

BUDGET BRIEF

CITY OF MADISON

2027 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 budget for the city of Madison. We hope that policymakers and community leaders will use the report's findings to inform discussions during ongoing budget deliberations.

Report authors would like to thank officials and staff from the city of Madison Finance Department, Madison Metro Transit, and city agencies for their assistance in providing information on the budget and the city's finances and operations.

Finally, we wish to thank the Northwestern Mutual Foundation for supporting our local government finance research, and JP Morgan Chase and the Evjue Foundation, the charitable arm of The Capital Times, for their support of our research in Madison.





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City of Madison 2027 Mayor's Budget

October 2026

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INTRODUCTION

Two years after Madison voters approved a [\\$22 million tax increase](#) for the city in a referendum, the city's finances remain relatively solid. Mayor Satya Rhodes-Conway's 2027 budget proposal reflects that stability, keeping the increase in the city's property tax levy to roughly the recent rate of inflation while limiting most service cuts and adding in some new elements to the city's budget and programs.

With the help of a \$350,000 grant from the Madison Community Foundation, the budget would fully implement body cameras for most police officers, provide raises for city employees and some new positions, and fund an ambulance company and new northeast side library. The city also would maintain ample reserves that provide more than enough cushion to protect citizens and taxpayers from unforeseen events.

The city also benefits from rates of new construction that generally outpace the state average, low unemployment rates in Dane County, and a relatively strong economy. For a Midwest city in 2026, Madison remains in an enviable position.

However, the city's budget is showing some signs of pressure. Relatively rapid growth in spending and tight limits on local revenues are likely to open up gaps in future budgets. Once again, the 2027 proposal would tap reserves to help balance the city budget and make an even greater use of them in future years. The city did not have enough funding in this budget to fully cover a shortfall for Madison Metro Transit, which faces its own disparity between its slowly growing revenues and rising costs.

Funding existing services is challenging enough, making it difficult for Madison to fund new initiatives to address the emerging pressures on services in a city that has grown by approximately 4,000 people per year since 2020. As a result, the city's resources have been spread across a growing number of residents.

To their credit, city officials have put forward a multi-year plan for eliminating the budget shortfalls that are expected to grow each year, drawing on a mix of new fees, curbs on spending, and the use of reserves to maintain services. However, the plan is for now just that and could face a range of hurdles, including objections to the new fees.

As we do each year, we have put forward this budget brief to shine a light on the city's finances and the mayor's proposal for the upcoming year. As with all of our reports, the Wisconsin Policy Forum does not intend with our brief to endorse or oppose any part of the mayor's proposal. Instead, we hope our analysis provides insights for city residents and Common Council members and enhances their understanding of the fiscal challenges and opportunities facing the city. In so doing, we aim to contribute to an informed debate about the vital decisions that lie ahead.



HOW THE BUDGET IS BALANCED

The mayor's budget proposal seeks to cover the rising cost of city services while still limiting tax and spending increases to avoid triggering a penalty in state law that would result in lost state aid. As Figure 1 shows, the budget would provide about \$25 million in additional funding over the 2026 adopted budget to cover about the same amount in growing expenses.

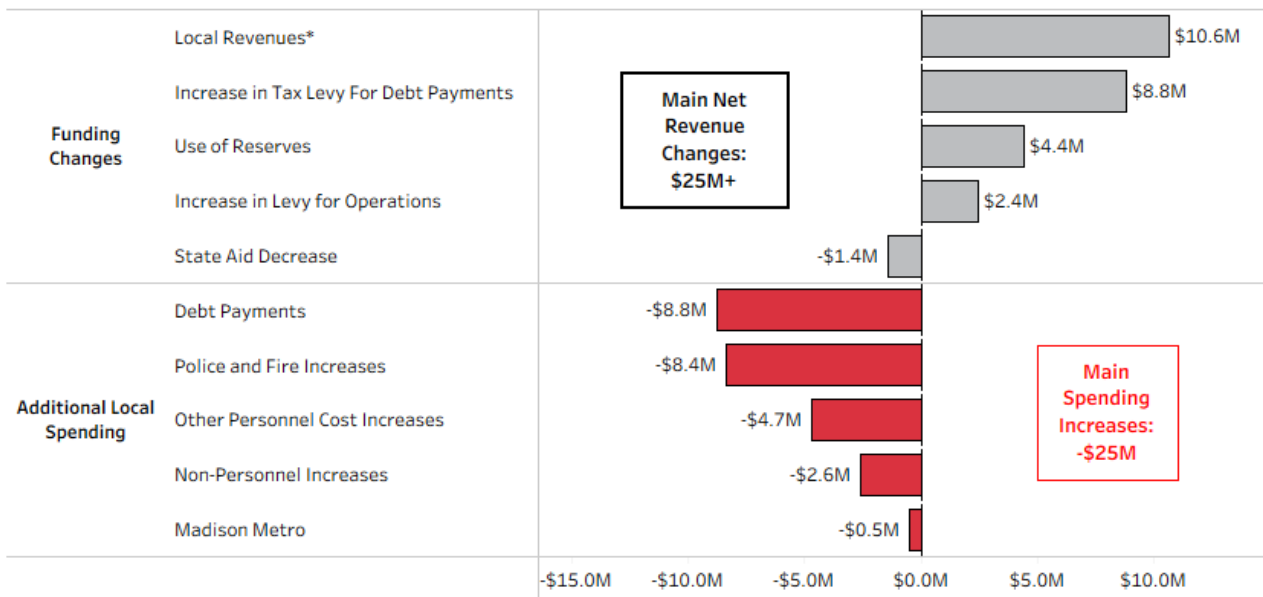
The single biggest budget pressure for the city comes from rising labor costs – those would include a 3% raise for city workers, increasing health care rates, a handful of new positions, and the need to fully fund positions that were added in the middle of 2026 (see page 10). Spending growth would be concentrated in public safety, with the fire and police departments receiving notable increases. Other major cost drivers include debt payments and city services such as software.

City revenues and spending remain under tight state limits, as evidenced by the modest \$2.4 million increase in the city's proposed tax levy for operations (see page 7). Also of note is the projected growth in general fund revenues from other local sources. These include \$4.6 million in additional reimbursements for ambulance fees, and \$3.4 million in increased investment earnings and interest. The budget would also include a \$1.3 million increase in the transfer from the city's room tax fund. The proposal also would apply a 0.75% reduction to all general and library fund agencies for \$2.8 million in savings, limit new funds being transferred to Madison Metro Transit to \$530,000, and rely more heavily on using city reserves to close the gap than in 2026, withdrawing \$6.6 million.

City leaders will likely have a more difficult time balancing future budgets, as the growth in costs continues to outstrip revenues (see Key #4). An important issue to watch for the future is a state limit on the growth in city spending that can affect a special source of state aid (see page 7).

