



Information Series on the 2025 Outlook

Part 4 – Revenue Strategies

In the previous part of the series, we discussed the size of the 2025 budget gap (\$27 million) and what it would mean to pass a balanced budget (i.e., revenues = expenditures) solely by cutting City services. In this part, the goal is to outline revenue options available to the Council to balance the budget. Madison is very reliant on property taxes to fund its services, with over 70% of its revenues from this source. This reliance on property taxes is primarily due to the restrictions the Wisconsin Legislature placed on cities in 2011, along with Wisconsin’s approach of collecting sales and income taxes on a statewide basis rather than at the local level. Under Wisconsin law, the state collects income and sales taxes and “shares” those revenues with local governments, rather than allowing cities to levy their own sales and income taxes. These “shared revenues” were reduced significantly by State Legislatures since 2003. In the most recent state budget, shared revenue was increased by \$275 million. However, Madison was shortchanged in the formula used by the Legislature to distribute this increase in funding, receiving an increase of less than 1% of our entire budget.

Local revenue options, such as taxes, charges for services, licenses and permits, and fines and forfeitures, are extremely limited under current state law and, therefore, account for only 16% of the General Fund budget. Some of these charges and fees could be increased, but there are tradeoffs and equity issues that need to be considered regarding increasing user fees and charges versus authorizing additional property taxes through referendum.

Madison’s Property Taxes and State Aid

As stated above, Madison receives relatively little from the state relative to most other Wisconsin cities: compared to the 35 largest cities in the state, we rank 25th in shared revenue and 23rd in all state aid. The largest single category of state aid is General Transportation Aid – the City receives \$13 million from this program annually. State aid to the City totaled \$45.6 million in 2024 (excluding state transit aid, which can only be used to support Metro Transit), or about 11% of our total budget. In the recent state budget, despite an increase in state shared revenue of \$275 million, Madison received the lowest per capita increase of any municipality in the state.

Non-Property Tax Revenue Options are Limited

Madison collects about \$55 million in local revenues. These include charges for services (e.g., ambulance fees), licenses and permits (e.g., building permits), fines and forfeitures (e.g., parking violations) and other revenues (e.g., room taxes and investment earnings). Statewide, Madison is ranked 11th or higher for local revenues, including fines, forfeitures and penalties (6th), charges for service (10th) and licenses and permits (11th).

- The **room tax** is the largest of these revenue sources at about \$20 million per year. Only 30% of room tax revenues can be used to support General Fund services; the remainder must be used for tourism-related activities, as defined under state law.
- **Ambulance fees** total about \$11 million, and are the second largest non-property tax revenue source. Madison charges \$1,410 for each conveyance to a hospital by the Madison Fire

Department. This is about average for other Emergency Medical Services (EMS) providers in Dane County. Each \$100 increase in the fee yields about \$700,000 in revenues. Most of these revenues are collected from private insurers; low-income individuals may be eligible to qualify for a full or partial waiver of the fee.

- State law allows Wisconsin municipalities to levy a local option **vehicle registration fee** (also known as a “wheel tax”) to pay for transportation costs. Many cities, towns, villages and counties across the state have opted to levy a wheel tax over the past decade to help offset the impact of state-mandated limits on property taxes. Madison instituted a wheel tax in 2020 at \$40 per year (Dane County also levies a \$28 per wheel tax – vehicles in Madison pay both the City and County wheel taxes). The nearly \$7 million raised annually by the City’s wheel tax is deposited in the Metro Transit fund, consistent with state law. A \$10 increase in the wheel tax would raise about \$1.7 million annually that could be used to pay for transportation-related services that are currently supported by General Fund revenues.
- State law also allows Wisconsin municipalities to levy “**special charges**” to pay the cost of specific services for which a “broad-based” public benefit can be identified. The City currently has two special charges – urban forestry and resource recovery (recycling). Other possible options for new special charges include transportation (e.g., traffic engineering), libraries, and parks. Each \$1 per month per residence raises about \$1 million in revenue annually. Special charges for certain activities (garbage collection, snow removal, fire protection, street sweeping and storm water management) do not increase revenue to the City due to requirements under the state levy limit law. Special charges require a study to determine and provide evidence for the public benefit, along with a methodology for allocating the cost of the service.

