

# City Budget and Sales Tax

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JUNE 26, 2023

# Before ACT 12 Became Law Last Week...

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- 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?

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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?

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- 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

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- 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?

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

# 2024 Budget

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

**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 with pension soft close to WRS

	2024	2025	2026	2027
<b>Current budget GAP*</b>	\$183.0	\$193.0	\$203.0	\$213.0
<b>Additional Pension costs from ACT 12**</b>	\$45.6	\$43.9	\$43.2	\$42.4
<b>Outstanding 2023 balance if paid in 2024***</b>	\$25.5			
<b>New GAP</b>	\$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 sketch of how City could fill future gaps if Sales Tax is adopted

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

# Three Final Thoughts On Sales Tax Option

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- 1) Immediately removes our looming fiscal cliff
- 2) Stabilizes our pension obligations long-term
- 3) For the first time in over a generation, the City's major non property tax/user fee sources of revenue are not frozen – and will likely increase annually along with future spending/inflation