Figure 1: Property Tax and Fee Revenue Growth Cover Spending Increases and Loss of Aid

Select funding and spending increases in mayor's 2027 budget proposal compared to the 2026 adopted budget



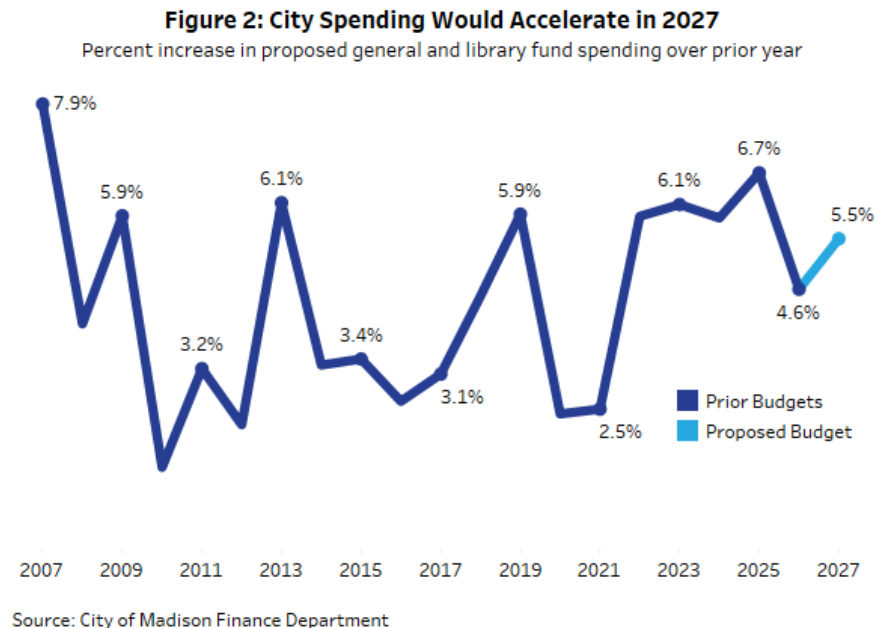
Source: City of Madison Finance Department *Includes \$4.6M in ambulance fees, \$3.4M in investment earnings, \$1.3M room tax transfer, and other revenue.



PROPOSED BUDGET OVERVIEW

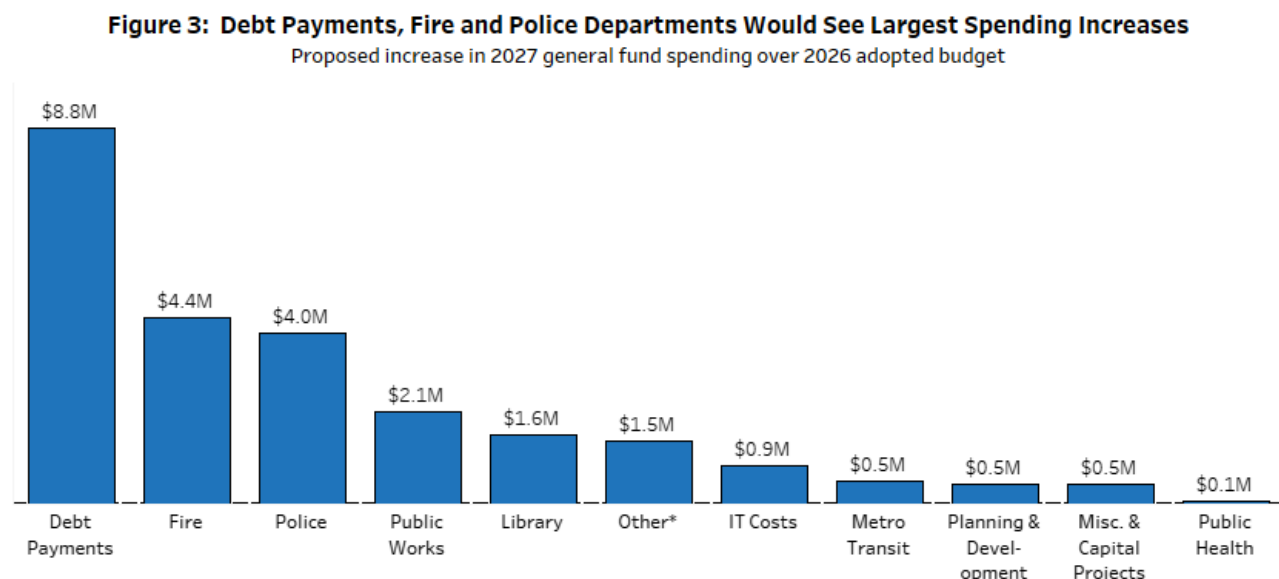
Growth in Spending Would Accelerate Slightly

The mayor's budget proposes general and library fund spending of \$477.5 million, which would be an increase of \$24.8 million, or 5.5%, over the 2026 approved budget. As Figure 2 shows, this would not be the largest recent increase in city spending but it would be more than last year's budget and the rate of inflation and would mark the sixth year in a row with growth in general fund spending of 4.6% or more.



City leaders might have raised spending by more if not for a state law that seeks to limit such increases. For the second year in a row, the budget would curb spending growth to avoid triggering a penalty in that law that reduces state aid to municipalities.

The proposed spending increases, shown in Figure 3, would include:



Source: City of Madison Finance Department. *Other includes administration (minus IT costs), mayor, Common Council, municipal court, independent police monitor, and traffic engineering and transportation.



- \$8.8 million in additional debt payments, a 12.2% increase covered in detail in Key #2.
- \$4.4 million in new Fire Department spending, a 5.7% increase that is due in part to a 3% cost of living wage increase for firefighters.
- \$4.0 million in additional police spending, a 4.1% increase which is also driven by cost of living pay increases.
- \$2.1 million in new public works spending, with just over half of the 3.9% increase allocated to city park spending.
- \$1.6 million more for the city's library system, with much of the 7.0% increase focused on covering the costs of the new northeast side Imagination Center Library at Reindahl Park.
- \$891,000 in information technology costs, or 7.5% more, primarily due to software subscription costs.

Funding from the city's general fund for Madison Metro Transit would grow by only \$530,000, far less than last year's \$6.6 million bump, due to the increased use of federal funds to pay for transit operating costs (see Key #1). Funding for the city clerk's office would fall by \$200,000 since no fall election will be held in 2027. The city also would provide \$300,000 less in general fund dollars for capital spending in 2027.

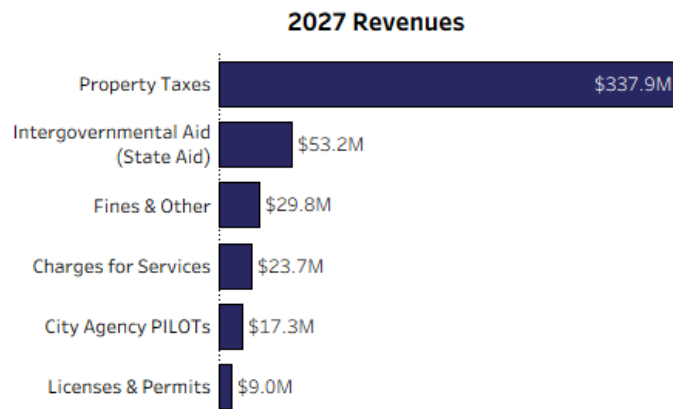
Spending for all other areas of the budget would grow by \$1.5 million including the mayor's office, Common Council, municipal courts, independent police monitor, traffic engineering, transportation, and some administrative functions.

Property Taxes and Other General Fund Revenues

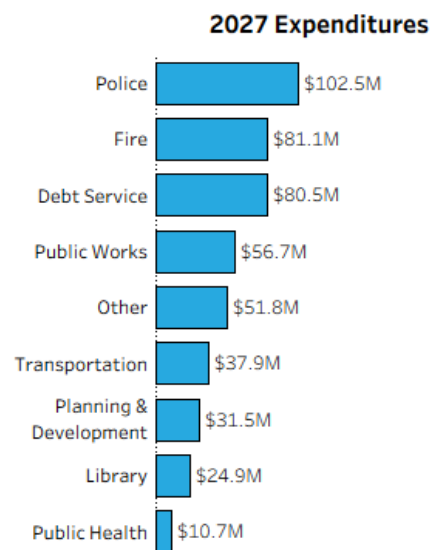
Overall revenue in 2027 is projected to climb by \$24.8 million, or 5.5%, over the general fund revenue in the 2026 adopted budget and \$27.8 million over current projections for 2026, outpacing

Figure 4: Property Taxes Dominate Revenue, Police and Fire Departments Lead in Spending

Proposed general fund revenues and expenditures by major category



[General Fund: \$477.5 million]



Source: City of Madison Finance Dept. *PILOTs stands for payments in lieu of taxes



the 4.6% increase in this year's budget. As Figure 4 on the previous page shows, most city revenues are provided by the property tax and the largest portion of the city's overall revenue growth is driven by an increase in the tax levy that would largely be used to cover a rise in debt payments.