Closing the budget gap solely from these sources would require a 50% increase in each individual tax, fee, and charge in these categories. Since user fee revenues cannot exceed the cost to provide the service, an increase of this magnitude might not be possible in some of these revenue types.

Property Tax Considerations

Increases in property taxes above state law limits requires approval by the voters at a referendum. Proceeding to a referendum must be approved by a majority vote of the Common Council, and the form and content of the referendum ballot is defined by state law. In even-numbered years, such as this one, levy limit referenda must be held at either the Spring or Fall primary or the November General Election. Either one-time or on-going levy increases are allowed. The increase on the referendum ballot must be a fixed dollar amount, not a percentage of the levy each year. With state law only allowing a fixed dollar amount on a property tax referendum, the structural deficit is only addressed for a short period of time under this option. In other words, a voter-approved property tax increase shrinks as a share of the total budget in each subsequent year after a referendum is approved. In 2022, over 30 municipalities proposed referenda to increase local property taxes, with the vast majority (29) of those passing.

Raising \$27 million (the size of the 2025 budget gap) from additional property taxes would add \$284 to the annual tax bill of the average value home – or about a 9% increase above the City levy approved for the 2024 budget, which is equivalent to about an additional 3.7% on the total tax bill. In considering how this tax rate would compare to neighboring communities, using last year’s numbers, it would not have dramatically changed Madison’s tax rate ranking compared to other communities in Dane County. Sun Prairie and Waunakee would still be higher than Madison, and Fitchburg, Verona and Middleton would all remain lower. In the future, these comparisons could be affected by referenda in other communities and school district property tax referenda.

Equity Considerations

Property tax increases affect residents somewhat differently than increases to user fees and charges.

- Ways that user fees and charges are less equitable / more regressive than property taxes: User fees and charges are a flat dollar amount no matter the situation of the person paying – thus, higher income groups pay a smaller share of their income for the service compared to low- and moderate-income groups. By contrast, property taxes are allocated through a percentage rate – therefore, higher value properties pay more taxes than lower value properties. Additionally, user fees and charges can be levied on all property regardless of tax status; whereas government and non-profit owned property do not pay property taxes. In contrast to property taxes, user fees and charges cannot be deducted on federal income taxes.
- Ways that property taxes are less equitable / more regressive than user fees and charges: Relief available for payers also varies between property taxes and user fees and charges. Under the Wisconsin Constitution, taxes must be uniform. For property taxes, this means that all property, with certain limited exceptions, must be taxed at the same percentage rate. A residence has the same tax rate as a business; a large property with a significant amount of improvements has the same tax rate as a small property with proportionally fewer improvements, etc. In addition, no direct relief to any specific group of taxpayers is allowed on the property tax bill. In other words, the City cannot create a program to directly reduce the taxes of certain property owners (e.g., lower income, seniors, etc.). There are programs at the state level that provide targeted property tax relief through the state’s income tax (e.g., the Homestead Tax Credit).

By contrast, the City can provide relief for user fees and charges. For instance, the State’s Public Service Commission recently allowed Madison to develop a “customer assistance program (CAP)” to use revenues from water utility ratepayers to help offset some of the cost of water bills for qualifying lower-income individuals. The City expanded the “MadCAP” program to all elements of the Municipal Services Bill (sewer, stormwater, landfill, urban forestry, resource recovery) by allocating General Fund revenues to support the cost.

In summary, the 2025 budget must be balanced via significant cuts (in the range of 10% to 20% of every City agency), or by increasing revenues from fees (at least a 50% increase) or the property tax (a 10% increase), or a combination of options. We look forward to discussing the issues described above and the concepts highlighted in the other three parts of this informational series at the Council meeting on February 13th.