Issue: In preparation for the 2026 Budget, it is helpful to understand long-term revenue and expenditure trends for the General Fund.

Background: The 2026-2030 forecast was developed using the same methodology as the previous five-year forecast. Revenues and expenditures were grouped into like-categories and forecast assumptions were developed for each category based on historical data or known information such as the state budget. Those assumptions are applied to the 2024 Budget figures. It is important to emphasize that the forecast is policy neutral as it assumes the same services are provided with the same number of personnel and delivered in the same manner.

The model used to project the annual budget gap the City will face is for planning purposes. It is not meant to suggest that the City will not make any service changes, will deficit or will use fund balance. As in prior years, the budget will be balanced in each year. The model does not include any service level changes and does not assume what decision might be made to balance the budget. It does reflect the policy positions included in the Financial Resiliency policy as described below.

It is important to review the assumptions and sources for forecasted information.

Base Assumptions

- A 3.0% property tax levy increase for the operating budget and 0.5% for debt service for a total 3.5% property tax levy increase is assumed for 2026-2030. It is assumed the City loses its ability to exceed levy limit caps in 2030 and that there is $141 million in net new construction in 2028 limiting the 2030 operating budget property tax levy increase to 1.2%

Property Tax Levy Increase Assumptions

	Operating Budget Increase	Debt Service Increase	Total Increase
2026-2029	3.0%	0.5%	3.5%
2030	1.2%	0.5%	1.7%

- Per the State of Wisconsin Legislative Fiscal Bureau forecast, a 4.0% increase in State Shared Revenue and assuming the change in CPI thereafter. A 50% decrease in Expenditure Restrain Aid is assumed due to the growth in the City's property value. Other State and Federal revenue are assumed to be flat over the five-year period

- There is no assumed utilization of the America Rescue Plan federal funds set aside for budget stabilization.

- Inflation assumed to be 2.4% in 2026 and 2.3% in 2027 and 2028 and gradually decrease to 2.2% by 2029 based on Congressional Budget Office forecasts.

- Assumed use of General Fund Surplus remains $0.

- Annual cost of living increases in each of the five years based on inflation and current labor agreements. Typically the budgeted cost of living increase is based on the May over May change in the Consumer Price Index which is estimated to be 2.5%. Given prior year's inflation that exceeded cost of living increases, this was rounded up to 3.0%. We are out of contract with the Fire Union as of 12/31/23 and with the Police Union as of 12/31/26 so CPI projections were rounded up to the nearest whole number to be used as estimates.

- Pension contributions decrease .05 percentage points for employees and for the City. This is due to an increase in the 5-year investment returns earned by the Wisconsin Retirement Fund.

- Debt service based on 10-year capital spending reflected in 2025-2029 capital plan. Debt amortization continues to transition to a 15-year debt schedule as compared to a previous 10-year.

- Energy and fuel increases based on Department of Energy's 2024-2028 forecast assuming 2024 budgeted consumption.

- Building permit activity based on an approximate 12-year average of $145,000,000 of construction activity.

- Interest earnings based on current portfolio size adjusted for known changes (such as the utilization of American Rescue Plan funds) and current portfolio earnings rate. Future interest rates based on the Congressional Budget Office Treasury bill forecast.

- Assume 2024 municipal citation levels with no increase over five-year period.

- Parking enforcement returns to pre-COVID levels with 14,000 estimated tickets for 2025. Assume a 2% annual decrease thereafter as enforcement drives compliance. Also assume a 10% increase in fees in 2027 and a 5% every 5 years thereafter.

- Assume 305 monthly billable ambulance runs in 2025 based on 2024 through present activity and a 1.5% increase thereafter. Also assume 2024-2025 year-to-date average reimbursement rate per trip for 2025 with a 10% assumed increase in 2025 due to the GEMT program and a 2% increase Medicare rate increase thereafter.

- No change in number of hotel rooms. Assume 2024 actual average tax revenue per room adjusted for 2025 based on running 12-month Average Daily Rate and Occupancy (RevPar) change. 2026-2030 annual change based on CPI.

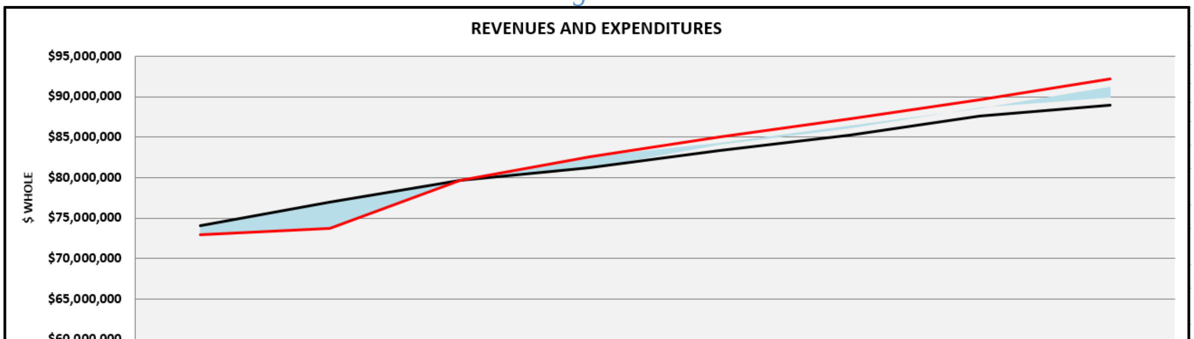
Figure 1 shows a comparison between the 2026-2030 and 2025-2029 forecasts. The new forecast shows a total 5-year gap of $3.3 million or approximately a 45% improvement over the prior five-year forecast. This improvement is largely driven by a 0.5% percentage point increase in the property tax levy in 2026-2029.