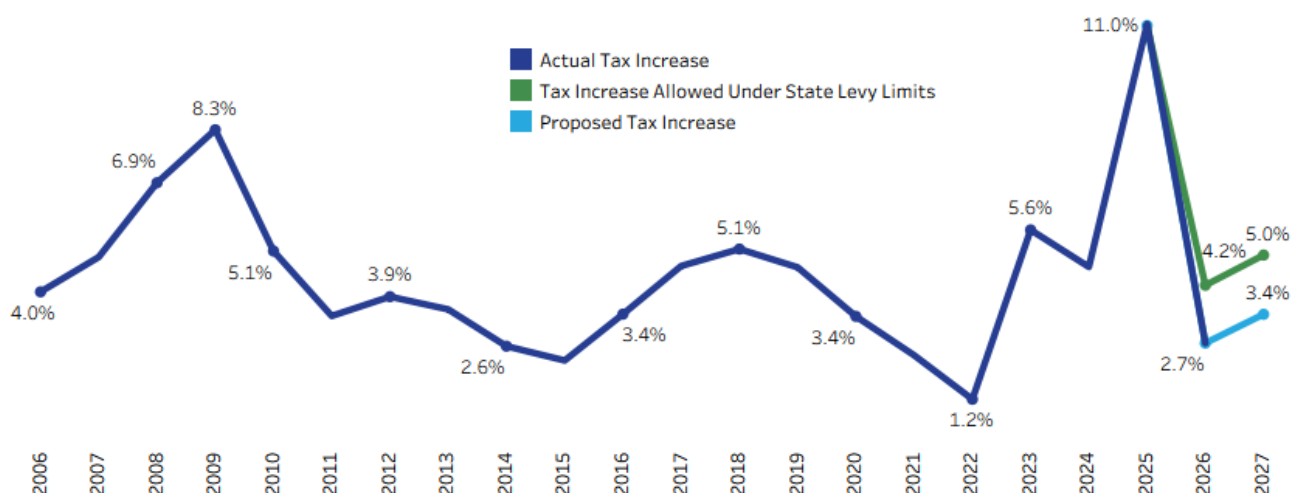
The property tax levy on December tax bills would grow to \$337.9 million, an increase of \$11.2 million, or 3.4%. As shown in Figure 5, that would be more than the total 2.7% increase on December 2025 bills but still roughly the current rate of inflation. The rise in taxes would be \$5.1 million less than the state's levy limit would allow, marking the second year in a row in which the city would rein in the growth in the levy to avoid running afoul of another state law meant to control local spending growth.

Property taxes on an average value Madison home worth \$500,300 would grow by 2.7%, from \$3,376 to \$3,466. The city's mill rate would drop below its [40-year](#) plus low of \$7.01 per \$1,000 of property value to \$6.93 per \$1,000 of value. This 1.2% decline reflects the fact that the growth in property values continues to outpace the growth in taxes.

For local governments in Wisconsin, state limits tied to net new construction control how much their property tax levies for operations grow each year. For Madison, that rate was just under 1.9% in 2026, which was lower than last year's 2.2% increase and well below the rate of inflation. However, state law allows the city to increase its property tax levy to cover a rise in debt payments. The \$8.8 million increase in debt payments for Madison in 2027 is responsible for the majority of the city's property tax increase (see Key #2 for more on the city's debt payments).

However, in Madison's case, a second separate state cap on how much a city's expenditures can grow is leading to a smaller proposed increase in the levy. The state expenditure restraint program provides aid to local governments that keep the annual growth in their general fund spending excluding debt payments to within a limit that is somewhat more than the rate of inflation. In 2027, Madison expects to get about \$8.5 million for complying with the limit in 2026. For more on this state program, see last year's [Madison budget brief](#).

Fig. 5: Property Tax Increase Would Be Kept Below Maximum Allowed By State Law For Second Straight Year
City of Madison property tax increases by year



Sources: City of Madison Finance Department, Wisconsin Department of Revenue. The proposed amount for 2027 would be levied on December 2026 tax bills.



State aid to the city would fall by \$1.4 million, as existing state formulas result in lower amounts for Madison, increasing pressure on the city's finances. This is in contrast to the previous budget, where state aid grew by approximately \$5 million. Federal revenue used by Metro Transit to cover additional operating expenses did help limit the need for an increased transfer of city tax revenue to the transit system, though that strategy may have longer-term impacts, as discussed in Key #1. The city also estimates a \$4.6 million increase in ambulance conveyance fees.

City Reserves Exceed Target

The mayor proposes using \$6.6 million, or about 5%, of the balance in the city's main fund to help cover increased spending in 2027 while limiting increases in the tax levy. This unassigned general fund balance represents the best measure of city reserves.

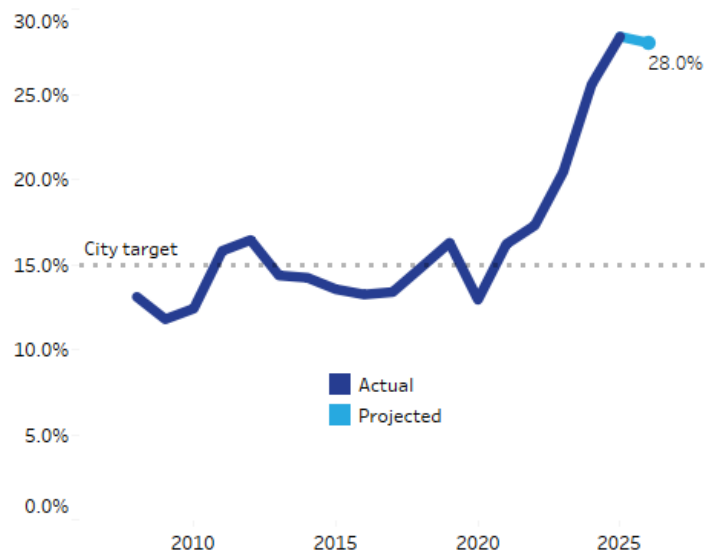
Reserves ensure stability for the city and its finances. Strong reserves help the city to borrow at lower interest rates and provide a backstop in the event of unexpected revenue shortfalls or higher than anticipated spending. In recent years, large balances plus higher interest rates have also turned the balance into a noteworthy source of revenue growth.

At the end of 2025, the city's unassigned general fund balance sat at \$128.5 million and could grow by an additional \$3.8 million by the end of 2026 based on a projection included in the 2027 budget. The end of 2025 balance equaled roughly 28% of budgeted 2026 general fund spending, or nearly double the city's target of keeping an amount equivalent to 15% of the next year's general fund spending. Figure 6 shows how the balance has grown rapidly as a share of general fund spending since 2020.

The budget proposal would use only a modest portion of the large balance.

