

BUDGET BRIEF

CITY OF MADISON

2020 PROPOSED
BUDGET



WISCONSIN
POLICY FORUM

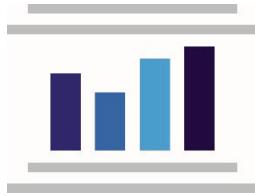
ABOUT THE WISCONSIN POLICY FORUM

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 2020 Mayor's Budget

October 2019

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INTRODUCTION

One overarching question looms over the Madison budget: how to handle the city's growth? With the economy relatively strong and newly elected leaders in both the mayor's office and nearly half the city council seats, Madison has a rare opportunity to answer that question.

With a stable core of state government jobs and an expanding private sector, the Madison area increasingly serves as an economic engine for Wisconsin. Between 2000 and 2018, employment in Dane County grew more than seven times as fast as it did in the rest of the state, accounting for 45% of the net new jobs created in the state during that period.ⁱ The population in Dane rose more than three times as fast as all other Wisconsin counties and property values substantially faster.

Though growth within Madison itself was not as great as in the rest of the county, the city easily outpaced the rest of Wisconsin. The area also enjoys the lowest unemployment rate in the state and among the very lowest in the nation.

The trend in Madison and the surrounding areas contrasts sharply with the Milwaukee area, which has lost a small fraction of its population within the city itself and nearly 8% of the jobs in Milwaukee County since 2000.ⁱⁱ In its yearly analysis of city and county budgets in Milwaukee, the Wisconsin Policy Forum has documented how stagnant revenues and unfunded commitments to retirees mean local leaders must seek to avoid – or at least manage – painful cuts in personnel and programs.

In Madison, leaders instead are managing the challenges that come with growth. How they do so is increasingly important to all of Wisconsin.

The mayor's proposed budget raises several more questions related to the larger concern of managing growth: should the city expand public transit or add police positions? Should Madison approve a wheel tax to help maintain and add to services or try to rely in large part on the property tax increase allowed under state caps? What can city leaders do about the cost of housing, recent flooding, or the fact that economic gains in Madison are not shared equally by its minority residents? Sections of this brief look at each of those issues.

The increase in the city's overall revenues is strong compared to most Wisconsin communities. But Madison still deals with stagnant state aid and relies much more heavily than most cities on a relatively high property tax that is limited both by the state and by practical concerns.

Looking at the long term, Madison has relatively few unfunded commitments to retirees – a major advantage.ⁱⁱⁱ Its debt levels, however, have risen substantially in recent years and a number of capital projects loom. Going forward, the city must manage its short-term finances and long-term concerns while preparing for an eventual recession.

In bringing our work on Milwaukee and state government budgets to Madison, the Forum seeks to shine light on the city's finances and inform debate on the city budget in the weeks ahead. As in all our work, we highlight these facts and figures not for their own sake but in the hope of elevating the debate in the city and ultimately improving the lives of its residents.



HOW THE BUDGET IS BALANCED

Going into its preparation for the 2020 budget year that begins in January, the city's main fund faced a \$10.8 million gap between the projected increase in the cost to continue current services and the expected rise in property taxes and other revenues. The general fund gap is more than twice as large as last year. As the Forum has frequently noted, Wisconsin municipalities can bridge budget shortfalls by cutting spending or drawing on reserves but have limited options to raise new revenues. Property taxes are limited by state law, sales taxes are rarely allowed, and state aid is largely stagnant.^{iv}

To help close the gap, the mayor would impose a \$40 registration fee on vehicles kept in the city. With few other taxes or major fees available, the number of municipalities and counties with these wheel taxes has risen from 4 in 2011 to 36 today.^v

Madison officials estimate the fee would raise \$7.9 million in 2020. Under state law, that revenue must be used for transportation, but the mayor would still be able to free up money within the larger budget by using \$5.6 million of fee proceeds to help lower the amount going from the city's general fund to Madison Metro Transit. The rest would go toward expanded bus service as well as other priorities such as reduced fares for low-income riders. (See Keys to the Budget #2 below.)

If approved, the \$40 wheel tax would be the largest such local fee in the state.^{vi} When combined with the \$28 Dane County fee approved two years ago, the yearly local fees for Madison residents would total \$68 per vehicle. That would be 36% higher than the next highest local fees in Milwaukee, where residents pay \$20 to the city and \$30 to the county.

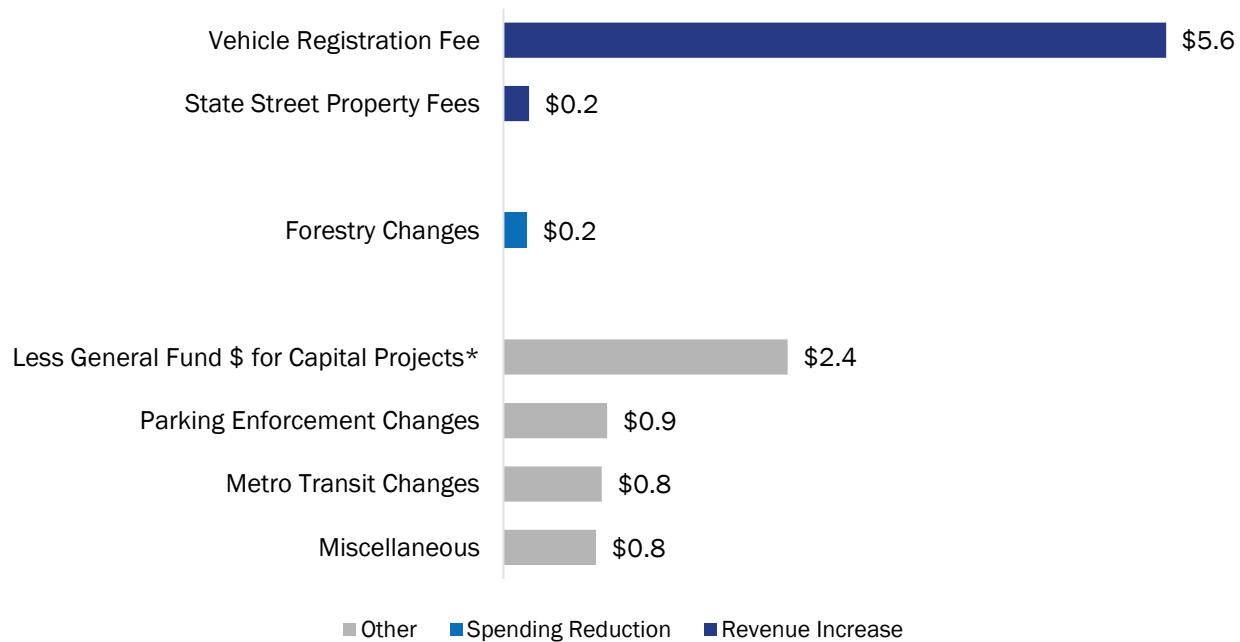
The previous mayor proposed a \$17 vehicle registration fee in 2018 as a way to help bridge the smaller budget gap then facing the city. The city council dropped the fee increase last year and could lower or remove it again, but would likely need to reduce the mayor's proposed spending to accommodate the change, as few other options exist to generate that amount of revenue.

The new administration notes that state and local vehicle fees in some other Midwestern states such as Minnesota and Michigan can be higher, especially in the case of newer, more expensive cars. On the other hand, in Wisconsin wheel taxes can be considered regressive since the per vehicle fee is the same for a low-wage worker's aging compact as for a wealthy resident's luxury sedan. The fee is only progressive in the cases of households that either cannot afford a vehicle at all or can afford several of them.