Figure 1

	2025-2029	2026-2030
2025	(2,956,442)	-
2026	(480,586)	(1,450,224)
2027	(797,339)	(231,139)
2028	(640,071)	(299,274)
2029	(1,145,593)	37,015
2030		(1,349,117)
TOTAL	(6,020,031)	(3,292,739)
		-45%

The five year-forecast demonstrates the persistence of a structural deficit that will continue to threaten service levels. This deficit is depicted in Figure 2.

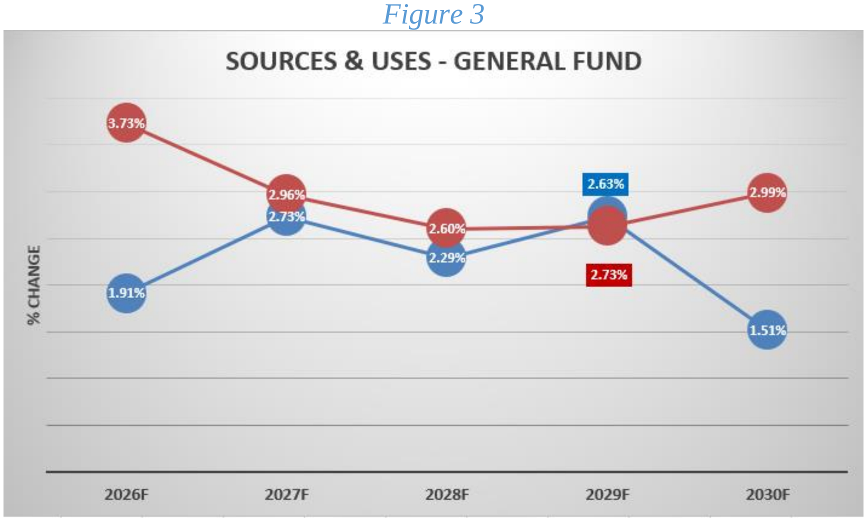
Figure 2



	2023	2024	2025	2026	2027	2028	2029	2030
VARIANCE	1,096,500	3,248,460	(0)	(1,450,224)	(231,139)	(299,274)	37,015	(1,349,117)
VAR BASE	72,991,285	73,733,661	79,653,637	82,625,422	84,349,235	86,445,501	88,588,877	91,282,296
BASELINE REV	74,087,785	76,982,121	79,653,637	81,175,198	83,392,984	85,305,545	87,635,573	88,961,368
BASELINE EXP	72,991,285	73,733,661	79,653,637	82,625,422	85,074,347	87,286,182	89,579,195	92,254,107

Over the five-year period, expenditures grow on average 3.0% (up from the 2.5% from the prior forecast) while revenues are growing 2.2% (up slightly from 2.1% in the prior forecast) resulting in a 0.8% percentage point differential as shown in Figure 3. It is important to explain that while a five-year period is shown here, the gap would continue if additional years were shown. The only way to permanently fix the gap is to change the trend lines themselves - increase revenue growth, limit expenditure increases or preferably, a combination of both.

Figure 3



As a result of the differential between revenues and expenditures, the City will face an annual budget gap. If fund balance were simply used each year to balance the budget, the gap would grow to $3.2 million by 2030 and unreserved fund balance would drop from $13.4 million in 2024 to $6.5 million by 2030 as shown in Figure 4. As a result, it is imperative that the budget gap is addressed each year through sustainable changes as the City has successfully done in prior years. A balanced approach is recommended that focuses on expenditure reductions, revenue increases and economic development that grows the property tax base.