Figure 6: Reserves Nearly Double City Target

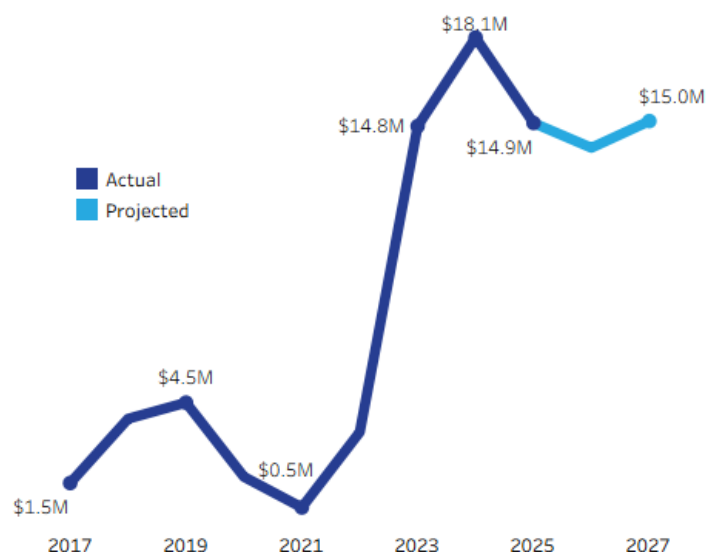
City's unassigned general fund balance as % of budgeted spending



Source: City of Madison Finance Department and WPF calculations

Figure 7: Investment Earnings 10 Times Higher Than 2017

City revenue reported from interest earnings on investments



Source: City of Madison



However, the city's five-year plan to manage its growing shortfalls would rely on \$79 million in reserve withdrawals through 2032, reducing the current balance by more than half and potentially affecting the 15% target (though the city says it will not).

Revenue from investment income and interest generated by the city's fund balance has grown tenfold since 2017, when investment earnings totaled \$1.5 million, to the \$15 million projected for 2027 (see Figure 7 on the previous page). The growth reflects rising interest rates and investment earnings, as well as the increase in the city's reserves. This new revenue does help the city address cost increases, but the same environment of rising interest rates and rapid inflation also puts pressure on city costs such as employee compensation and debt payments.

Fees and Enterprise Funds

The proposal would increase a range of city fees in the 2027 budget, raising the average homeowner's municipal services bill by \$54.60 per year.

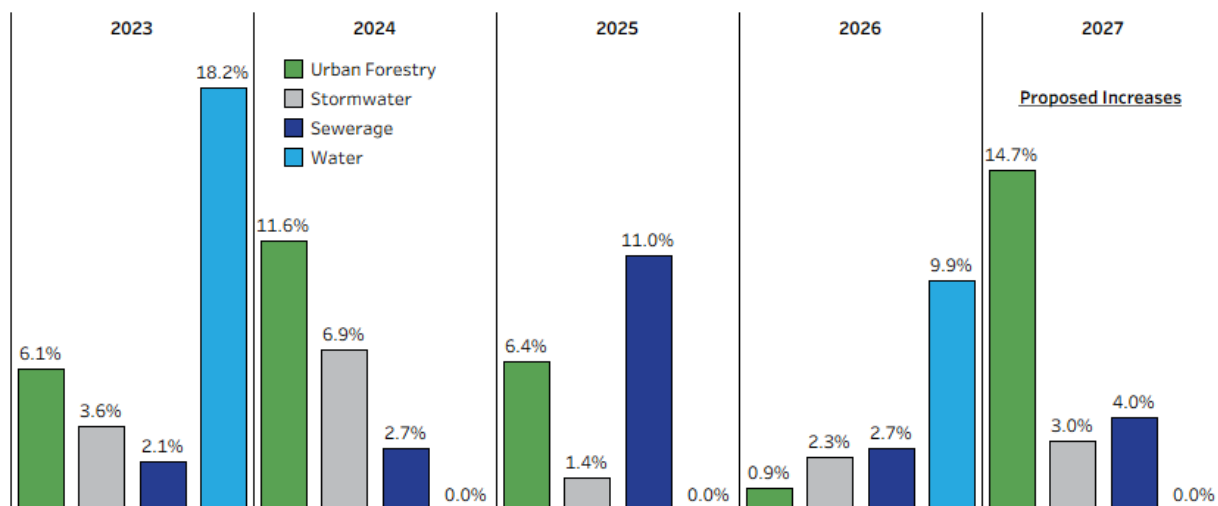
The city's recycling fee (officially the Resource Recovery Special Charge) would jump by 26.7% after remaining flat last year. That would cost residential customers \$1.47 a month, or \$17.64 annually, raising \$887,000 to pay for the growing cost of providing recycling and yard waste pickup, and maintaining drop-off sites.

Figure 8 shows the changes to Madison's largest fees in recent years. The city's monthly urban forestry fee would increase \$1.09 per month and \$13.08 annually. This 14.7% increase would generate \$1.1 million in 2027 to pay for the growing costs of operating the relevant city vehicles and equipment.

Sewerage fees would increase by 4%, or \$1.60 more per month and \$19.20 more annually. This would raise revenue by \$2.6 million, with the extra funds going to pay higher charges from the Madison Metropolitan Sewerage District and capital costs. Stormwater rates would grow by 3%, adding \$0.39 each month and \$4.68 annually to the typical homeowner's bill, raising \$344,000 in new revenue.

Figure 8: Proposed Budget Would Include Fewer Fee Increases

Fee changes to major city of Madison service charges



Source: City of Madison



The Water Utility does not expect to raise rates, but will see a revenue increase associated with last year's 9.9% rate increase that was [approved](#) by the Wisconsin Public Service Commission.

One of the proposal's largest increases in city revenue from service charges does not come through an enterprise fund but through increased Medicaid reimbursement rates for ambulance service and improved data on patients and their insurers to ensure charges are billed properly. As a result, revenue from these reimbursements is expected to climb by \$4.6 million, 34.3% over the \$13.4 million adopted in the 2026 budget to \$18.0 million proposed for 2027. This would make these reimbursements the largest single source of general fund revenue outside of the property tax.

Cost of Living Increases and Health Insurance Drive Staffing Costs

The costs of the city work force would rise in 2027 due to inflation, recently added positions, and the provisions of the mayor's proposed budget. General city employees as well as sworn firefighters and police officers would receive a 3.0% cost of living pay increase under the proposal and the city would further increase some salaries to reflect market conditions. In addition, the city's costs to provide health care to its employees would grow by an estimated 4.6%. The budget would also include salary and benefit increases to cover a full year of employment for the 18 positions added in the 2026 budget, including nine fire department employees staffing a new ambulance company, eight at the Madison Public Library's new [Imagination Center](#) and one in the city clerk's office.

Beyond funding these previous moves, the budget would make limited changes to overall city employment, creating 7.6 full-time equivalent (FTE) positions and eliminating 2.5 for a net increase of 5.1 positions. Three positions would be added to the civilian staffing in the Police Department to maintain the new body-worn cameras for officers and data associated with them, one position would be added in the city attorney's office, and 0.6 of a position would be added in the community development division. The engineering department would see a net gain of 1.5 positions, the result of adding 2.0 engineering positions and one plumber, and subtracting 1.0 engineering position and 0.5 custodian. The assessor's office would lose one data analyst position. The budget proposal would also fund 2.0 Dane County positions that are part of a joint city-county public health effort to focus on violence prevention.

The proposal maintains the Fire Department's current staffing level with up to 414.0 full-time equivalent sworn positions, as does the Police Department at 492.0 sworn officers. As police and fire staffing remain flat, population growth in Madison results in a falling number of sworn public safety officers per capita.

The proposal again would assume 3% of budgeted city wages would go unpaid due to vacancies, saving the city \$5.7 million. Total staffing costs would grow by \$11.5 million.