Chart 1 shows some of the other changes to balance the general fund budget that we will discuss in later sections, including spending less money from the general fund on capital projects; shifting parking enforcement from the police budget to the parking utility; and raising fees for property owners around State Street.



Chart 1: Proposed Changes to Bridge \$10.8 Million General Fund Shortfall (In Millions)



*Will require a 2/3 vote of the city council.

Source: City of Madison Finance Department



2020 MADISON BUDGET OVERVIEW

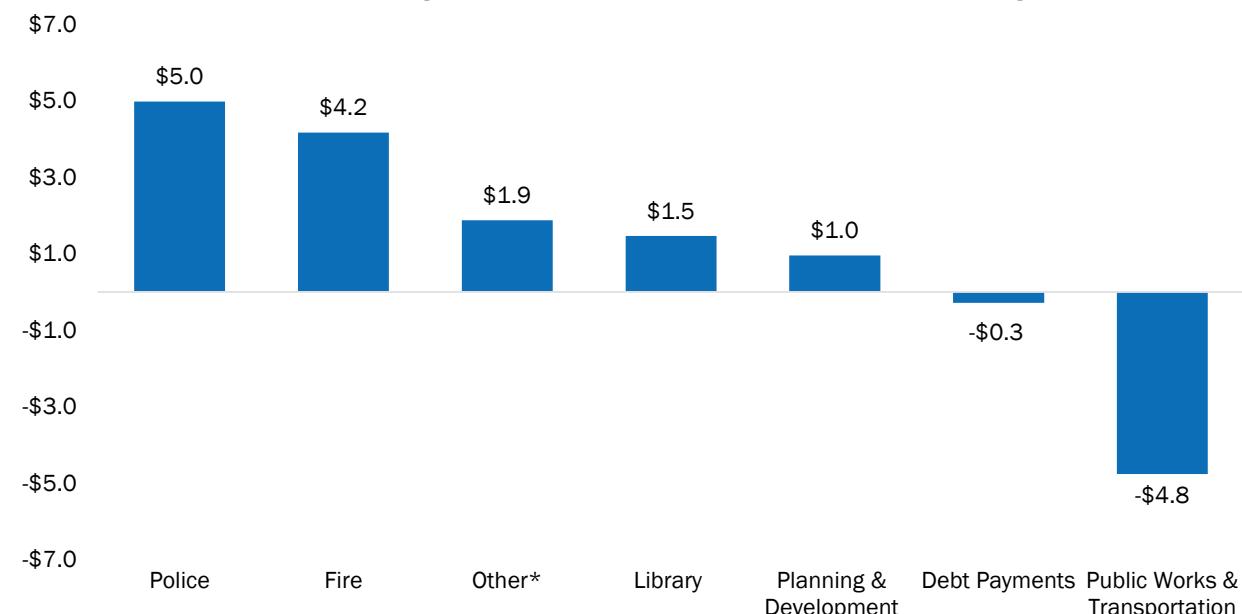
WHERE SPENDING WOULD RISE (AND FALL)

A broader look at the proposed 2020 budget starts with the city's general fund, which takes money from sources such as the property tax and state aid and spends it on the police and fire departments, streets, libraries, and other municipal services.¹ Proposed general fund spending would total \$340.4 million, an increase of \$8.4 million, or 2.5%, from 2019. That is the smallest increase since 2012, though still above the current rate of inflation.

However, the proposed wheel tax makes year-over-year comparisons difficult since it would help reduce general fund support to Metro Transit by \$5.6 million. Including that money would show a 4.2% proposed rise in general fund spending in 2020 – more in line with recent years.

As **Chart 2** shows, most new spending would support higher salaries and benefit costs for police and firefighters and other public safety spending. Following a large increase in 2019, debt payments would remain flat, though the city would draw down some reserves set aside for debt payments. (See “Coping with Rising Debt.”)

Chart 2: Proposed 2020 Spending Bump Flows to Few Areas (General Fund Change in Millions)



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

Source: City of Madison Finance Department

Over the previous five years, Madison's net operating spending per capita (\$1,135 in 2017) grew much faster than cities and villages statewide. Among Wisconsin's 10 largest cities, only Milwaukee (\$1,268) and Racine (\$1,212) spend more per capita.^{vii}

¹ Whenever this report refers to Madison's general fund, it includes the city library fund.



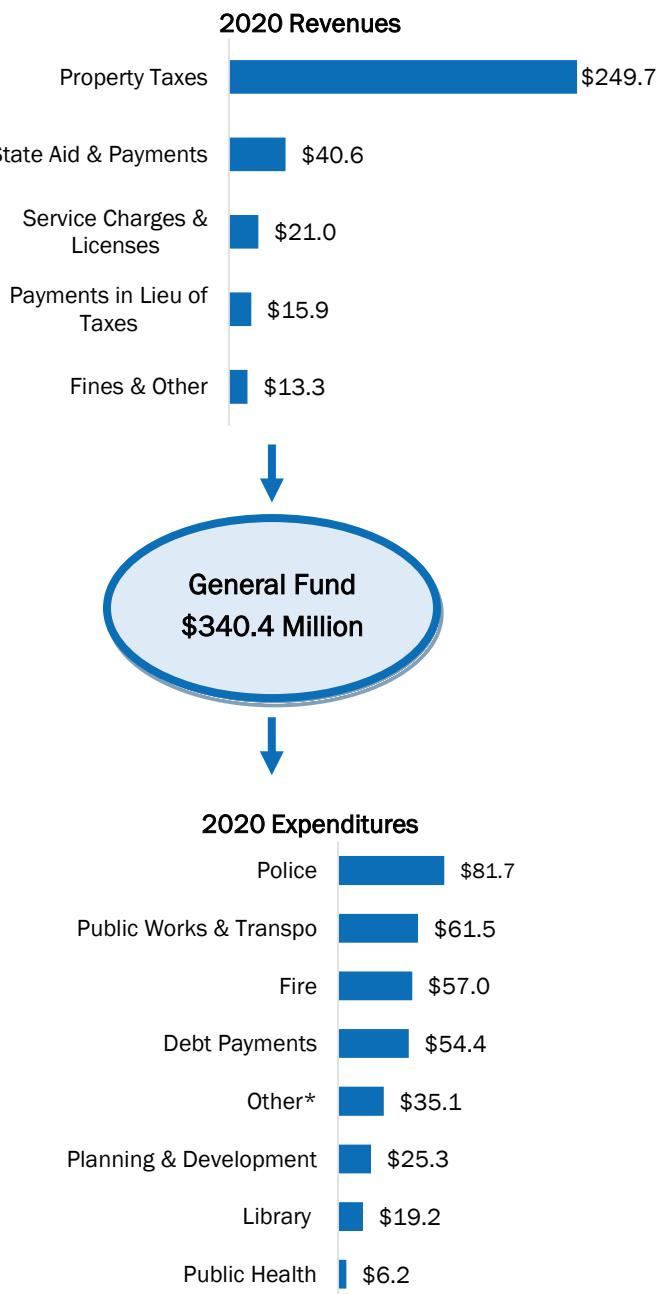
GENERAL FUND SUMMARY

The property tax provides most of Madison's general fund revenue, which in turn goes to a handful of key priorities. That's a significant difference from Milwaukee's general fund, where state aid provides more than twice as much as property taxes. (See Key #3.) **Chart 3** breaks down the city's revenues and expenditures:

Powered largely by property taxes, the city's general fund has grown substantially in recent years. While spending in the fund averaged 3.8% growth between 2007 and 2019, revenues besides the property tax such as state aid and charges for city services grew by only 2.1%. (See **Chart 4**.) To make up the difference, property taxes rose by an average of 4.5% a year, outpacing the increase in Madison's median household income during the period.^{viii}

Taxes levied by the city (i.e., not counting county, school district, or technical college amounts) on the average Madison home reached \$2,587 in 2019 and averaged 3.7% annual growth since 2007. In terms of property tax rates and per capita amounts, Madison taxes are higher than most but not all of the suburban cities and villages in Dane County. Under the proposed budget, the Madison property tax levy would rise by 3.2% to \$249.7 million in 2020 and taxes on the average home valued at \$300,967 would rise 3.4% to \$2,675.

