2.3 million in federal and state grant funding to pay for new sworn positions and efforts to reduce crime and improve relations between the police department and the community.

Key #5: Room Tax and Parking Revenues Finally Recovering

When the pandemic hit in 2020, collections from the city's room tax on hotel stays and other short-term lodging plunged by 69% from the 2019 total, one of the steepest drops in the state. The city burned through the modest balance in its room tax fund and was forced to curtail spending on tourism promotion, which is paid for with revenues from this tax. Though the city's travel industry is recovering, a significant share of it depends on business travel. As a result, the city's hotel industry and tax collections have taken longer to rebound than most other communities in the state that depend more on leisure travel.

As **Chart 12** on the next page shows, 2022 tax revenues are currently expected to come in at $17 million, or about 10.6% lower than in 2019, and then rise to a projected $19 million in 2023, or roughly back to pre-pandemic levels (at least before accounting for the effects of inflation). That is projected to leave the room tax fund with a $2.9 million unassigned balance at the close of 2022. The improvement should allow the city to return its 2023 spending on tourism to pre-pandemic levels while shifting away from the federal COVID-19 aid and other one-time sources of funding it used to prop up these programs during the pandemic.

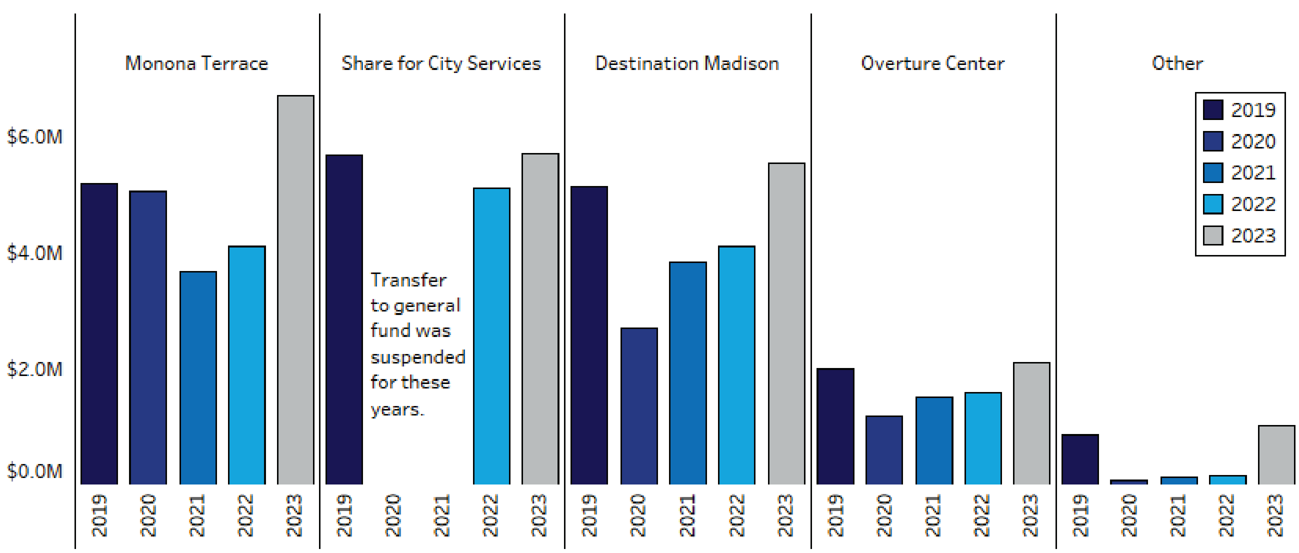
Chart 12: Room Tax Fund Revenues in Millions (2010-2023, with projections)



Sources: City of Madison Finance Department and Room Tax Commission

The budget as approved by the city's Room Tax Commission in September would actually increase 2023 spending from this fund to just over $21 million, up from a projected $15.1 million this year and an 11.5% increase over the $18.8 million spent in 2019. As **Chart 13** shows, the proposed budget would provide the first room tax funding since 2019 for attractions like the Henry Vilas Zoo, Olbrich Botanical Gardens, and the Alliant Energy Center. It also would restore room tax funding that was originally planned but not delivered in 2020 in light of the pandemic to the Overture Center for the Arts ($2.1 million) and Destination Madison ($5.3 million plus $275,000 in subsidies for event booking) to support its work to promote tourism.

Chart 13: Spending of Madison Room Tax Funds in Millions (2019-2023)



Sources: City Finance Department and Room Tax Commission; chart does not include spending of other funds such as federal pandemic relief aid. The share for city services goes to Madison's general fund. Other includes spending on the zoo, Olbrich Gardens, the Alliant Center, city tourism programs, and other.

Finally, the city would provide $6.7 million in funding for the Monona Terrace Community and Convention Center in 2023, up from $5.2 million in 2019. In addition to that increase for operations, the budget proposes $1.7 million for capital projects at the center, an increase over the $589,000 provided in 2019 that will help to pay for projects such as carpet replacement that are done every 10 years.