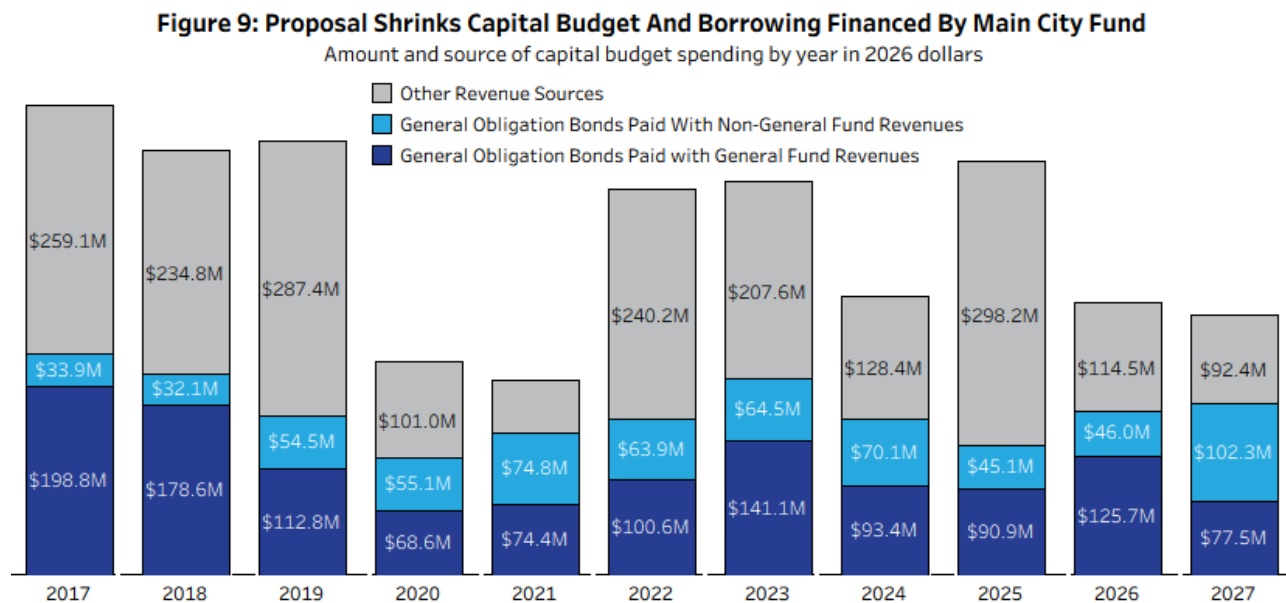
CAPITAL BUDGET

In 2027, the mayor proposes a capital budget of \$272.2 million, which would be only slightly lower than 2026's \$286.2 million but still one of the smallest capital budgets in recent years (see Figure 9). General obligation debt would grow modestly, though general-fund supported borrowing would fall by 38.3% to \$77.5 million, which would be the third-lowest amount when adjusted for inflation since 2013. Bonds paid for through other funds, like tax increment district proceeds, would more than double, jumping from \$46 million in 2026 to \$102.3 million. While larger in nominal dollars, when adjusted for inflation the proposed capital budget would be far smaller than the city's 2017 to 2019 budgets.

Growing borrowing and climbing interest rates have pushed debt payments higher. Key #2 discusses how debt service has increased as a share of the city's general fund spending. In general, Madison has used its borrowing to carry out necessary projects such as street repairs and upgrades that better position the city as a place to live and do business. In many cases, waiting to take on these projects would have only added to the expense for taxpayers. However, the costs of these infrastructure projects bear watching.

Capital improvements to major streets would see a \$61.8 million increase 2027, funded by \$42.3 million in general obligation borrowing, with the remainder supported by grant and other funds. Spending on streets has driven general-fund general obligation funding for the past several years.

One change that will help define future capital budgets is the transfer of control and financial responsibility of the U.S. 151 corridor through the downtown isthmus and the [Park Street corridor](#) from the state to the city. City leaders indicate that the transfer will give the city greater control over traffic safety in these corridors, as additions of traffic signals and other pedestrian infrastructure will no longer require state approval. As part of the transfer, the state agreed to pay the city \$37 million,



Source: City of Madison Finance Department



\$15 million of which will be allocated to the bus rapid transit project that will run through the corridor.

Madison Metro's bus rapid transit projects have helped define the city's capital budget for the past six years. This year is the second budget in a row that includes minimal funding, as the [East-West line](#) is up and running and funding for the [North-South route](#) has been in prior capital budgets. This year's capital budget includes \$4.2 million of funding for the project to incorporate additional payments from the city of Fitchburg to cover its portion of the project. The Common Council also removed \$40 million of authority to spend federal funds that were originally expected but have not been awarded and included \$2.7 million in debt service to the total project. When the additional state funding from the transfer of state highway responsibility is included, these and other changes reduce the overall project budget for the North-South line from \$204 million to \$178.9 million. Of that, Metro Transit expects federal funds to cover \$119.1 million, or 66.6% of the total project.

The mayor's proposal would include funding for projects associated with reconstructing the [John Nolen Drive area](#), including improvements to the roads and bridges, control structures to manage rainwater flowing into Lake Monona, and upgrades to adjacent parks and pedestrian infrastructure. The 2026 budget provided funds for the reconstruction of the road and bridges along the causeway, and upgrades to the [adjacent parks](#). The capital budget would also provide \$1.5 million for improving Olin Park – a project planned for 2032.



KEYS TO THE CITY BUDGET

Key #1: Federal Funds Limit Tax Transfer to Madison Metro

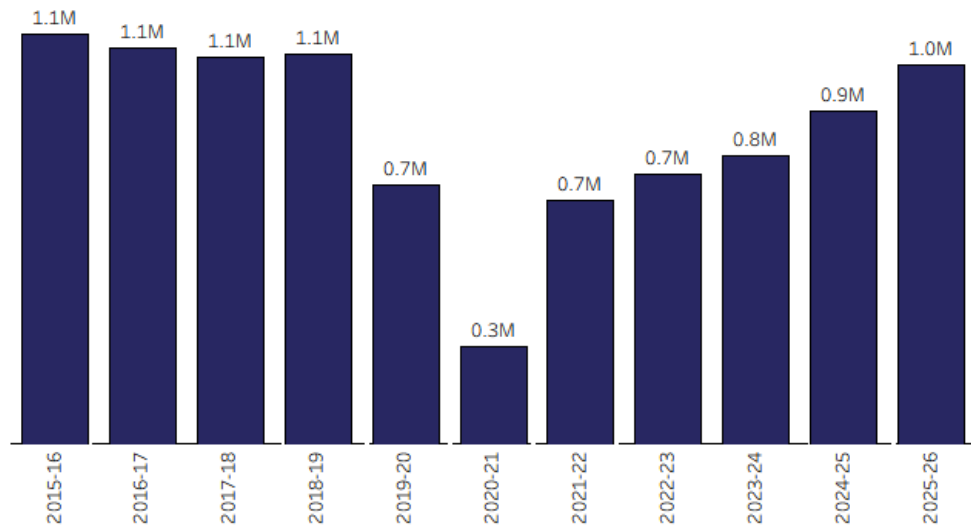
More than six years after the onset of COVID-19, Madison Metro Transit has yet to recover. Ridership has almost returned to pre-pandemic levels, but 2027 revenue from fares and other sources is projected to remain 16.2% below 2019, even before adjusting for inflation. The slow growth in fares and stagnant state aid have resulted in rising transfers from the city's general fund to cover the cost of the system.

To respond to these lingering challenges, the mayor's budget proposes a \$25.5 million transfer in 2027, lower than initially anticipated but still a 2.1% increase over 2026. The budget would plug the remaining budget hole with \$6.3 million in federal funds from two sources: aid that Madison Metro typically uses for capital improvements and maintenance plus one-time tax credits from the Inflation Reduction Act.

In reviewing Madison Metro's prospects, we turn first to ridership. Federal passenger data show a more positive outlook than the revenue would suggest, but they come with a caveat. In the fall of 2025, Metro Transit changed its process for counting passengers from an older, partially manual system to a newer, automated system. While this system may be more accurate, transit officials indicate the implementation of this technology is typically accompanied by an increase in ridership counts. However, September 2025 to August 2026 does mark the first year since the pandemic where the monthly average ridership topped 1 million riders, nearing the agency's pre-COVID monthly average (see Figure 10).

