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State Funding Overhaul Gives Madison Only a Scant Boost in 2024 Budget

City's fiscal pressures intensifying due to inflation, workforce issues -- but its overall outlook is sound

A newly enacted overhaul of how the state funds local governments offers only modest benefits to the city of Madison, which received the smallest amount per resident of any community in Wisconsin, the Wisconsin Policy Forum finds in its annual review of the city's proposed budget.

Madison is fortunate to have a vibrant local economy and largely healthy city finances. However, challenges have surfaced in this budget that are likely to intensify in future years as the city faces fiscal pressures stemming from inflation, population growth, and employee recruitment and retention.

Under Mayor Satya Rhodes Conway's proposed budget, spending within the city's two main funds (the general and library funds) would rise 5.9% from $382.3 million in 2023 to $404.8 million in 2024. This would be the third straight year in which spending in these funds rose by roughly 6%, driven by federal pandemic funding and pressure to increase employee wages in line with inflation. Such spending growth will be hard to sustain over the long term, given the city's revenue constraints.

Other cities, villages, and towns saw a significant revenue boost from 2023 Wisconsin Act 12, enacted in June. This landmark overhaul of the state's fiscal relationship with municipalities and counties boosted state aid for all communities, but especially smaller ones. And the state's largest municipality and county, Milwaukee city and county, both received new local sales tax authority.

The city of Madison is getting a $3.1 million increase in municipal aid from the state in 2024. This additional $11 per resident is the smallest per-capita increase of any of the 1,848 municipalities in Wisconsin and is less than one-third of the statewide average increase of $35 per capita.

In past years, the state's approach to funding local governments assumed municipalities like Madison with high property values could fund services by tapping their own wealth and levying higher taxes. Such an approach arguably was fair to Madison, given the state resources it receives as the state capital and home to the University of Wisconsin-Madison.

But that system no longer works as it did, because state law now uses the rate of net new construction to limit increases in municipal tax levies used for operations. For this December's tax levy, that rate was 2.2%, or less than half the rate of inflation. This gap between inflation and property tax growth makes it difficult for Madison to sustain existing service levels in future years.

"City leaders could choose to seek authority for a larger property tax increase through a referendum, but would need to wait until next year at the earliest to put such a question to voters. This possibility seems increasingly likely for a future city budget," the report finds.

Other areas of the budget to watch include:

Employee Pay: The mayor's budget would increase pay for all city workers and prioritize general employees to reduce pay gaps with public safety workers. All general employees would receive a 4% cost-of-living adjustment at the beginning of next year, followed by a 2% pay increase on July 1. Public safety workers would receive a 3% increase at the beginning of the year. Given recent levels of employee turnover, the budget assumes a higher level of vacancy savings than in previous years. With inflation lingering and the city budget remaining tight, it's uncertain whether Madison can add employees to match population growth while also providing additional raises to city workers.

Metro Transit Reroute: Madison's transit agency has improved its outlook over the past year but still faces challenges. It continues to recover passengers from the pandemic, though average monthly ridership for the past 12 months still sits 31% below the monthly average for that period in the year before the arrival of COVID-19. Meanwhile, the agency is upgrading services: next year it expects to start operating a new Bus Rapid Transit route, and it has new contracts with neighboring suburban communities to expand services there. Metro Transit relies more heavily than many transit agencies on state and federal dollars, rather than fare revenues. Yet with federal pandemic aid to the city exhausted after 2024, balancing the Metro Transit budget may require the city to limit spending growth or increase revenues such as its vehicle registration fee or bus fares.

Parking problems: As many office workers continue to work at least a portion of their hours remotely, revenues have not recovered for the city of Madison's parking utility. Collections from parking garages, meters, and permits are expected to hit $14.4 million this year, an improvement from 2022 but still well below pre-pandemic levels. Revenues also will suffer next year due to the closure and redevelopment of the State Street Campus garage, the city's largest. The mayor proposes to keep the parking utility running in 2024 by drawing down its reserves by $4.8 million, or 28.2% of its total budgeted revenues. But the long-term challenge remains: Dane County has the highest rate of individuals working from home of any county in Wisconsin, and commuters are no longer using parking garages, lots, and meters as frequently.

With only modest assistance from the state budget and Act 12, and federal aid set to expire, future budgets may be even more challenging than this one. Still, the city overall boasts strong reserves, high service levels, modest liabilities for pension and retiree health care benefits, and a premium bond rating.

One bright spot in this budget – which may be a model for other city agencies -- is Metro Transit's partnership with neighboring municipalities to expand service and tap additional revenue. Though such efforts will not solve all the city's problems, other agencies might find similar opportunities to work with their suburban counterparts to reduce spending, increase revenue, or improve services.

"Deliberations on the 2024 budget should continue," the report concludes, "with an eye toward both the year ahead and a more difficult future."

Click here to read the full report.

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