

City Budget and Sales Tax

JUNE 26, 2023

Before ACT 12 Became Law Last Week...

- 2024 Budget Gap projected in January to be \$156M
- 2025 Budget Gap projected to be \$167M

- In May Cost-to-Continue Budget Requests Were Received

ACTUAL 2024 Budget Gap: \$183M

Therefore 2025 Budget Gap projection likely closer to \$193M

What Did ACT 12 change?

Fiscally, three big line items:

- 1) Immediate 10% increase in 2024 State Shared Revenue ~ \$21.7M
 - projected 3% increases annually in all subsequent years
 - 15% penalty if public safety staffing reduced
- 2) Opportunity to enact 2% sales tax in City ~\$190.2M
 - if 2/3 majority of Common Council supports *and* if CMERS soft closes to WRS through charter amendment
- 3) Shift to WRS's lower discount rate (6.8% vs. 7.5%) will cause annual pension costs to increase ~\$45M

What happens if sales tax is rejected?

- 2024 budget gap is \$183M
- The ~\$22M increase in shared revenue can only be assumed if there are no cuts to public safety
- The remaining \$161M gap could be filled with:
 - \$93M in remaining unallocated ARPA +
 - most of the \$80M in pension reserve

However, this then leaves no big options left for 2025

The 2025 Budget Without a Sales Tax

- Projected cost-to-continue gap of ~\$193M
- Only big option left to close that gap is drastic cuts to services which would likely be:
 - Laying off at least 700 out of ~1600 police officers
 - Laying off at least 250 out of ~700 firefighters
 - Laying off at least another 400 general city employees

Resulting service reductions would make routine and emergency city services unrecognizable to most residents

With the Sales Tax, Can we Close the Gap?

	2024 Request
Expenditures	\$1,016,861,704
Revenues	\$833,709,883
Difference	\$183,151,821
Additional Pension costs from ACT 12	\$45,600,000
2023 Pension catch-up	\$25,500,000
Revised 2024 Budget GAP	\$254,100,000

2024 Budget

	2024 Budget
Revised 2024 Budget GAP	\$254,100,000
Increase in State Shared Revenue	\$21,700,000
Available American Rescue Plan Act funding	\$93,000,000
Remaining GAP	\$139,300,000
Pension Reserve (intended to be spread over 5 years)	\$80,000,000
Sales tax Estimate (subject to recognition by Comptroller)	\$190,200,000

The Sales Tax allows us to close the 2024 gap while keeping the pension reserve in reserve for future years.

Projections for Future Budget Gaps if Sales Tax is adopted

	2024	2025	2026	2027
Current budget GAP*	\$183.0	\$193.0	\$203.0	\$213.0
Additional Pension costs from ACT 12**	\$45.6	\$43.9	\$43.2	\$42.4
Outstanding 2023 balance if paid in 2024***	\$25.5			
New GAP	\$254.1	\$236.9	\$246.2	\$255.4

Notes:

*'24 budget GAPS is real, '25-'27 are projections

**preliminary estimates from actuary using old data

*** includes 7.5% interest (~\$1.8M) on the \$23.7M that was not pre-paid

Preliminary 2024 – 2027 projection if Sales Tax is adopted

	2024	2025	2026	2027
New GAP	\$254.1	\$236.9	\$246.2	\$255.4
State Shared Revenue increase	\$21.7	\$28.9	\$36.3	\$43.9
ARPA	\$93.0			
Pension reserve (\$80 million total)		\$25.0	\$25.0	\$25.0
Remaining GAP	\$139.3	\$183.0	\$184.9	\$186.5
Estimated sales tax in 2024	\$190.2	\$190.2	\$190.2	\$190.2
Sales tax estimates in future years	\$190.2	\$195.9	\$201.8	\$207.8
Difference from 2024 baseline*	\$0.0	\$5.7	\$11.6	\$17.8

Note:

*Must be spent on increasing sworn strength up to a max additional annual cost of about \$23M