The Metro Transit budget proposal totals \$92.2 million, a \$4.9 million increase over projected 2026 costs and a \$7.6 million increase over the adopted 2026 budget. The projected spending growth of 9.0% over the adopted budget for this year would again easily outpace inflation and the transit agency's own internal revenues. Salary growth of \$3.5 million over the 2026 projected amount would account for the biggest portion of

Figure 10: Madison Metro Transit Ridership Finally Rebounds
Average Monthly Transit Ridership by Year*



Sources: Federal Transit Administration, City of Madison and WPF Calculations. *Yearly values from September of first year to August of second year.



that cost, largely due to the 3% increase included in their [contract](#) signed last year, the same rate as all other general city employees. Total transit employees would remain at 507.7 positions including 317 full-time bus driver positions.

The cost of paratransit services would grow under the proposal by \$612,000 over 2026 projections. Fuel costs are expected to grow by \$1.5 million, as fuel prices hit [record highs](#). Charging costs for the portion of the fleet that runs on electricity, however, are expected to remain flat, though the total paid for the electricity would increase by \$180,000 due to a new state tax on vehicle charging.

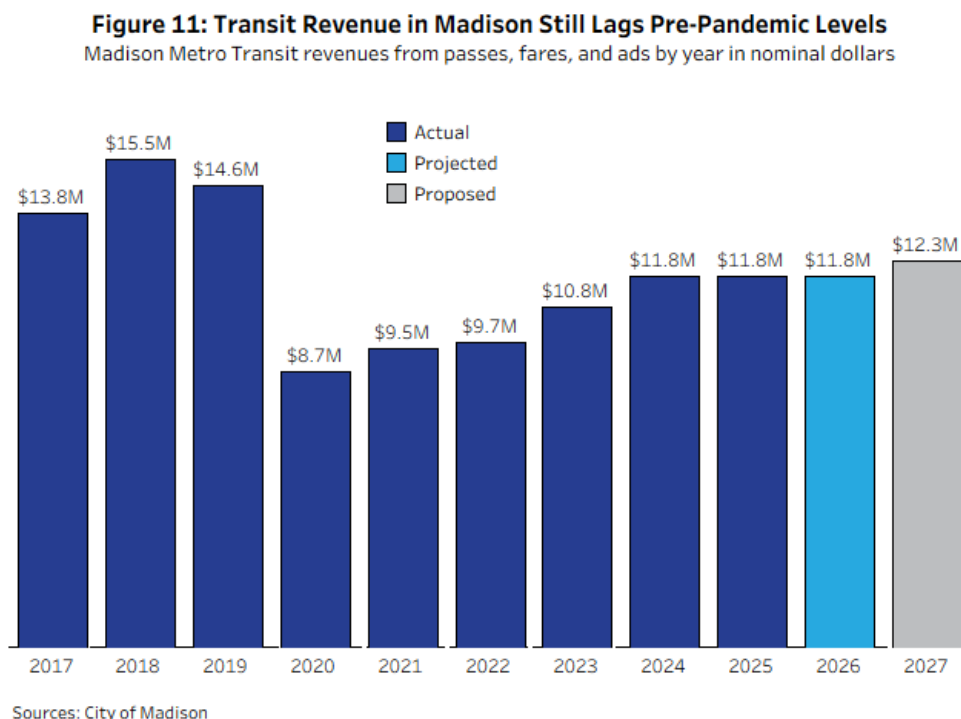
City officials project revenue from fares, bus passes, and advertising to grow by 4.1% to \$12.3 million (see Figure 11). As part of the 2026 adopted budget, city officials anticipated \$13.0 million for this year but are currently projecting only \$11.8 million of revenue from these sources. Revenue growth has trailed the increase in ridership, in part because the formulas for multi-year contracts with large fare purchasers such as UW-Madison still include years of lower ridership.

Other potential sources of revenue growth have either not produced or not been tapped. Fares have not been raised [since 2016](#), although city officials are currently [considering](#) future adjustments to some fares. In 2027, the city's wheel tax would chip in \$7.4 million, growing by a modest 1.4% over the 2026 budgeted amount.

Combined state and federal operating aid is projected to grow from \$25.9 million to \$30.1 million as a result of the increased use of federal grants for operations rather than capital bus purchases. This approach helps Metro Transit balance its budget in the short term, but could make it more difficult to keep up with future capital costs. The Forum has pointed out in the past the concerns about the Milwaukee County Transit Service [employing this approach](#) to a greater degree.

State aid for transit is projected to remain flat at \$18.4 million. Revenue from other local governments is projected to grow by \$1.5 million to \$14.3 million as suburban communities pay for expanded services in their territory. While the additional revenue is helpful, it does come with added service costs.

Tax revenue from the city's general fund would account for the remaining \$25.5 million of Metro



Transit's revenue, a \$530,000 increase. Initially, this transfer was expected to grow by \$5.3 million, which would have put considerable pressure on the city's general fund and other priorities. In 2019, prior to the pandemic and the adoption of a city wheel tax, general tax revenue contributed \$14.5 million, \$11 million less than the 2027 proposal.

With the city's East-West Bus Rapid Transit (BRT) line up and running, attention has now shifted to the next project, the North-South line. That line is in the environmental review and final design phase, and the city is also waiting to receive federal grant funds to finance the creation. As part of the process, the city has made changes to the overall project that reduce its expected capital cost by \$25.1 million. Construction on the line is currently expected to begin in 2027. If it proceeds, major costs would include the reconstruction of roads, including portions of Northport Drive, East Washington Avenue, Park Street and others along the route, plus bus stop improvements and new bus purchases.

Metro Transit remains one of the areas to watch most closely within Madison's budget. On the one hand, the recovering ridership figures suggest the transit system has regained some of its footing, even if those numbers come with caveats. However, the federal revenue being used this year would be difficult to replace next year, if Metro Transit's own revenues still lag and state aid stays flat. In the absence of action in the Capitol to provide either more state aid or a new local revenue source, the city is left with a limited set of choices, including fare increases, service cuts, or increased general fund tax revenue. The mayor has suggested that without authorization for a sales tax or other local funding source through a regional transit authority or a boost in state aid, the current model for funding Metro Transit may be unsustainable.

Key #2: Debt Payments Drive Property Tax Growth

Under the mayor's proposed budget, payments on city debt in 2027 would hit their highest level as a share of general fund spending since at least 2008. Increased debt payments would also account for nearly 80% of the city's proposed property tax increase. While debt payments do not count against state-imposed limits on the city's ability to raise tax revenue, they do impose costs on taxpayers. Those climbing costs could make closing future budget gaps more difficult if the city asks its residents to pay more through a combination of taxes or fees.

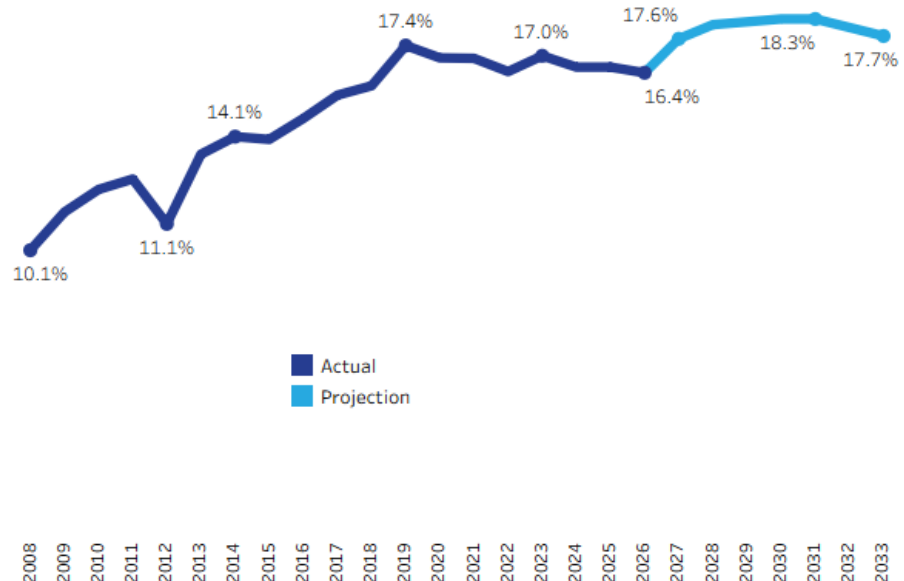
The mayor's budget includes \$80.5 million in debt payments in 2027, equal to 23.8% of the city's total property tax levy. The owner of Madison's average value home is projected to pay \$3,466 in municipal property taxes if the mayor's proposal is adopted, and up to \$825.50 of that could be directly attributable to paying the city's long-term obligations, though other revenue can also help cover debt payments. When focusing only on 2027, \$70 of the anticipated \$90 property tax increase on the city's average home can be attributed to rising debt payments.