Figure 4

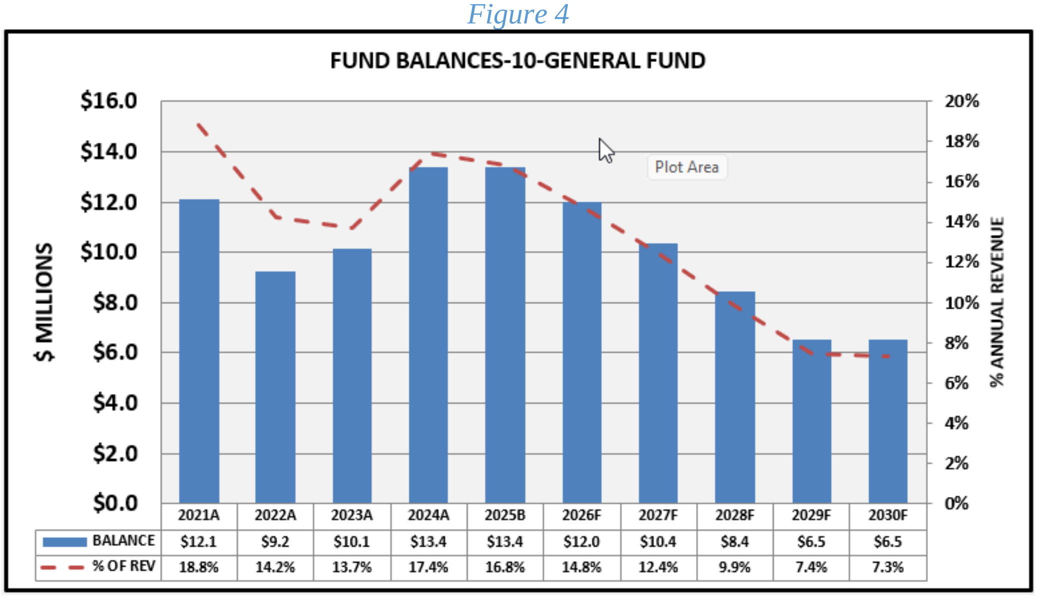
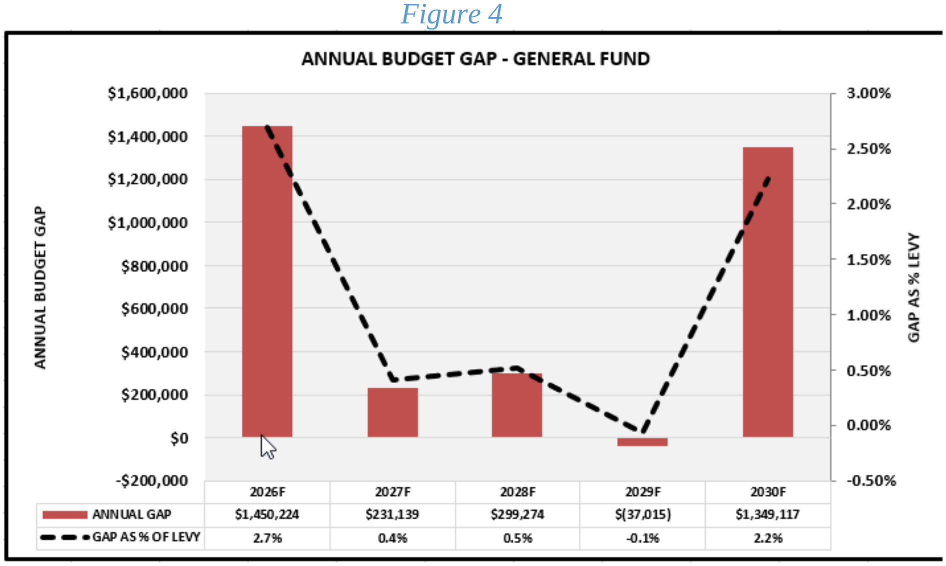


Figure 4 shows the annual forecasted budget gap. If sustainable changes are implemented, it represents the annual budget gap and it ranges from a balanced budget (2029) to a 2.7% deficit as a percentage of total property tax levy. While this may not seem significant it is important to consider that the City has been actively reducing costs since 2002.

Figure 4



It is illustrative to look at the 2026 gap to understand the main drivers of the structural deficit.

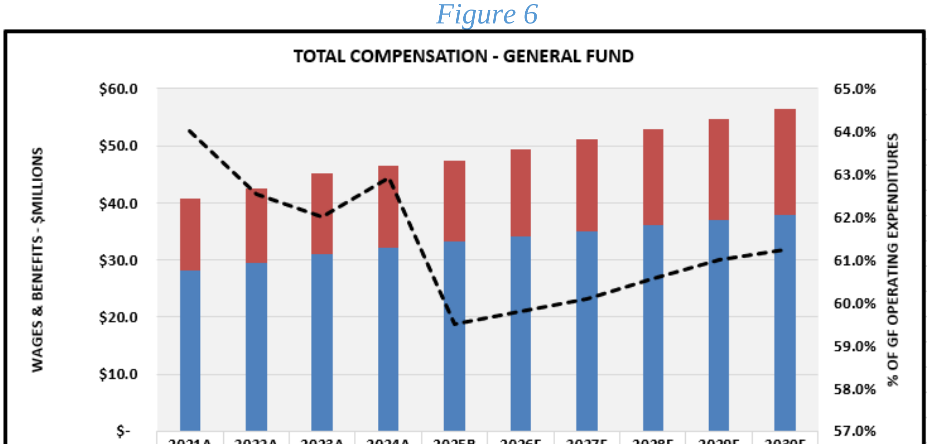
Expenditures
Compensation
An assumed cost of living increase is built into each year of the model as well as assumptions related to fringe benefits. In total, wages are expected to increase 3.1% which totals $1.0 million. This includes an assumed 3.0% cost of living increase for non-represented employees and a contractual increase for the police union that is estimated at 3.4%. It is important to note that the forecast assumes that step increases (the annual increase in pay that employees earn) are budget neutral; funded through natural turnover, the salary differential between the higher paid incumbent versus the lower paid new hire. However, it is likely in 2026 or 2027, step increases in the police department will not be budget neutral. This is due to the higher than normal amount of turn over and is not included in the forecast.

In 2026, health and dental insurance costs charged to the general fund increase 9.9% due to an assumed 5.3% increase in health care claim costs and a 9% stop loss excess insurance increase. This accounts for $763 thousand increase in expenditures. Employees are assumed to continue to contribute 15% of total premium. Pension and social security costs will increase along with salary; however, that increase is mitigated to 2.9% by an assumed reduction in the employer pension contribution rate (which is equal to the employee contribution) from 6.95% to 6.90% for general employees. Due to multiple factors, there is a different employer contribution rate for police and fire but this rate too is assumed to decrease by 5 percentage points. This is due to above assumed interest earnings over the past five years by the Wisconsin Retirement System. In addition, worker compensation costs are assumed to increase at the rate of healthcare inflation.