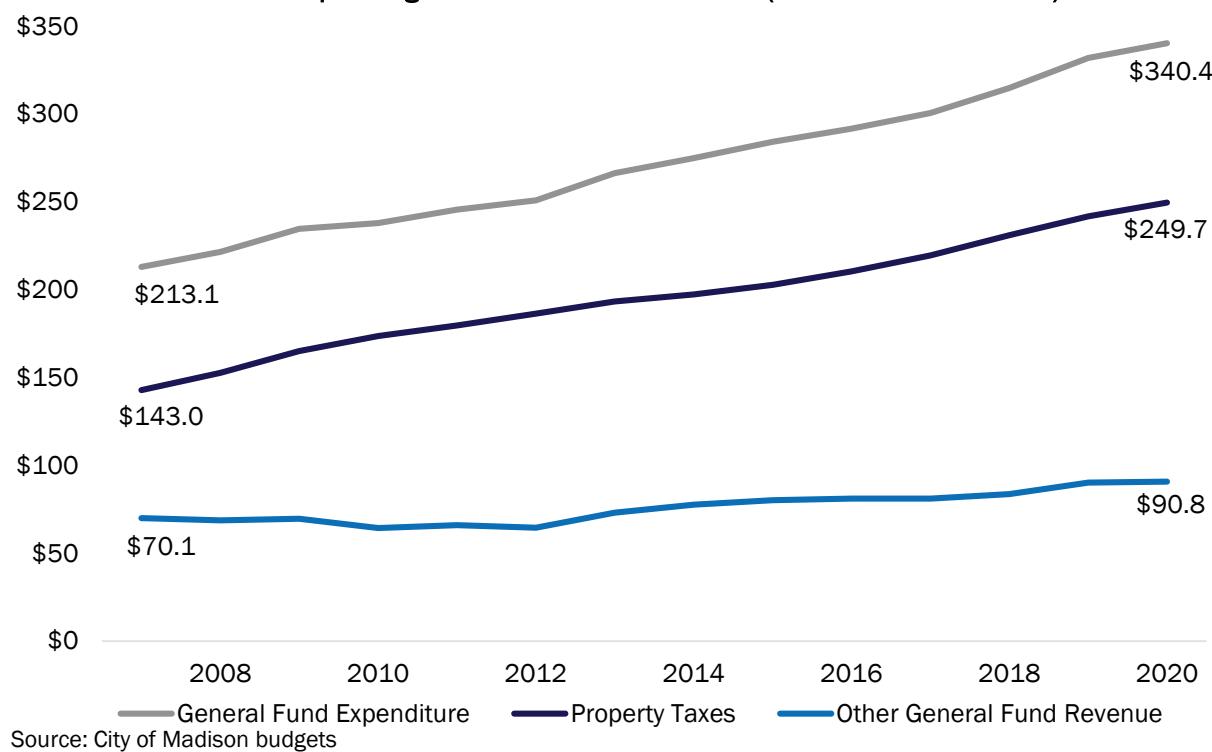
Chart 3: 2020 City of Madison General Fund (Millions)



*Other includes administration, mayor, common council, municipal court, and direct appropriations.
Source: City of Madison Finance Department



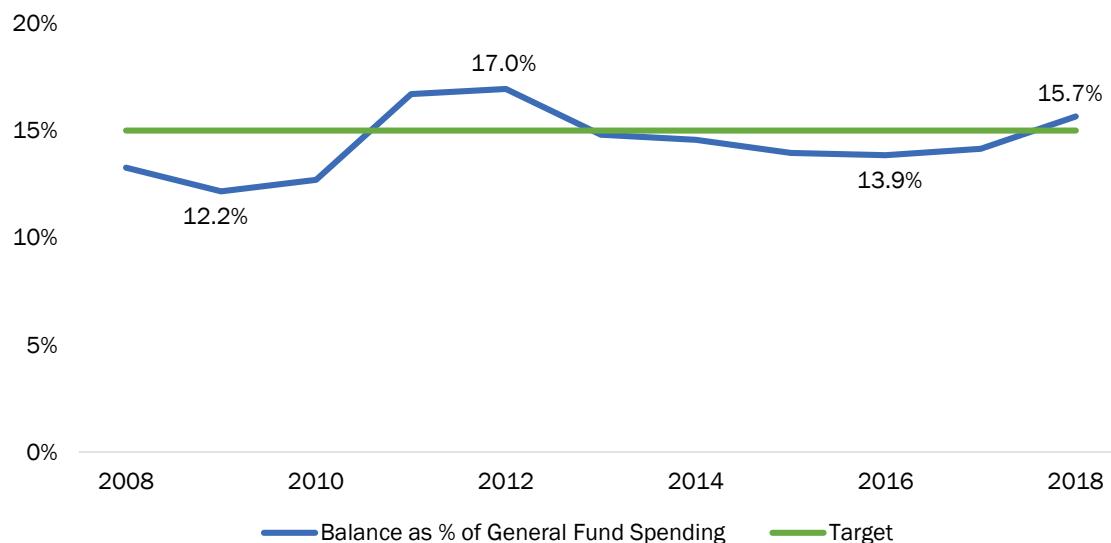
Chart 4: Revenues and Spending in Madison's General Fund (2007-2020 in Millions)



One related area to watch within the general fund is the size of the year-end surplus, or unassigned balance. To cover unexpected needs, the city has a longstanding goal of keeping a balance at or above 15% of budgeted general fund spending. After going five years in a row without meeting this target, the city once again met it in 2018 and the administration is projecting similar figures at the end of 2019 and 2020.^{ix} (See Chart 5.)



Chart 5: General Fund Surplus as Share of Annual Spending in the Fund (2008-2018)



Sources: City of Madison budgets and Comprehensive Annual Financial Reports

FEES AND THE REST OF MADISON'S BUDGET

The general fund would account for 53.6% of the overall \$634.6 million in spending in the proposed 2020 budget for all city operations. Spending budgeted for other funds and entities like Metro Transit, the city parking utility, and the Monona Terrace Convention Center would total \$294.2 million.

A number of fee increases for home and business owners have been tucked into these funds in recent years. In part because of aging infrastructure, declining consumption, and the loss of industrial customers, the Madison Water Utility is seeking from state regulators a second rate increase following another approved last year. If the latest increase goes through, it would mean a roughly 46% increase since late 2018 for the water utility's portion of the average homeowner's bill.^x The city also raised stormwater and sewer utility rates by 10% and 6% respectively in 2019 with additional 9% stormwater and 7% sewer increases anticipated within the mayor's 2020 budget.

The mayor also is seeking a \$217,000 increase to the city's longstanding fee on downtown property that helps pay for cleaning, trash pickup, and upkeep along State Street and the Capitol square. The change would raise businesses' share of those costs to one-half from the current one-third.

The proposed budget wouldn't raise parking fees, which were last increased in 2018. Metro Transit fares, last raised in 2016, would not increase in 2020 and would fall for some low-income riders.