Figure 12 on the next page shows how debt service has grown rapidly in the period between 2010 and 2018, then plateaued at around 17% of spending in recent years. More recently, debt service payments have grown more slowly than overall general fund spending, in part because of the city's 2024 referendum to increase property taxes by \$22 million. However, with borrowing costs growing rapidly and the city's expenditure growth constrained by state law, debt payments are projected to climb to 17.6% of total 2027 spending.



Growing debt payments are the result of increasing general obligation borrowing over the past five years as the city embarked on major infrastructure projects such as the reconstruction of University Avenue, Mineral Point Road, and others. The city also borrowed for a smaller but still substantial portion of the massive East-West BRT project. As a result, the city's total general obligation debt climbed from \$395.7 million in 2016

Figure 12: Debt Payments Account for Growing Share of General Fund
General Obligation debt payments as a share of general fund spending



Source: City of Madison Capital Budget

to \$636.7 million in 2025, according to the city's [financial statements](#). In addition to the growing outstanding debt, the current rise in interest rates nationally may also push debt payments higher.

Borrowing is not necessarily bad, particularly when it is for worthwhile infrastructure projects. Madison's local roads tend to be of [higher quality](#) than those in other large Wisconsin cities, and the substantial borrowing by the city contributes directly to that quality. Fortunately, Madison does not face a pressing capital backlog like the [city of Milwaukee](#) or Milwaukee County, where substantial investments are needed to catch up from a period of under-investment. However, city leaders may wish to carefully consider how authorizing additional debt at the current pace will impact property taxes, as they contemplate a future where the city may need to close its structural deficit by further increasing taxes or fees on city residents.

Key #3: Room Tax Revenues Return to Normal, But Gap Looms

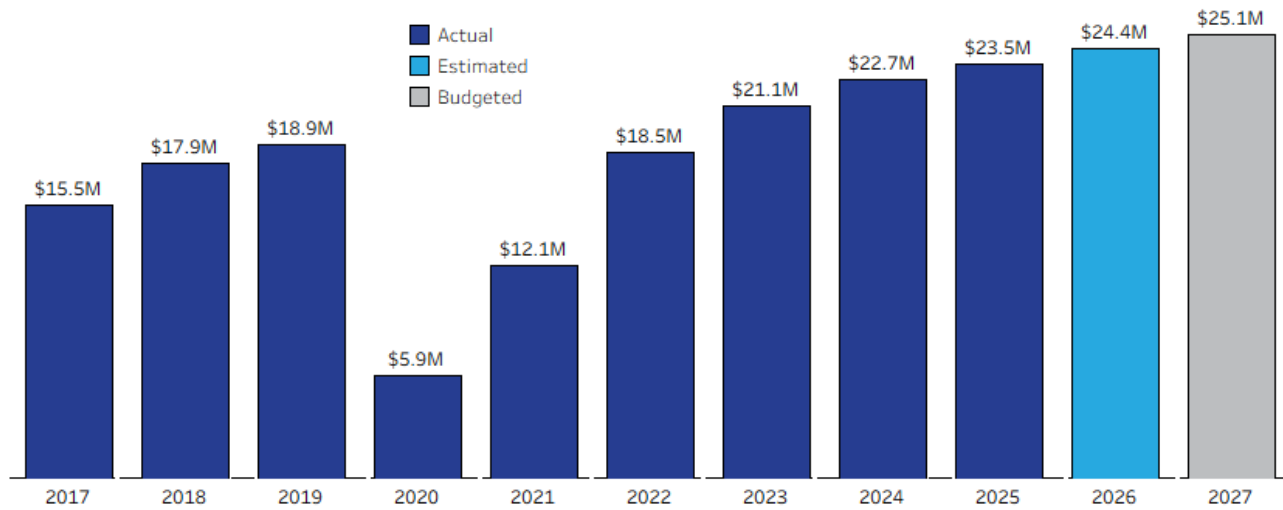
After declining precipitously during the pandemic, the revenues from Madison's 10% tax on lodging and other overnight stays have mostly recovered, particularly if one looks at those revenues before adjusting for inflation.

Receipts from this tax are projected to total \$24.4 million in 2026, or nearly \$1.2 million more than what was budgeted, according to an August projection adopted by Madison's Room Tax Commission (see Figure 13 on the next page). But while tax revenues have grown, they have still lagged consumer prices overall. If tax revenues had matched inflation since 2019, receipts for this year would total about \$24.8 million.



Figure 13: Room Tax Revenue Continues Steady Growth

Room tax collections by year with projections, nominal dollars



Sources: City of Madison Finance Department and Room Tax Commission

Looking ahead to 2027, the commission projects another 3% increase in room tax receipts, for total receipts of \$25.1 million. It is worth noting that the city's room tax fund projections have generally been conservative in recent years and that the fund has generally closed each year with a somewhat greater balance than expected.

At the same time, a 2027 budget motion approved by the commission in September – and now before the Madison Common Council as part of the larger budget – would significantly increase room tax spending and transfers by nearly \$1.9 million, to a total of about \$26.4 million.

This growth is spurred in part by an increase of nearly \$1 million in the amount of the proposed annual transfer from the room tax fund to the city's general fund as compared to projections. Under the motion, the general fund transfer would be more than \$7.5 million in 2027, compared to this year's projected payment of nearly \$6.6 million.

It also is supported by a significant drawdown of the room tax fund balance. Under the motion, a key measure of the fund's fiscal cushion – the combined total of its unassigned balance plus its reserve – would be drawn down from nearly \$2.6 million at the start of 2027 to \$1.4 million by year's end. In essence, the fund would be projected to spend nearly \$1.2 million more than it would take in.

Notably, the balance of the designated Room Tax Commission Reserve also would increase from \$500,000 to \$942,700. The latter amount equals 5% of room tax allocations for 2027, consistent with commission policy.

Disbursements from the fund to Madison's convention center, Monona Terrace, would increase by 12.2% next year, from \$6.7 million to \$7.5 million. Most of the increase would go toward capital purchases, while the amount directed toward the operating subsidy would increase by just 1%. Disbursements for the Overture Center and the Alliant Energy Center would increase by 3% under the motion. Disbursements for Destination Madison, the city's marketing and convention organization, would increase by 3.7%.



Looking further into the future, room tax receipts are projected to grow an additional 4% in 2028. But room tax spending also is projected to increase, leaving a significant ongoing structural imbalance unless room revenues continue to outpace projections or spending is restrained.

Key #4: City Budget Remains Relatively Strong But Unsustainable

Since we wrote our first Madison budget brief in 2019, we have noted the challenge of sustaining the city's relatively high per capita spending levels with minimal amounts of state assistance and a tight cap on the city's main revenue source – the property tax. As [we wrote then](#), “Madison still deals with lagging 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.”