In total, benefit costs will increase $970,000 or nearly 7 %.

As a result, when including all of these changes, compensation increases 4.2% in 2026 for a total of $2.0 million as shown in Figure 6 and compensation as a percentage of operating expenditures begins to grow. To put this in perspective, the City will receive a decrease of $206,383 in State Shared revenues. Act 12 passed in 2024 by the State which was acclaimed as a generational increase in state shared revenue did not fundamentally change how broken local government funding is in the state of Wisconsin.

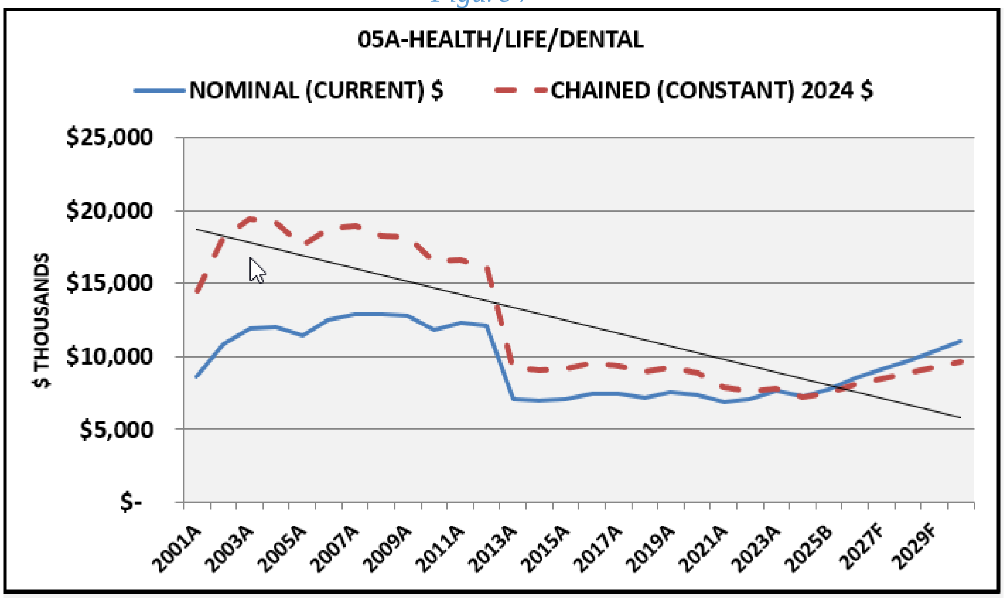
Figure 6



	2021A	2022A	2023A	2024A	2025B	2026F	2027F	2028F	2029F	2030F
BENEFITS	$12.6	$13.0	$14.3	$14.2	$14.3	$15.2	$16.0	$16.8	$17.7	$18.6
WAGES	$28.2	$29.4	$31.0	$32.2	$33.1	$34.2	$35.1	$36.0	$37.0	$37.9
% OPEX	64.0%	62.5%	62.0%	62.9%	59.5%	59.8%	60.1%	60.6%	61.0%	61.2%

The City has aggressively managed healthcare costs through plan design changes, including changing its third-party administrator in 2008, moving to a high deductible plan in 2012, opening an employee clinic in 2016 as well as cost and risk-sharing with employees including changes to deductibles in 2018 and most recently, migration to a narrow network in 2024. In addition, a pension contribution was implemented in 2011. This can be seen in Figure 7 as the cost of health and life insurance in the general fund (the property tax impact) on an inflation adjusted basis is less in 2025 than it was in 2002 despite southeast Wisconsin having the some of the highest medical inflation rates in the country, typically exceeding 10%. However, the five-year forecast does not assume that the City will be able to maintain this historical experience.

Figure 7



Debt Service

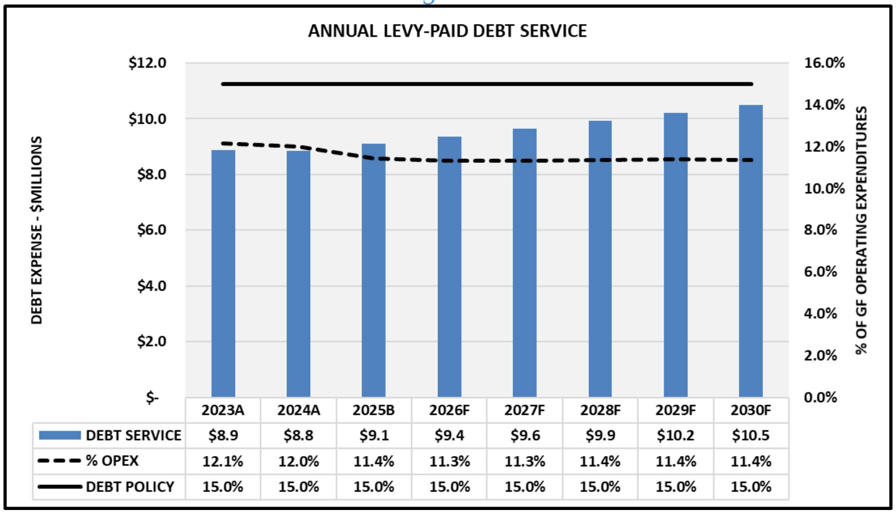
As discussed in prior reports and presentations, debt service will continue to increase as the City expands its capital improvement plan to address deferred maintenance and flooding. As part of this plan, levy-paid debt service (e.g. excluding sewer, water and TIF debt) is estimated to increase in 2026 by approximately $197,857 or 2.2% increase from 2025.