CITY EMPLOYEES

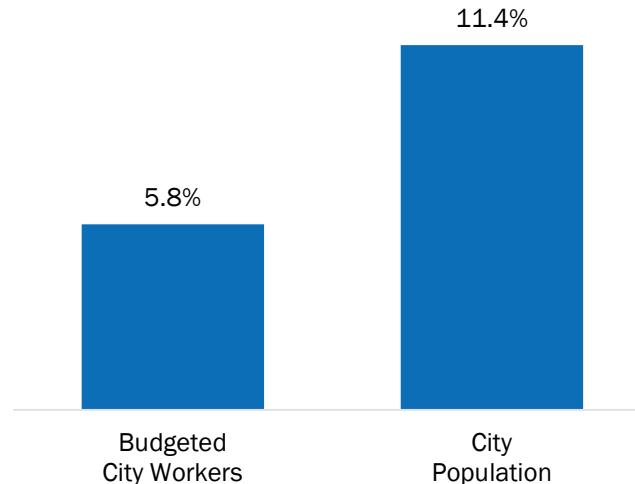
The mayor's budget would add about 19 full-time equivalent (FTE) positions compared to a year ago, bringing the city's workforce to 2,947 and amounting to a 0.6% increase. The added positions would go mainly to Metro Transit, libraries, and the social safety net, including public housing and services to children and youth.

Between 2008 and 2018, the city's budgeted workforce rose by 5.8%, or about half as quickly as Madison's overall population. (See **Chart 6**.) For context, the city of Milwaukee's workforce fell by 7.9% over that decade, a period in which the city population was flat and city government was coping with serious financial problems. Madison's extremely low unemployment rate adds to the city's challenges in keeping and attracting good employees.

General fund spending on total worker salaries has risen steadily over the last several years. However, the city has been able to manage spending on worker benefits, cushioning the blow to its finances.

City property taxpayers will have to cover additional spending on salaries moving forward. For example, a 2.5% increase to base wages for both rank and file police officers and supervisors took effect in July, with an additional 3.25% increase scheduled for January 2020.^{xi}

Chart 6: Growth in Madison Population Outpaces City Workers (2008-2018)



Sources: City Budgets, WI Dept. of Admin.



COPING WITH RISING DEBT

The city's biggest financial challenges arguably are found not in the budget for its day-to-day operations but in its separate budget for long-term capital projects. Looking at just the new projects proposed, the mayor's capital budget would total \$170.6 million. While that would be a 20.3% decrease from the \$214.3 million in new projects approved in 2019, the mayor's proposal would still be more than what city agencies had requested. It's also a \$26 million increase over what had been called for previously in the city's five-year capital improvement plan, mainly because of plans to accelerate funding for Bus Rapid Transit service. (See Key #2.)

The budget would also shift the funding source for the city's \$7 million share of the planned Public Market, a city-owned building in which a non-profit will manage a variety of private vendors selling prepared food and crafts. Instead of using the general fund and regular borrowing, the city's support would now come from a near East Side tax increment financing (TIF) district running along East Washington Avenue.

In general, cities use TIF to spur private development through public investments that are in turn paid off through the higher property taxes that should result.^{xii} Overall, Madison makes less use of TIF than other municipalities in Wisconsin on average.

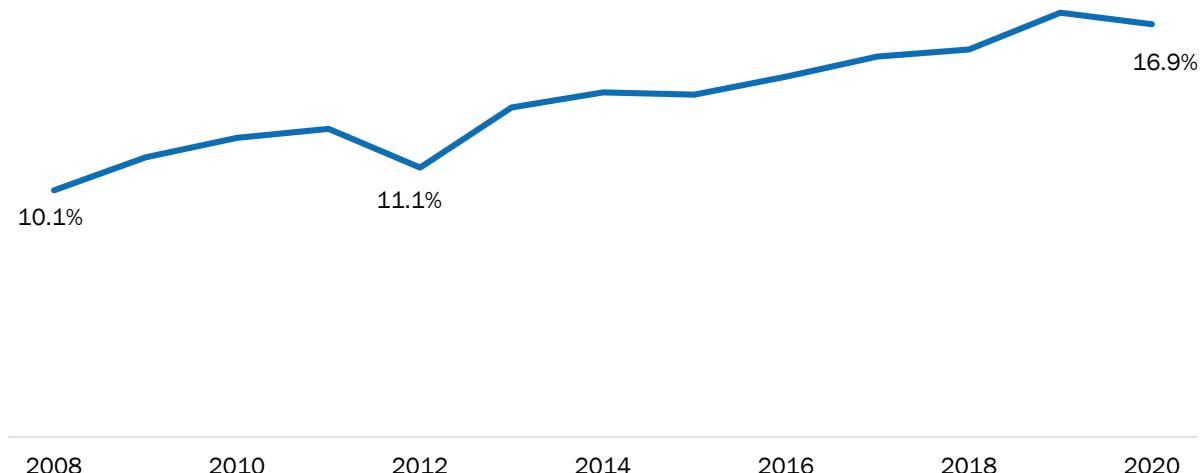
Nearly 57% of the mayor's overall capital budget, or \$96.6 million, would be financed through general obligation borrowing, or debt backed by the city's full taxing power that is typically paid off within a decade. If approved, that would be a 24.5% decrease in such borrowing for new projects compared to last year's capital budget.

The mayor and others have raised concerns about the increase in Madison's debt over the past decade as the city has sought to replace older infrastructure and keep pace with its growth. Between the beginning of 2009 and 2019, general obligation debt – the city's main form of borrowing – more than doubled.^{xiii}

As **Chart 7** shows, debt payments over the past decade have eaten up an ever larger share of the city's budget, putting potential pressure on other priorities such as public safety, libraries, and parks. The mayor's budget would keep debt payments made from the general fund roughly flat in 2020, which means they would account for a smaller portion of the fund as it grows.



Chart 7: Debt Payments Consume Larger Share of General Fund Spending (2008-2020)



Sources: City of Madison budgets; 2020 percentage is as proposed.

To help do that, the city would use \$7.7 million in certain proceeds from past borrowing – also known as bond premiums – to make debt payments in 2020 that would have otherwise been made out of the general fund, Metro Transit, and fleet services budgets. The total includes \$4 million in bond proceeds from the city’s debt reserves that the mayor would use as part of a larger move to help bridge the general fund shortfall. The proposed budget would draw on the reserves to make debt payments without making a corresponding general fund investment in capital projects.

The general fund dollars going to capital projects would be \$2.4 million less than what is normally called for under city ordinances and as such would require a 2/3 vote of the city council.^{xiv} Such a move may not be available to balance future budgets.

In 2017 – the most recent year in which comparison figures are available – the city of Madison had \$1,790 in general obligation debt per capita.^{xv} That was 6% more than the average of \$1,688 for all cities and villages in Wisconsin and put Madison at third-highest among the state’s 10 largest cities (behind only Waukesha and Oshkosh).

At the same time, Madison’s debt looks better when measured as a share of the total property values in the city.^{xvi} This ratio is lower in Madison than the statewide average or any of the 10 largest cities except Appleton. The city also maintains the highest possible Aaa bonding rating from Moody’s.

The pressures on the city’s capital spending will continue. For instance, the mayor’s budget would shift a number of projects totaling in the tens of millions from a specific timeframe to an indefinite one, including work on two fire stations, the North District police station, and the Far West Public Works Facility.



FIVE KEYS TO THE CITY BUDGET

KEY #1: HOW MANY OFFICERS IS ENOUGH?

The mayor's budget would increase spending on the Police Department substantially but not provide any of the additional officers sought by the recently retired police chief.

Under the proposal, the department's sworn officers would remain at 479 full-time equivalents and civilians at 120.7. Department leaders have said that without new officers next year they will need to shift 12 officers to patrol from their current duties on community policing teams, the gang unit, community outreach and education, and neighborhood policing. Instead of new officers, the budget would add an "Independent Police Auditor" position focused on oversight of the department at a time when it faces scrutiny about the use of force. The mayor's capital budget also would provide \$120,000 to expand the number of squad cars with non-lethal, or alternative force, devices.

