



# WISCONSIN POLICY FORUM

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## **Pandemic Recovery Helps Avoid Major Cuts, Expand Offerings in Madison's 2023 Budget** *Rising debt, lagging transit ridership are points of concern in future years, when federal aid is spent*

The proposed 2023 city of Madison budget offers mostly good news for city services, with few cuts and a range of new offerings, made possible by the city's ongoing recovery from the COVID-19 pandemic, robust pace of development, and use of federal aid.

Compared to the stark financial problems facing leaders in Wisconsin's biggest city, Milwaukee, their counterparts in the state's second-largest city are in an enviable position, according to the Wisconsin Policy Forum's annual brief examining Mayor Satya Rhodes-Conway's proposed budget.

Yet problem spots are emerging on the horizon, raising the prospect of substantial budget shortfalls in 2025 and beyond, when the city will no longer have access to federal pandemic aid dollars and expenses are expected to outpace revenues.

"We find a city with largely healthy finances, including a strong local economy, robust reserves, high service levels, (and) modest liabilities," the brief reads. "At the same time, however, we see some cause for long-term concern."

Issues to watch include rising debt levels and debt service costs, fueled by record borrowing levels in this budget, and a transit system that is proceeding with a significant expansion while its ridership is still lagging pre-pandemic levels.

High inflation and a tight labor market loom large, making it harder to attract and retain city employees. Inflation also heightens the city's challenge of serving a growing population, with its revenues from local property taxes and state aid being limited by state-imposed policies.

Including both the city's general and enterprise funds, the mayor's proposed 2023 operating budget would total \$729.4 million, an 8.5% spending increase. The city's general and library funds – its main vehicles for funding city services – would total \$381.9 million, a 6% increase.

Despite state limits on local property taxes, a combination of factors permits the mayor to propose a 5.5% property tax levy increase, the largest since 2009. The factors include the city's strong rate of net new construction – the rate to which property tax levy increases for operations are generally limited under state law – rising debt payments, and the annexation of part of the town of Madison later this month. The average city home owner would see a 4% increase in their tax bill. Notable increases in fees, including for sewerage and water, also are proposed.

Here's a look at five keys to the budget:

- **Borrowing and Debt Payments Grow:** The proposal draws on \$181 million of new general obligation borrowing – a record amount in nominal terms, and a 25.7% increase over 2022. In 2023, payments for debt would increase by 10% to \$61.6 million, making them the third-largest item in the city’s operating budget after police and fire. Debt payments would account for 17% of the city’s general fund spending, near the all-time high set in 2019. Under the proposal, this share is projected to rise to 20% by 2029. The increase matters because it means that debt payments may be starting to crowd out the city’s other budget priorities.
- **Budget Would Add City Workers and Raise their Pay:** At a time of relatively high employee turnover, the proposed budget would increase wages for city employees and expand their ranks. It would create 76.6 new full-time equivalent (FTE) positions, increasing the total from 3,010.3 in the 2022 adopted budget to 3,086.9. The new positions would be for transit services, reproductive services, services to the newly annexed town of Madison, and public safety services within and outside the Madison Police Department. With competition for workers fierce as state and local employees leave their jobs at record rates, the budget proposes giving all city employees a \$1,000 one-time bonus and a 2% cost-of-living increase, and an additional 1% increase for general municipal employees.
- **Transit Outlook Brings Promise, Pitfalls:** After cratering during the worst of the pandemic, Madison Metro Transit ridership has risen but remains below pre-pandemic levels. Work-from-home policies may reduce weekday commuting and depress transit use permanently, or at least for some time to come. The city hopes to boost ridership through ambitious plans to add two bus rapid transit (BRT) routes offering residents rapid trips across Madison, with capital projects occurring in 2023 and service rolling out in 2024. But doing so while sustaining the city’s other transit services could prove challenging – especially after the last of federal pandemic aid for transit is spent in 2023.
- **Police Department Facing Higher Turnover:** The budget proposes a general fund spending increase for the Madison Police Department of only 1.3%, though state and federal grants would provide some additional funding and staff. An additional factor is that a higher rate of turnover has lowered spending within the department, at least in the near term. Turnover has reduced salary costs because fewer officers are temporarily on the city payroll and because newer officers typically enter at lower pay ranges. Though helpful for the city’s budget for now, a high vacancy rate and rapid turnover may impact public safety or other aspects of the department’s work and may put upward pressure on wages in the future.
- **Room Tax and Parking Revenues Finally Recovering:** When the pandemic hit in 2020, collections from the city’s room tax on lodging plunged by 69% from 2019, one of the steepest drops in the state. Though the city’s travel industry is recovering, a significant share of it depends on business travel – and as a result, the city’s hotel industry and tax collections have taken longer to rebound than most other communities. Room tax revenues are finally projected to return to roughly pre-pandemic levels in 2023. This should allow the city to return its spending on tourism to pre-pandemic levels while shifting away from federal COVID-19 aid and other one-time funding that supported these programs during the pandemic.

[Click here to read the Forum’s brief on the city of Madison’s proposed 2023 budget.](#)

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