Prior forecast included debt service increases in the 5-7% range. The reduction is the result of utilizing $950,000 annually of property taxes generated by the portion of the hospital complex that became taxable in 2022 to cash finance capital (and borrow less). Should the hospitals be successful in their appeal of that decision, the City would have to replace this cash financing with borrowing.

The impact of this expense over the course of the forecast is based on the borrowing necessary to support the implementation of the 2025-2029 capital budget and is shown below in Figure 8. Increases have been limited to an approximate 1.0% property tax increase per year prior 2022 at which point it transitioned to 0.5% due to the additional revenue described above.

The forecast remains under the City's stated policy maximum of 15% debt service as a percentage of operating expenditures. Debt service for capital spending is expected to peak in approximately 2037 for levy funded capital assuming current capital spending. It should be noted however, that current capital spending insufficient for the City to adequately maintain its roads and buildings.

Figure 8



	2023A	2024A	2025B	2026F	2027F	2028F	2029F	2030F
DEBT SERVICE	$8.9	$8.8	$9.1	$9.4	$9.6	$9.9	$10.2	$10.5
% OPEX	12.1%	12.0%	11.4%	11.3%	11.3%	11.4%	11.4%	11.4%
DEBT POLICY	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Revenues

As discussed above, revenue growth is not keeping pace with expenditures. This is largely due to reliance on the property tax levy, which will make up 66% of general fund revenues in 2026, and revenue shortfalls in other areas that will be described below.

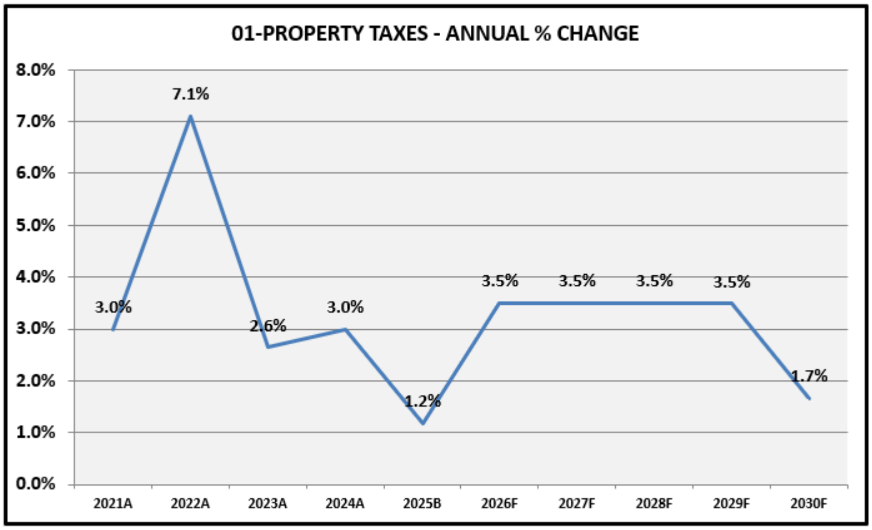
For purposes of the forecast, property tax growth is assumed to equal 3.0% from 2026 through 2029. As described above, it is assumed we exhaust our excess levy capacity in 2029 and are limited to our net new construction growth percentage. Figure 9 below shows the projected annual changes.

2022 was high due to the utilization of additional levy produced by the change in tax exempt status of approximately 40% of the hospital campus. The additional levy was used to:

- Create an annual cash financing contribution towards capital
- Reduce the County Fire Contract payment
- Fund a Human Resources Organizational Development Specialist
- Establish an annual affordable housing contribution to the Community Development Authority
- Mitigate future risk from a successful property tax appeal or legislative change

2025 was low due the replacement of personal property taxes with state aid.

Figure 9



Per the Fiscal Resiliency policy, this revenue growth will be achieved through net new construction, carryover or excess debt capacity. However, based on the levy increases shown below, it is important to emphasize, that absent changes in state law, the City will not be able to indefinitely increase the levy above net new construction. The table below, shows when the City's "excess capacity" might be exhausted depending on levels of net new construction achieved.