At the same time, the budget would increase general fund spending on police by nearly \$5 million to cover salary and benefit increases, training for recruits, and positions previously paid for with expiring federal grant money. That increase also includes \$215,000 in funding for training for officers dealing with individuals undergoing mental health crises as well as for employee wellness and mental health check-ins for officers and civilians.

The proposed 6.5% increase for the police department overall would be larger than the 2.5% increase in total general fund spending. However, the department still would make up a slightly smaller share of general fund spending than it did a decade ago.

For context, the police department's annual report on staffing needs recommended an additional 31 officer positions on patrols as of late 2018.^{xvii} The report cites an increase in "reactive" patrolling time – i.e., time spent responding to calls as opposed to focusing on "proactive" work – from about 32 minutes per hour in 2014 to over 40 minutes per hour in 2018. At just under 19 officers per every 10,000 residents in 2017, the report found Madison's ratio was a little less than the average of 20 officers for five peer cities (St. Paul, Greensboro, Baton Rouge, Boise, and Des Moines).

In addition, Madison has seen a rise in violent crime offenses over the past five years, according to city police data as well as uniform state crime statistics. Figures from the Wisconsin Department of Justice show Madison offenses for violent crimes such as aggravated assault rose 27.4% between 2014 and 2018 compared to a 6% statewide increase during that period.^{xviii} The city's violent crime rate is higher than the state's as a whole and is growing more quickly.

The difference in the number of offenses reflects in part the greater growth in the city's population compared to the rest of the state during those years and is tempered by the fact that Madison did see a slight drop in all offenses over the period. Clearly, police staffing levels should not be based simply on crime rates, since officers perform many duties besides responding to crimes, including staffing events, responding to medical emergencies, reaching out to and educating the community, etc. Police are also not the only tool to address crime. Still, city officials may want to consider the crime rate as one factor in their budgeting decisions.

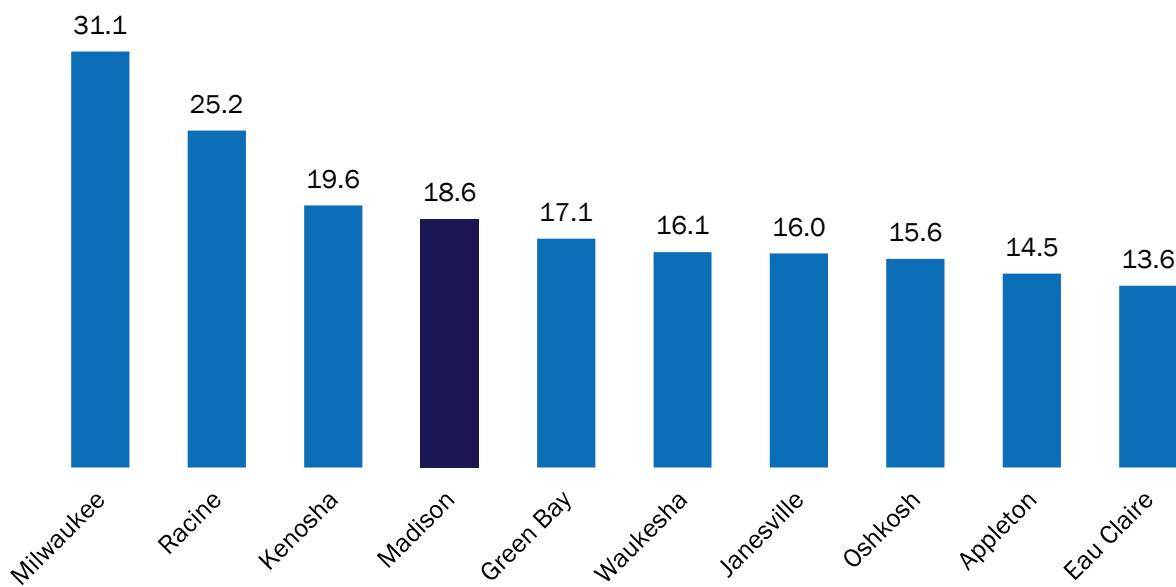


Among the state's 10 largest cities, Madison ranks third-highest on net police spending at \$296 per capita in 2017 (behind Milwaukee and Racine). Madison's per capita spending on police has increased much more quickly than other Wisconsin cities and villages on average in recent years. The spending differences on police generally reflect the differences in the number of officers per capita employed by each city.

According to the most recent data from the Federal Bureau of Investigation's Uniform Crime Reporting, Madison's force of sworn officers is roughly in line with the other cities nationally with populations between 250,000 and 500,000. In 2018, Madison's 18.6 sworn officers per 10,000 citizens was somewhat below the average for the group of 38 cities with data available (19.8 officers per 10,000), but a little above the median (18.1). Madison ranks 19th, just below Omaha, Nebraska (18.7) and just above Fort Wayne, Indiana (17.6).

As **Chart 8** shows, Madison's per capita police staffing levels are below those of Milwaukee, Racine, and Kenosha but above those of the other large cities in Wisconsin. All of these comparisons, however, should be used with caution given that the population and needs of every city are different with varying levels of crime, poverty, commuters, and the presence of other law enforcement agencies.

Chart 8: Police Per 10,000 Residents in Wisconsin's Largest Cities, 2018



Source: Federal Bureau of Investigation

The mayor's budget also would keep the number of firefighters the same but increase general fund spending on the Fire Department by \$4.2 million, or 7.9%, providing higher salaries and benefits as well as overtime. Madison's net per capita spending of \$207 on fire and emergency medical services is above the statewide average and third highest among the 10 largest cities, trailing only Racine and Kenosha.^{xx}



Public safety staffing is one of the challenging issues facing the city council. As discussed above, substantial spending increases are needed simply to keep pace with growth in salary and benefits for the existing workforce in the police and fire departments. Given Madison's growth, however, the tension between maintaining appropriate public safety staffing and balancing budgets is likely to continue.

KEY #2: SHOULD THE CITY THROTTLE UP TRANSIT?

Seeking to buck a state and national trend, the mayor wants to boost bus ridership in the coming years by more than 18% over the previous 2014 high and more than one-third over 2018 levels. To help do it, she would use a portion of the registration fees on Madison cars to fund part of the operating costs for the city's plan to implement rapid, cross-city bus service between East Towne and West Towne malls by 2024.

The \$128 million capital cost of this Bus Rapid Transit (BRT) proposal would be funded in part with \$98 million in federal money from a Small Starts grant request that would need to be approved by the Federal Transit Administration. The rest would come from local or state sources, including a new \$29 million satellite facility that the city would finance and build to store the extra buses needed. A portion of that investment could potentially serve as part of the local match for the federal grant.

The BRT service would seek to shorten travel times and reduce congestion on Madison's less than one-mile-wide isthmus with dedicated lanes, new stations, larger buses, and traffic lights set to wave those buses through. Groups such as the Greater Madison Chamber of Commerce and YWCA back it.

Even with the federal money, this represents a major project and one for which cost estimates have risen. In addition, the service would require an estimated \$3.5 to \$5.5 million a year to operate – a 6.2% to 9.7% increase to Metro Transit's 2019 budget.