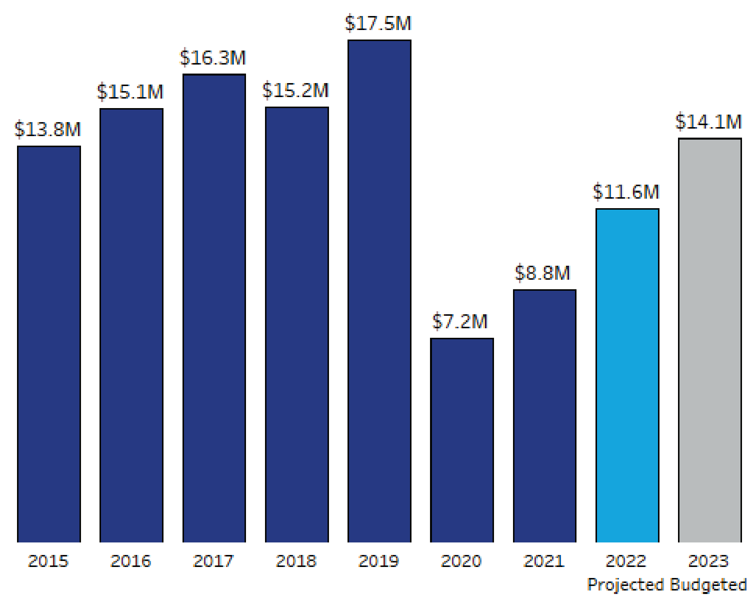
Though the story here is largely positive for the city's budget and local efforts to support tourism, the balance in the room tax fund would drop substantially under the proposal, from a projected $2.9 million at the end of 2022 to just over $923,000 at the close of 2023. Though this is larger than the fund's pre-pandemic balance at the end of 2019, city leaders may wish to watch these reserves carefully since the fund could quickly exhaust them if tax revenues do not recover as projected.

A Look at Parking Fees

Though revenues from city parking fees are expected to grow next year, they are projected to remain below pre-pandemic levels, depressed by the shift to working at home. To cope with that, the Madison parking utility would reduce or not fill positions and continue to spend some of its reserves as it has for several years in a row.

With fewer motorists heading downtown and additional competition from private parking lots, city parking fund revenues from meters, garages, permits, and other ongoing sources plummeted from $17.5 million in 2019 to $7.2 million in 2020. A partial recovery to $14.1 million is projected for 2023 (see **Chart 14**). The city would reduce the number of cashiers and seasonal maintenance workers and not fill 11 hourly parking enforcement positions to balance its budget, but it is also using utility funds to replace its State Street parking garage (see **Capital Budget**) and increase its contribution to other city services in 2023 by $150,000 to $1.3 million.

Chart 14: Parking Utility Fund Ongoing Revenue*, 2015-2023



Source: City of Madison Finance Department; *Does not include revenues from fund balance, transfers from other funds, or the sale of assets.

With parking revenues performing somewhat better in 2022, the utility is only expecting to need to use $1.1 million in reserves this year (down from $6.2 million in 2021) and has benefited from selling the so-called air rights above city garages to developers as part of larger construction projects. Still, the city may need to consider other steps over the long term such as the continued use of technology to hold down costs and ensure that the parking utility has adjusted to Madison's post-pandemic commuting patterns.

CONCLUSION

The mayor's proposed 2023 budget provides mostly good news for city services, with little in the way of cuts and a range of expanded offerings. From bus rapid transit to behavioral crisis response to the annexation of parts of the town of Madison, the budget seeks to address key challenges facing the city. The budget would bring some benefits to city employees as well, including raises of 2% to 3% and a one-time bonus of $1,000.

The picture is more mixed for property taxpayers, with the 5.5% proposed increase in the tax levy marking the largest since 2009, and notable fee increases for key city services such as sewerage. The tax figure somewhat overstates the actual increase over last year, however, since it includes new properties from the town of Madison. The average city home owner would see a 4% increase.

The budget also signals both positives and negatives with regard to the city's overall financial health. On the one hand, the city is seeing real recovery from the pandemic in important revenue streams like bus fares, taxes on hotel stays, and payments at parking meters and garages. The city also projects an increase in its general fund balance. All of that helps the city prepare for the end of federal pandemic aid, which has been crucial to sustaining it during COVID-19 but will run out by 2023.

On the other hand, shortfalls could still develop in some city agencies, particularly transit, if fare revenues do not fully rebound and more federal grants do not materialize. In addition, the pressure from inflation will be felt at all levels of city government and higher levels of turnover among city workers, such as police officers, will intensify the need to increase compensation.

The proposed $6.3 million in ongoing raises to city workers from the general fund hints at the costs the city could face in the future as it tries to retain its employees, while state limits on the property tax and fees may make it difficult for Madison to raise the revenue it needs to accomplish this task. Consequently, in 2025 and beyond, the prospect of substantial budget shortfalls is a real possibility.

Meanwhile, a substantial share of the new money raised by the proposed property tax increase would be used not to sustain ongoing city services, but to make payments on the city's growing debt load. The Forum first flagged concerns about the city's rising borrowing in 2019 and the issue looms larger with this latest budget.

Overall, Madison has bright prospects and a proposed budget that would make progress on a number of them. Yet, like those in any city, Madison's leaders will have to pick their priorities carefully in order to live within their means in the years to come.