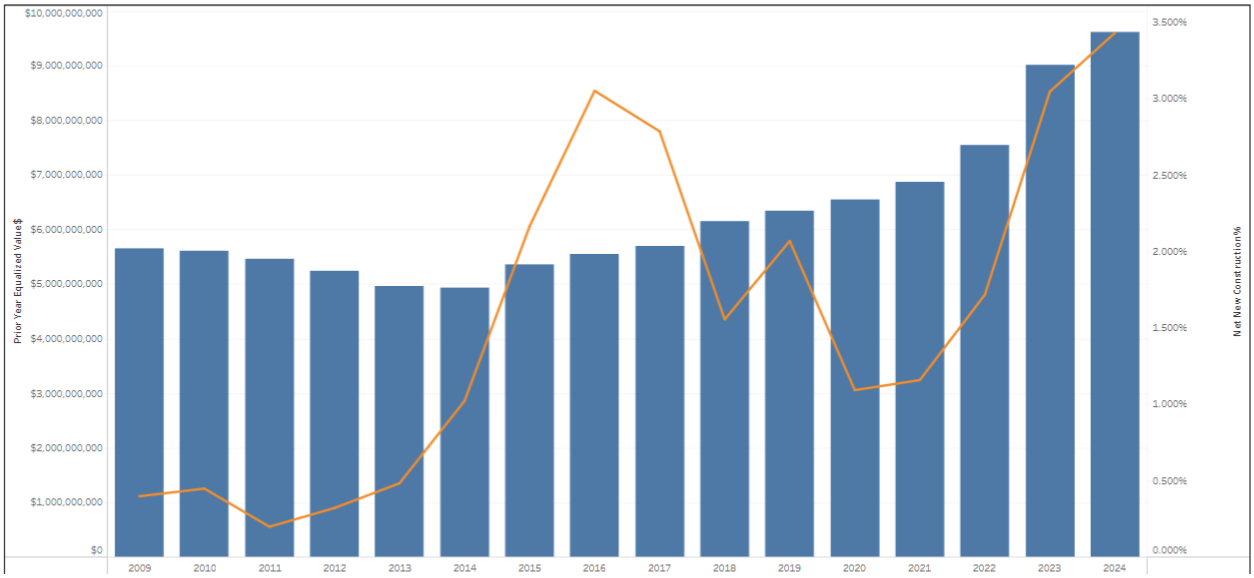
Figure 10

Years of Levy Capacity Available Assuming 3.0% for operations:		
Net New Construction as % Property Value	Years	
0.50%	2.18	
1.00%	2.72	
1.50%	3.63	
2.00%	5.44	

** Assumed levy % for operations:*	*3.00%*
** NNC avg 2014-2023*	*2.21%*
** NNC avg prior 5 years*	*2.09%*

For purposes of forecasting, it is assumed the excess capacity is used up in 2028 after which the City will only be able to raise the levy by the amount of net new construction plus the increase for debt service, absent a referendum or change in state law. The table below shows the historic amount of net new construction in the City. From 2009 to 2024, the annual average was 1.6% but ranged from .20% to 3.43%. As more redevelopment opportunities are realized, achieving higher rates of net new construction becomes increasingly difficult.

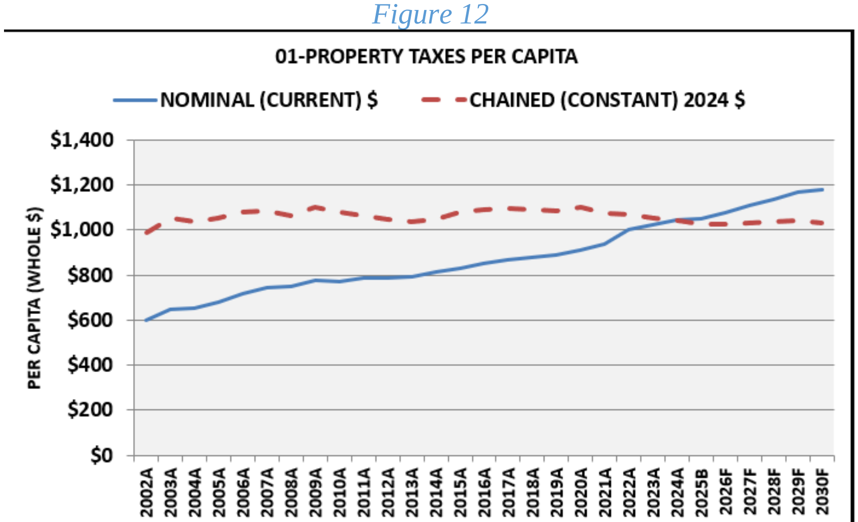
Figure 11



From State of Wisconsin Department of Revenue, Division of Research and Policy - https://public.tableau.com/app/profile/research.policy

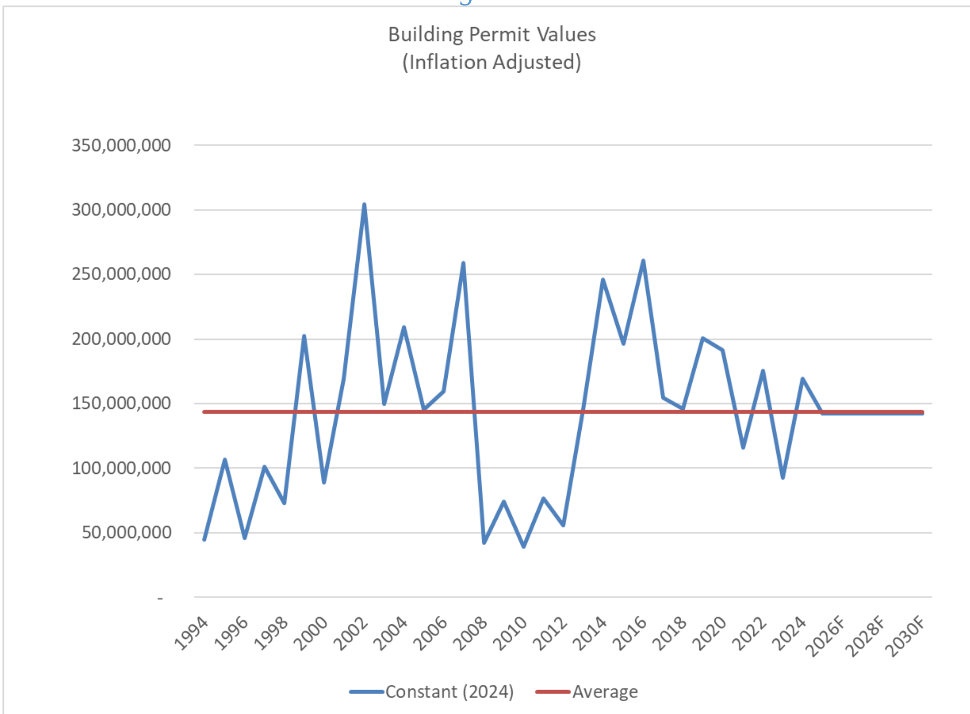
Figure 12 shows the levy adjusted for inflation per capita. On an inflation adjusted basis, the amount of property tax levy per capita is forecasted to be $1,028 in 2026 as compared to $991 in 2002. From 2002 through 2026, the compound annual growth rate adjusted for inflation is 0.2% despite a significant increase in calls for service across almost all areas.