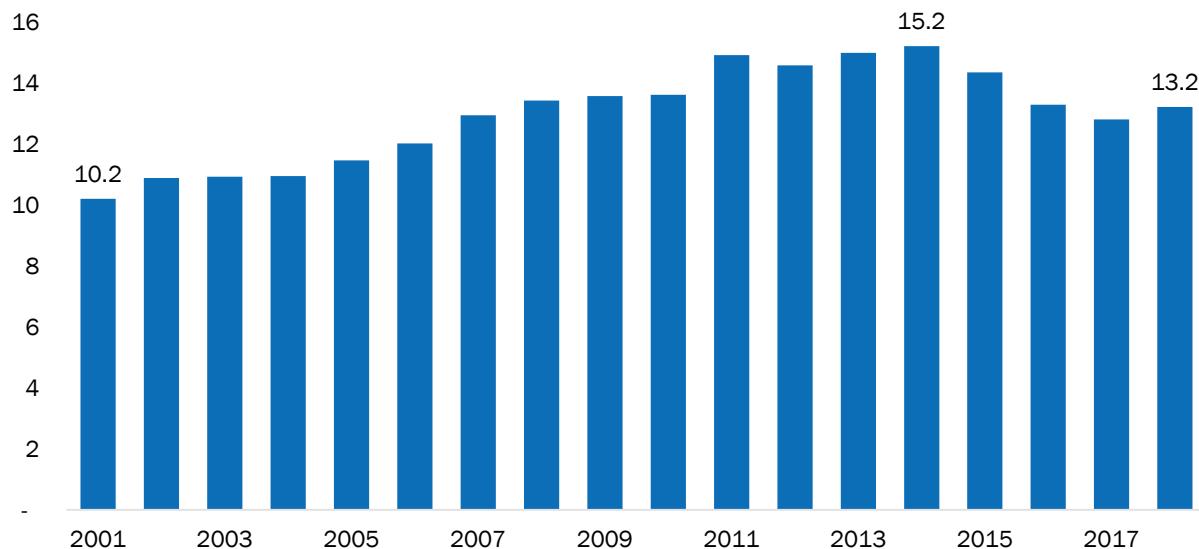
Part of the local funding for operating the BRT service would come from the proposed \$40 registration fee for vehicles in the city (see "Wheel Tax and How the Budget is Balanced"), which initially would cover five new positions and three studies related to BRT. The remaining funding to run the service would need to come from property taxes or new funds from parking fees or farebox revenues.

A second phase of BRT would extend service to racially diverse neighborhoods on the north and south sides of the city. In addition, less frequent service could be expanded to some suburbs.

Boosting bus ridership substantially – or even maintaining it – has proved difficult in recent years. Like many other transit systems, Madison Metro has lost passengers, with the drop attributed to factors such as low gas prices and the rise of ride hailing apps as well as challenges such as limited space to store additional buses. **Chart 9** shows the decrease since 2014, which means less revenue from fares to help cover fixed costs.



Chart 9: Madison Metro Gains, Loses Riders (Fixed Route Trips in Millions, 2001-18)



Sources: Metro Transit, City of Madison Comprehensive Annual Financial Reports

In addition, state transit aid stayed relatively flat over the past decade. Between 2008 and 2019, it rose 3.6% to \$17.4 million, much slower than both the rate of inflation and Metro Transit expenses.

However, Madison did see a modest gain in bus riders in 2018 and total fixed-route trips last year remained nearly 30% higher than in 2001, according to annual statements from Metro and the city. In contrast, ridership for the Milwaukee County Transit System and many other transit systems nationally were down over those years.

Madison Metro received \$14.4 million in fare revenue in 2018 – an increase of almost 8% over the peak ridership year of 2014. That rise reflects in part 2016 increases on many types of fares.

Despite the ridership challenges, Metro has been able to increase its annual bus route miles by nearly 10% between 2001 and 2018, a notable contrast with Milwaukee County's transit system. In 2018, Metro's reserve fund also rose by almost 28% to \$4.7 million.

Madison property taxpayers have helped make all that happen – the city increased its general fund support for Metro Transit by more than 45% (well above inflation) between 2008 and 2019. However, the share of property taxes and other general fund revenues going to transit actually went down slightly over those years because spending in other areas rose more quickly.

The mayor would use the proposed wheel tax to help fund Madison Metro and lower general fund support for transit from \$14.2 million in 2019 to \$8.7 million. That 39.1% decrease would leave general fund aid to transit below what it was in the run-up to the Great Recession.

Overall, however, the mayor's 2020 budget would provide a net \$4.3 million increase in city funding for transit after accounting for the \$7.9 million in registration fee revenue and the use of city



reserves to make debt payments for Madison Metro. The budget would also reduce or eliminate fares for some low-income students and adults and expand service to Madison's south side.

Going forward, Metro Transit has other cost pressures such as the 2% base pay increase that went to drivers in December 2018.^{xx} However, the Madison agency does not have the sizable unfunded retirement liabilities faced by transit agencies in Milwaukee County and the city of Racine.

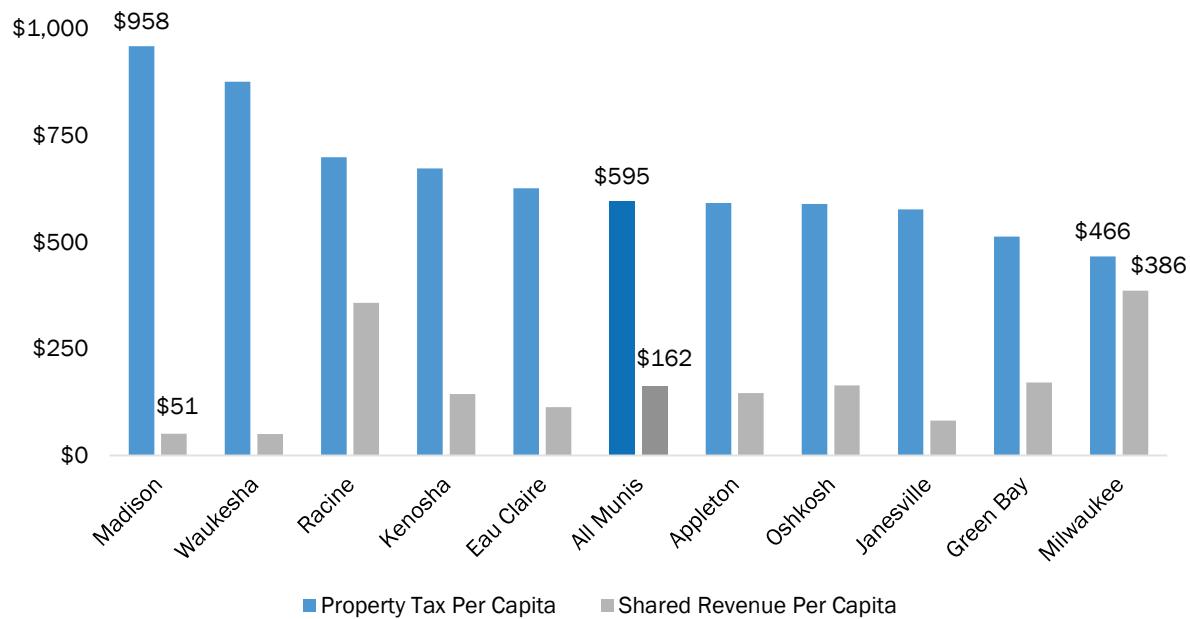
KEY #3: MADISON'S RELIANCE ON THE PROPERTY TAX

The city long has lagged in a key form of state aid known as shared revenue that local governments can use for whatever priorities they set.

Among Wisconsin's 10 largest cities, state Department of Revenue data show Madison is essentially tied with Waukesha for the lowest shared revenue payments per capita at \$51 in 2017. As **Chart 10** shows, that was less one-third the statewide average for cities and villages and less than one-seventh what Milwaukee received.

Historically, the state allotted less shared revenue to cities like Madison with relatively high property values on the principle that the larger tax base allowed those communities to fund their own services more easily. Along with relatively high spending levels, lower state aid helps explain why Madison's 2017 property taxes per capita of \$958 were the highest among Wisconsin's largest cities – 61% higher than the municipal average and more than twice as much as Milwaukee.