Under state law, Madison's tax levy for operations is capped at the rate of net new construction in the city for the previous year. Though Madison's rate of development generally exceeds the state average, it was only 1.9% for 2026, well below the average rate of inflation of 3.3% so far for 2026 (see Figure 14) and even farther below the 4.2% increase in city general fund operating spending minus debt payments. Given that the property tax accounts for 70.8% of the proposed general fund spending in the mayor's proposal, this amounts to a serious long-term gap in the city's finances.

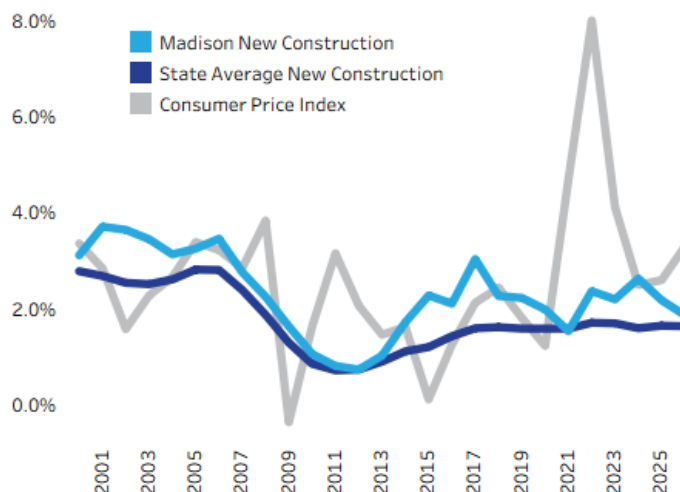
This problem was underlined by the city's own recently released projections, which show that if no action were taken, the 2031 budget would see a \$59 million gap between the cost of continuing current services and the city's projected revenues at that time. That was up \$15 million, or more than one-third, from the projection made just one year ago (see Figure 15 on the next page).

Since 2019, the city has kept its budget balanced through four main strategies: imposing a \$40 vehicle registration fee for the first time in 2020, making use of federal pandemic aid, raising a series of other fees, and successfully passing a \$22 million referendum in 2024. The state also provided modest amounts of additional aid and payments in the two most recent budgets. Yet though these fixes helped balance past budgets, none of them set the city on a sustainable path for the future.

For several years, Madison officials have shared and updated a six-year plan to address the rapidly growing structural deficit facing the city. Each year, the long-term gap has grown larger. The current plan as shown in the figure consists of two main strategies: using \$58 million in reserve withdrawals

Fig. 14: New Construction In Madison Outpaces Wisconsin Overall, But Lags Recent Inflation

Annual rate of net new construction* and inflation by year



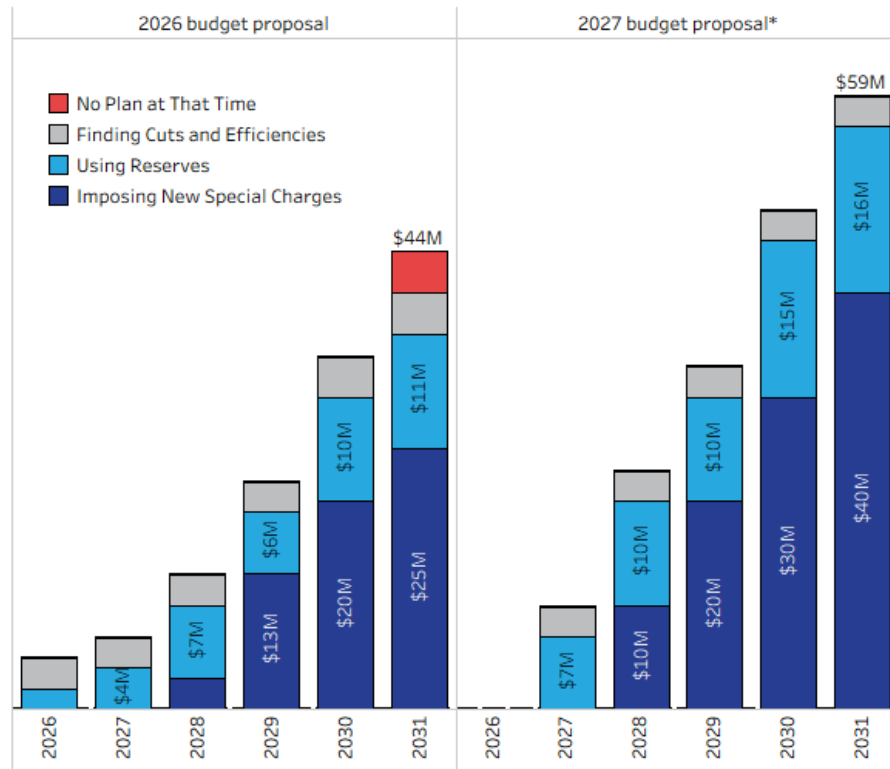
Sources: WI Depart. of Revenue and U.S. Bureau of Labor Statistics; *Represents value of annual net new construction as share of equalized property values.



from 2027 through 2031 and taking in \$100 million in special charges and fees from 2028 to 2031. The use of reserves seems feasible for the five-year period but will not be sustainable forever without some potential impact to the city's financial security and bond ratings. The special charges are even more of an open question – city officials can clearly raise fees to some degree but it is unclear if they can find such a large amount of new charges under the current state laws.

Figure 15: Projected Budget Gap Has Grown Since Last Year

Estimated gap in Madison's general fund budget and proposed measures to close it, projections made for the 2026 budget versus those made for 2027



Source: City of Madison Finance Department. *Budget is currently balanced for 2026.



CONCLUSION

The Wisconsin Department of Administration estimates that between 2020 and 2026, Madison's population has grown at a rate of 1.5% per year, which means the city has added about 4,000 new residents each year. Meeting the needs of these new residents while maintaining Madison's strong quality of life serves as a constant challenge for city officials.

The 2027 budget proposal largely meets those challenges for yet another year. It would pay the full cost of an ambulance company and new northeast side library and would implement body cameras for city police, though the use of one-time grant funds would mean the city would have to find its own funding for the initiative in 2028. The city also would maintain reserves that go well beyond what is needed to cover its basic cashflow needs and serve as an emergency fund. In addition, the property tax would grow by around the rate of inflation.

But despite the present strength of the city's finances, hairline cracks trace the walls of this structure. The city remains dependent on the property tax for more than 70% of its core revenues. State caps on that tax for operations have kept the recent growth in it to below the rate of inflation and below the increases in employee salaries and health care – the city's main expenses. Metro Transit continues to increase its spending at a much greater rate than the growth in either its own fare and ad revenues or its state and federal aid, leaving the city's tax levy and other core funds to cover the remainder.

The mayor and her administration have done something that not all municipal officials do – put forward a multi-year plan to bridge these coming budget gaps, giving voters a chance to weigh in on their merits. Like any plan to address a difficult challenge, this one comes with tradeoffs.

Though city reserves remain impressive, the current plan is to tap them for ever greater amounts going forward – a strategy that could work for years but not forever. The city's other approach in future years is to impose new special charges in 2028 and beyond – it remains to be seen if the city can raise as much from these charges as it is currently projecting.

The overall picture for Madison remains largely positive, and there is always the potential for unexpected gains. The November elections, for example, will bring a new governor and new lawmakers into the state Capitol. The city might see some new assistance from them, either in the form of additional state aid or expanded authority to impose its own local taxes and fees.

However, with a few exceptions in recent years, city officials have generally not wrested major gains from the Legislature and governor and cannot count on such victories in the future. Even as city officials seek that assistance, they have to their credit fashioned a plan that might allow them to balance the budget without state help. In refining that plan in future years, they might also consider steps to further improve it such as building on efforts to spur city development to modestly increase revenues and to partner in new ways with other local governments in the county to control costs.

As always, we present this analysis of the mayor's budget to illuminate it rather than advocate for or against it. We hope this brief is useful to voters and city officials as they consider the best path forward for the city in 2027 and beyond.