Figure 12



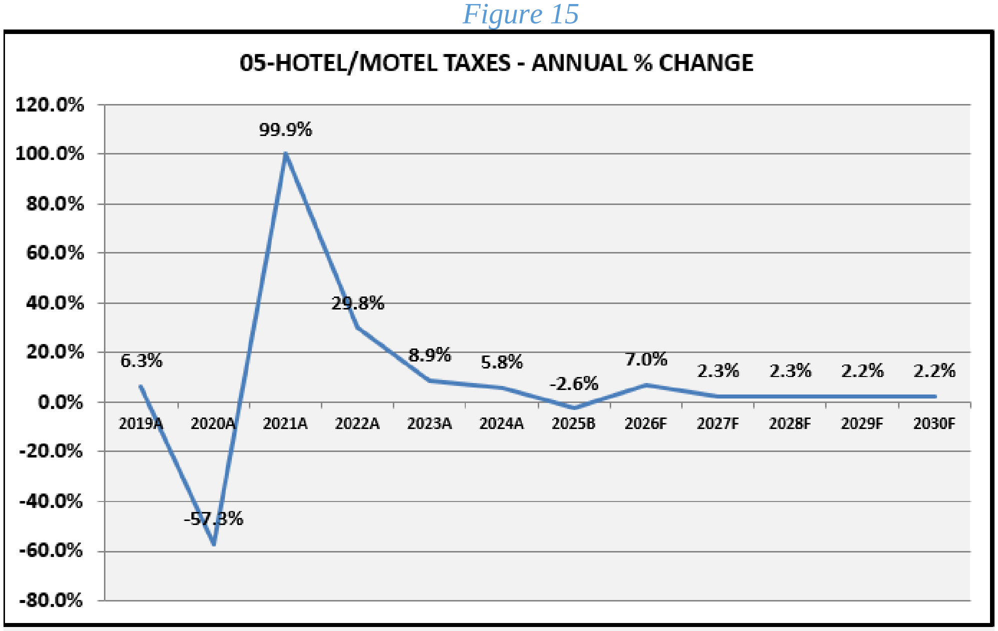
Building permit construction value is a predictor of subsequent years net new construction and the health of the local economy. Figure 13 depicts this activity since 1994. 2024 was above the historical average but the 10-year trend is certainly a decreasing one.

Figure 13



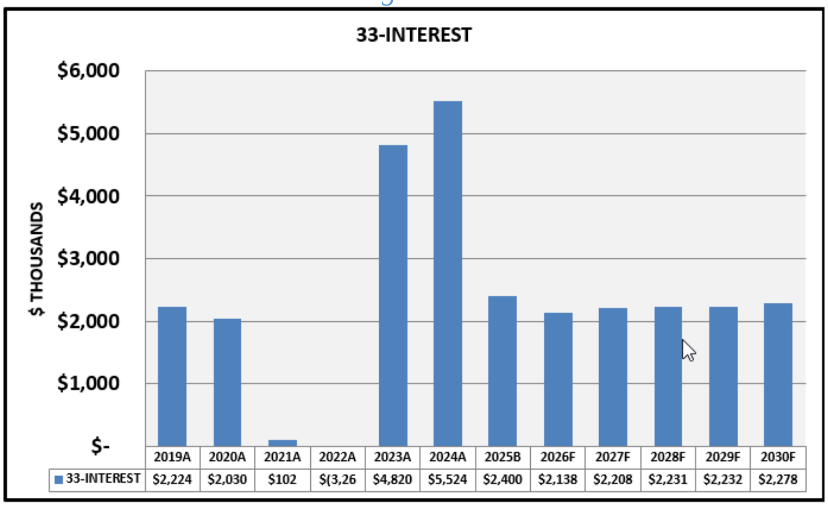
Only 30% of Hotel/Motel tax revenue increases go to the General Fund. However, hotel motel revenue is a good indicator of the health of the local economy and the Tourism Commission's programing depends on this revenue. Hotel/motel tax revenue suffered a 57% decrease in 2020 after 3 successive years of increases. It enjoyed a strong recovery through 2024 putting us above pre-COVID revenue numbers; however, that recovery appears to have waned and future years show much slower growth.