Chart 10: Madison Leads Large Cities in Property Tax, Lags in Core State Aid (Per Capita, 2017)



Source: Wisconsin Department of Revenue

The challenge for Madison is the city has both high property values but also a relatively large and growing segment of the population who live in poverty and may add to the demand for city services.



More than 18% of the city population lives below the poverty line – less than Milwaukee (27.4%) but well above the state average (11.3%) and the share in Waukesha (10.6%).

On the whole, however, Madison remains in an enviable position. For example, the presence of state government as a massive local employer both stabilizes and boosts the city's economy. One could argue this advantage more than makes up for the lower amount of direct state aid.

KEY #4: EQUITY AND AFFORDABLE HOUSING

From income and criminal justice to access to housing and transportation, Madison confronts racial disparities in a number of areas, and the mayor's proposal seeks to address some of them. As already noted, the budget would expand Metro Transit service to the city's racially diverse south side and reduce fares for certain low-income riders.

The proposal would also create three positions dedicated to youth services: a child care specialist focused on children impacted by trauma, a librarian for teenagers at the Goodman Library (\$75,000), and a programming specialist for teenagers at Warner Park (\$60,000).

The mayor also would target more than \$2 million in new capital spending toward affordable housing. The capital budget would increase the city's affordable housing fund by \$500,000 to a total of \$5 million and renovate Allied Drive neighborhood housing stock for \$600,000. In addition, the budget would provide \$1 million for a land banking program that would purchase properties and then sell or lease them back to developers for projects providing low-income housing and jobs.

However, the revenues for the affordable housing fund and the land banking come from either holding open existing tax increment districts (TIDs) that will eventually need to close or from freeing up money by shifting the city's share of the Public Market onto a TID. Starting in 2022, more of the funds may need to come from general borrowing, which will add one more priority to those already competing for this limited resource.

One potential response to this long-term funding challenge might be to examine whether the city could boost affordable housing developments through changes in zoning and other land use regulations. That might include allowing for smaller multi-family buildings in residential neighborhoods and reviewing ways to lower costs for all types of housing developments.^{xxi} As one example of such efforts, the city's Planning Division recently updated its future land use map to allow for greater residential density in certain parts of the city.

A range of affordable housing policies may be needed in Madison, where just over half of renter households in 2017 were rent-burdened (devoting 30% or more of their income to rent).^{xxii} Though the share of rent-burdened households in Madison appears to have fallen slightly since 2013 and may be somewhat inflated because of the college student population, Forum research has shown Dane County rents – and rent burdens – are relatively high compared to the rest of the state.^{xxiii}

Even more worrisome are the broader fortunes of minority residents in Madison. While the incomes of the city's white residents rose just slightly more than inflation between 2009 and 2017, household income appears to have fallen for Latinos and African Americans and for blacks is now less than half that of white residents.^{xxiv} With leases in the city rising steadily, it seems unlikely that



housing will become broadly more affordable for minorities without sustained increases in their income.

Clearly, the city on its own cannot provide all of the education and training, capital, and other opportunities needed to lift minority workers and businesses. But some opportunities exist, such as the money the city spends on contracting for goods and services. A 2015 study commissioned by the city did not find disparities in city contracting between white and minority-owned businesses but noted minority owners remain under-represented among firms doing public works contracting in Dane County.^{xxv}

The mayor's capital budget holds off on funding an Equity Business Initiative that would provide grants or loans to support minority firms. Instead, the city would analyze the proposal further and seek feedback from business owners of color.

KEY #5: THE PRICE OF WATER – AND FLOODING

Madison has the twin challenges of delivering clean and affordable water to more than 70,000 customers through roughly 900 miles of water mains while keeping flood waters away from low-lying properties on the isthmus and around the city.

In recent years, investments to replace aging infrastructure and control rainwater have pushed up water, sewer, and stormwater rates on the combined bills sent to home and business owners. City sewer rates are also affected by infrastructure needs within the larger Madison Metropolitan Sewerage District, since almost 59% of the city utility's budget goes to MMSD.

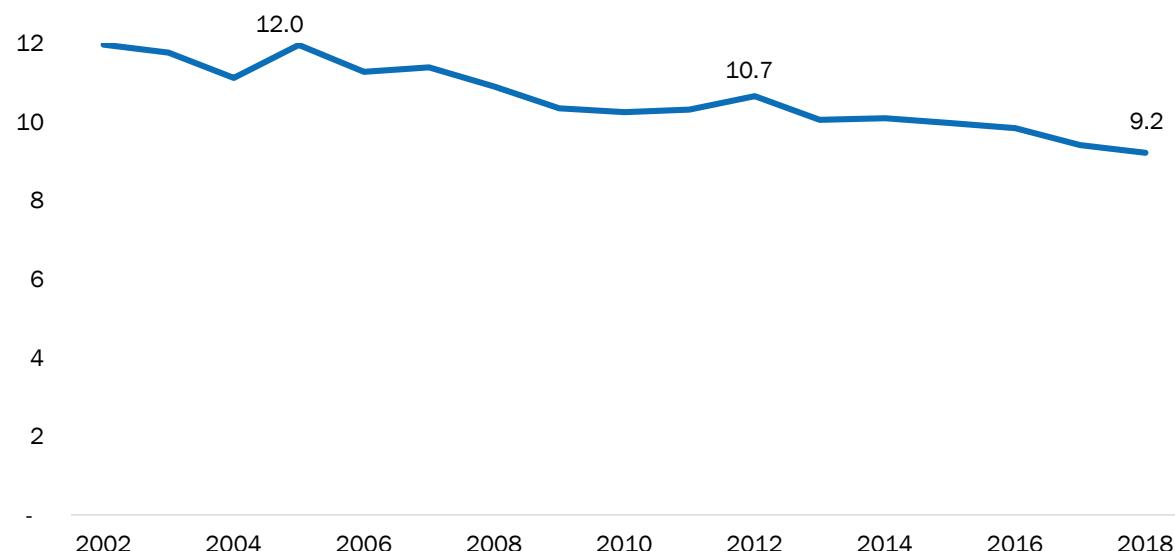
The August 2018 flooding in the city added to these financial pressures by highlighting the needs that remain. The mayor's capital budget would respond by providing \$4.7 million more in 2020 for flood mitigation across the city, though the overall spending on stormwater projects would be down from 2019. Spending on water and sewer utility projects would both rise in 2020.

One challenge to keeping up with the city's infrastructure needs for drinking water is the decrease in water use in the city, with the Madison Water Utility pumping about 23% fewer gallons in 2018 than it did in 2002 despite the growth in the city's population over those years. (See **Chart 11**.) This positive trend for the environment was largely driven by Madison residents using less water, though it also reflects the loss of large food processors such as dairies, the Oscar Mayer plant, and Bimbo Bakeries.

This ongoing trend does mean the water utility's costs are being spread over a smaller volume of water, even if the number of customers overall remains healthy. For example, the utility says the revenue from rate increases ends up falling short of what is approved by regulators because each year customers use fewer gallons of water than they did the year before.