Figure 15



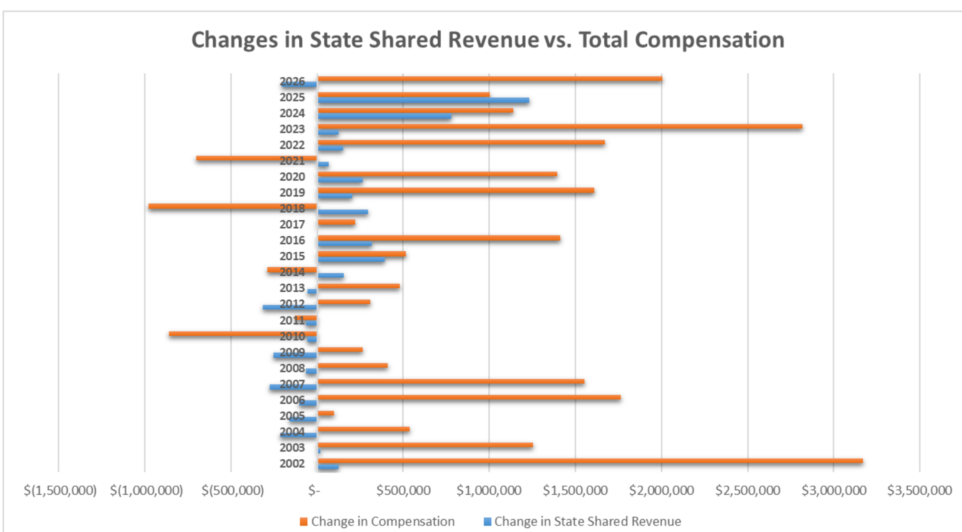
To combat inflation, the Federal Reserve rapidly increased interest rates from 2022-2024 years. In addition, the City's average cash balance increased, temporarily, due the American Rescue Plan Funds which were disbursed to the City in 2021 and 2022 and are being spent down through 2026. As a result, a rapid rise in interest earnings occurred as shown below resulting in revenue levels not seen since prior to the Great Recession. However, we are projecting that the City will earn 11% less in 2026 largely due to a $10 million reduction in the amount invested. This results in a general fund reduction of $262,000 – a contributor to the 2026 budget gap.

Figure 16



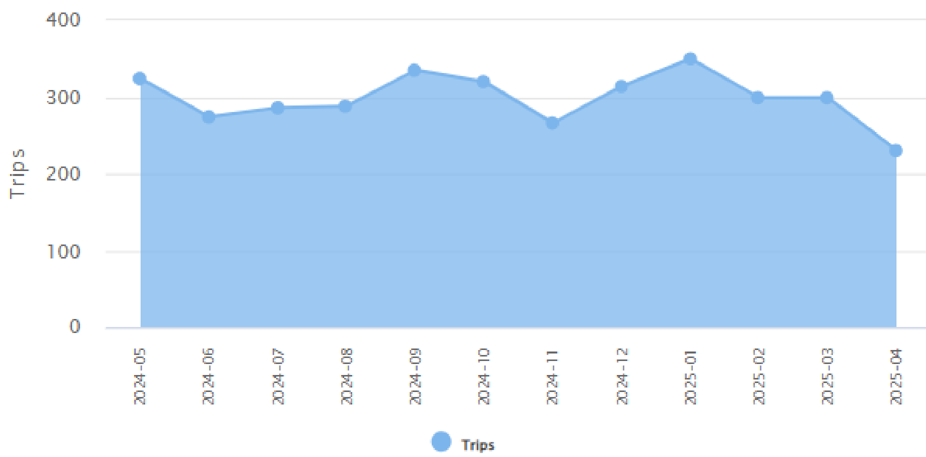
Reductions in state aid are another contributing factor of the 2026 budget gap. Expenditure Restraint Aid is projected to decrease $281,987 due to increases in the City's property value. This is slightly mitigated by assumed growth in State Shared Revenue due to state-wide sales tax growth. Overall, state shared revenues are expected to decrease 2.6%. As shown in Figure 17, there has only been one year since 2002 that change in state shared revenue exceeded the increase in compensation and that year is not a fair comparison since the increased aid offset lost property tax revenue.

Figure 17



The final contributing factor in the 2026 Budget Gap are ambulance fees which are projected to decrease by 15% reducing total revenues by $271,756. This is due to a 10% decrease in 2024 of billable ambulance trips which appears to be a permanent reset as we are averaging 305 trips per month over the most recent 12.

Figure 17



Balancing the Forecast

The Financial Resiliency Policy directs us to provide strategies for balancing the five-year forecast. Staff propose the following:

TO BE PROVIDED AT A SUBSEQUENT MEETING

Recommendation:

While this report is for informational purposes only, it is important that City staff and the Financial Affairs Committee take the long-range projections into account when making decisions for addressing the 2026 Budget.

As in the past, the City's goal is to focus on strategic budgetary changes as opposed to indiscriminate line-item adjustments. It is also important to emphasize that despite facing budgetary challenges, the City is an excellent financial condition with adequate reserves and an excellent record of strong financial management practices.

However, it is extremely important to note a fiscal cliff is approaching due to the assumed exhaustion of excess levy capacity. Whether or not this happens in 2030 as forecasted is uncertain, but without a change in state law or community approval of a referendum, it is certain we will eventually face this precipice despite increased state aid. The detrimental impact on service levels cannot be understated.

Staff will develop the Executive Budget based on the assumptions included in this report so we do request feedback on those key assumptions, in particular levy increases, cost of living adjustments' and the strategies for balancing the forecast.