Chart 11: Madison Water Use Falls (Billions of Gallons Pumped, 2002-18)



Sources: Madison Water Utility, City of Madison Comprehensive Annual Financial Reports

The water utility has made major investments in recent years and can point to accomplishments such as replacing pumping and treatment equipment and more than 100 miles of water mains since 2002^{xxvi} along with all the lead lateral lines leading to homes – a problem that still vexes Milwaukee and many other Wisconsin cities. These investments have come with higher rates, however. The water utility received approval for a 30.6% overall rate increase from state regulators in November 2018 and in July sought an additional 8% increase. The water utility is ranked 22-highest for residential rates out of the roughly 80 largest Wisconsin utilities.^{xxvii}

Borrowing has also risen. The water utility owed \$211.9 million plus interest on its bonds at the end of 2018, or nearly triple the \$74.8 million owed at the end of 2009.^{xxviii} Annual debt payments more than doubled over those years, rising to \$13.2 million in 2018 from \$6.1 million in 2009. Last month, Moody's Investor Service cited concerns about the water utility's finances as among the reasons for attaching a negative outlook to the city's otherwise enviable Aaa bond rating.

In approving the rate increase for the water utility in November 2018, state regulators at the Public Service Commission raised concerns about cost overruns on the utility's projects as well as its high debt load, which amounts to 78.1% of the assets used to provide water to customers rather than the 50% that state regulators would prefer.^{xxix} As a result, customers are paying for an 8% rate of return to the utility on its assets, significantly higher than the 5.1% rate favored by state regulators.

Borrowing and debt payments have also increased sharply for the sewer and stormwater utilities. To help them meet long term needs, the proposed budget includes a \$1.4 million increase in the sewer utility's reserves and continued funding of \$700,000 for watershed studies to inform investments in flood mitigation.



CONCLUSION

Madison has benefited from a period of prolonged growth and finds itself in a solid financial position overall. As a result, the recently elected mayor and the new arrivals on the city council have an unusual opportunity this fall to help shape how Madison will grow moving forward.

Challenges remain for the budget as they do for the city itself, from lagging state aid to Madison's reliance on property taxes that are capped by the state. As the city has expanded, concerns have mounted about the rise in racial inequality, the cost of housing, and municipal debt.

Not every one of these demands can be met at once. Given the city's relatively strong amount of new construction, Madison is able to raise its property tax levy more than most municipalities in Wisconsin. Yet even with this new revenue and the proposed vehicle registration fee, there will be sharp tension between calls to add to the police force, expand transit service, meet infrastructure needs, and hold down borrowing.

Amid all of this, city leaders also have to give thought to keeping Madison affordable for all of its residents. That may be particularly important in the case of costs such as the proposed vehicle registration fee as well as water and sewer fees, which will be paid by many low-income residents as well as those of means.

Leaders also need to consider what residents can support in terms of future obligations such as debt or unfunded pension or retiree health care liabilities, which the city has generally avoided over the past generation. If the city can continue to manage these commitments in a time of relative prosperity, it will pay dividends when more difficult times eventually arrive.

Compared to other cities in the state, Madison taxes and spends at relatively high levels. The city's growth has helped to support those higher levels and to an extent also adds to the need for them. The key is finding the right balance to sustaining the city's growth and service levels while keeping it affordable for its residents. The new mayor has put forward her vision for doing so and it is now up to the city council – many of whom are also new to their roles – to weigh in as well.



ENDNOTES

Here are some of the key sources used in this report in addition to city budget documents. In the accompanying charts, we generally used the data for all available years.

ⁱ Jobs data taken in August 2019 from the Quarterly Census of Employment and Wages:

<https://www.jobcenterofwisconsin.com/wisconomy/query>

ⁱⁱ Ibid.

ⁱⁱⁱ See the May 2018 issue of *The Wisconsin Taxpayer*: <https://wispolicyforum.org/research/promises-to-keep-unfunded-liabilities-improve-but-still-pose-challenge-for-many-cities/>

^{iv} For more on municipal revenues in Wisconsin, see here: <https://wispolicyforum.org/research/dollars-and-sense-is-it-time-for-a-new-municipal-financing-framework-in-wisconsin/>

^v For more on wheel taxes, see here: <https://wispolicyforum.org/focus/local-governments-turn-to-wheel-taxes-as-other-revenues-lag/>

^{vi} The state Department of Transportation collects and tracks local wheel taxes:

<https://wisconsindot.gov/Pages/dmv/vehicles/title-plates/wheeltax.aspx>

^{vii} Data on city and village spending in Wisconsin come from Municipal Finance Reports filed with the state Department of Revenue and can be found in the Forum's Municipal DataTool:

<https://wispolicyforum.org/research/municipal-datatool-examining-and-comparing-wisconsin-cities-and-villages/>

^{viii} All figures here from the city of Madison Finance Department except household income figures from the U.S. Census American Community Survey.

^{ix} This calculation involves comparing the unassigned general fund balance from the city's annual financial statements with the budgeted spending for the fund.

^x The mayor's proposed budget does not count on the proposed fee increase since it has not been approved. The effective increase would vary based on homeowners' water usage. This July 2019 Madison Water Utility statement describes the request: <https://www.cityofmadison.com/water/news/madison-water-utility-files-for-possible-rate-increase>

^{xi} The 2018-21 union contracts for police officers as well as supervisors can be found on the city of Madison's human resources page: <https://www.cityofmadison.com/human-resources/labor-contracts>

^{xii} In 2018, the value of property within TIF districts in Madison accounted for 2.9% of the city's total property values, or less than half the statewide average of 6.4% as noted in the February 2019 issue of *The Wisconsin Taxpayer*: <https://wispolicyforum.org/research/tax-incremental-financing-on-the-rise-how-do-municipalities-use-their-primary-development-tool/>

^{xiii} These figures were taken from the Statement of Indebtedness within the city budget rather than the city's financial statements to allow for better comparisons with the mayor's proposal.

^{xiv} See [Madison General Ordinances 4.17](#).

^{xv} These figures again come from DOR and can be found in the Forum's *Municipal DataTool* (<https://wispolicyforum.org/research/municipal-datatool-examining-and-comparing-wisconsin-cities-and-villages/>).

^{xvi} The September 2019 Moody's rating was announced here: https://www.moodys.com/research/Moodys-assigns-Aaa-to-Madison-WIs-GO-bonds-and-notes--PR_906035328

^{xvii} See Madison Police Report 2018 Patrol Staffing Report:

<https://www.cityofmadison.com/police/documents/PatrolWorkload2019.pdf>

^{xviii} The Madison Police Department's annual report can be found here:

<https://www.cityofmadison.com/police/documents/annualReport2018.pdf> and the state Department of Justice Uniform Crime Statistics portal is found here: <https://www.doj.state.wi.us/dles/bjia/ucr-offense-data>

^{xix} Fire and EMS spending figures also come from the *Municipal DataTool*. (See above.)

^{xx} 2014-18 labor contract between Teamsters Union Local #695 and Madison Metro:

<https://www.cityofmadison.com/human-resources/documents/contracts/Local695-2018.pdf>

^{xxi} UW-Madison professor Kurt Paulsen has written extensively on some of these issues for the Wisconsin Realtors Association in the recent report "Falling Behind": <https://www.wra.org/GovernmentAffairsHome/>



xxii Median gross rent as a % of household income as determined by five-year estimates from the American Community Survey.

xxiii See *Focus #18-2018*: <https://wispolicyforum.org/focus/paying-the-rent/>

xxiv American Community Survey median household income five-year estimates

xxv The 2015 Madison Public Works Contracting Disparity Study can be found here:

<https://www.cityofmadison.com/madisoncontractingstudy/documents.cfm>

xxvi See city of Madison financial statements, Operating Indicators by Function/Program:

<https://www.cityofmadison.com/finance/financial/>

xxvii The figures for the rankings come from the Public Service Commission and the ranking is for residential customers using 2,000 gallons of water per month.

xxviii Figures come from the annual financial statements for the city and water utility.

xxix Figures on the Madison utility debt load and rate of return and benchmark figures come from the final decision made by the Public Service Commission on the utility's rate increase from Nov. 1, 2018.

