



# 2027 Operating Budget Overview

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Finance Committee  
June 29, 2026

# Agenda

- Budget Calendar and Deadlines
- 2027 Operating Outlook
  - Limitations on Budget
  - Cost to Continue Revenue & Expenditures Assumptions
  - 5-Year Outlook
  - Approach for 2027
- Budget Guidance
- Completing Proposals in Munis & Submitting Forms

# Key Dates for 2027 Budget Development

## Capital Budget

- Kick Off: **March 17**
- Agency Requests Due: **April 17**
- Agency Briefings: **May 13-15**
- Executive Budget Introduced: **September 8**
- FC Briefings: **September 14-15**
- FC Amendment Meeting: **September 28**
- CC Budget Meetings: **November 10-12**

## Operating Budget

- Kick Off: **June 9**
- Agency Requests Due: **July 17**
- Agency Briefings: **August 12-21**
- Executive Budget Introduced: **October 6**
- FC Briefings: **October 12-13**
- FC Amendment Meeting: **October 26**
- CC Budget Meetings: **November 10-12**

\*FC = Finance Committee

\*CC = Common Council

# Operating Budget Considerations

The operating budget must be balanced (revenues = expenditures). There are constraints on both sides of the equation.

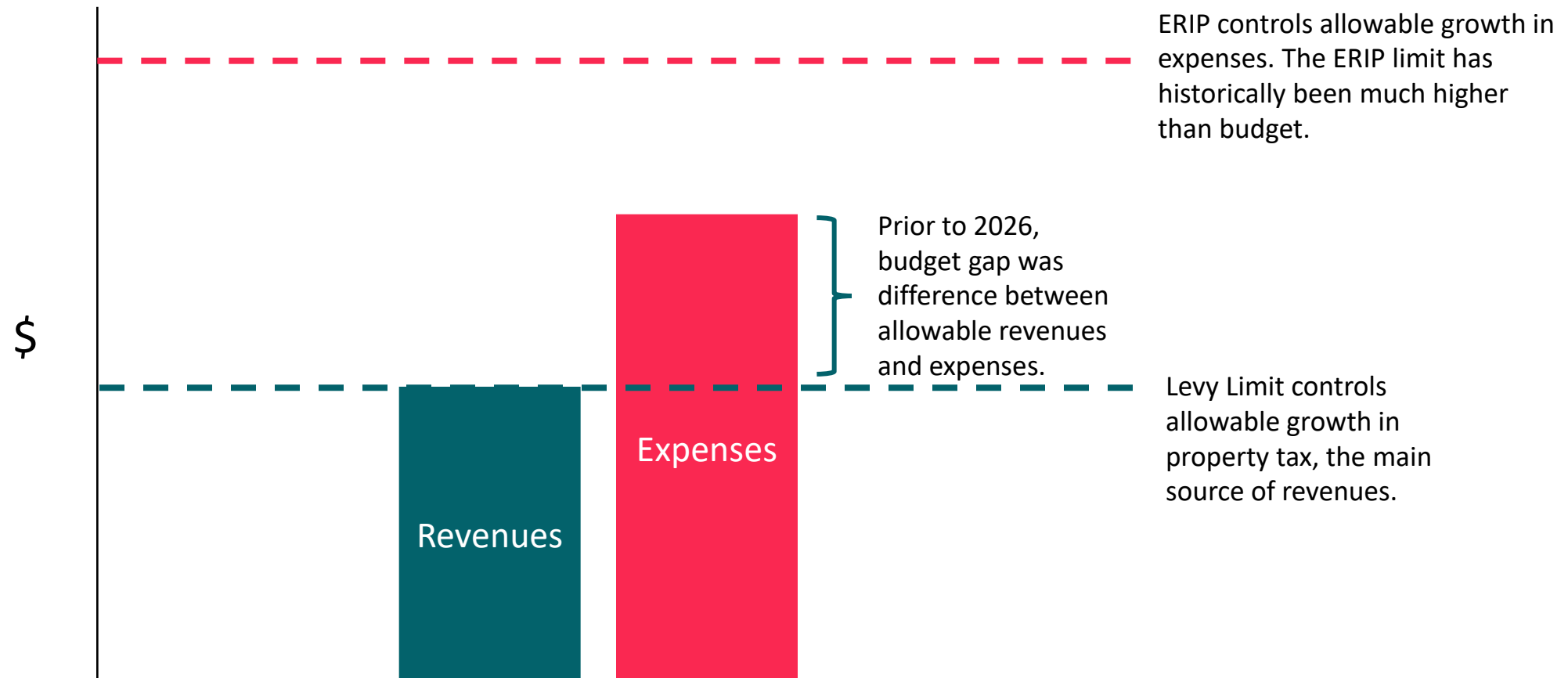
## Revenue Limits

- The levy limit and other limits on local revenues have been the primary challenge with structural deficit. Allowable growth in revenues does not keep pace with expenditures.
- Voters approved a \$22 million referendum in 2024 to close the budget gap in 2025. This amount is permanently added to tax base but does not grow with inflation or rising expenses.
- The [5-year plan](#) in the 2026 budget shows the structural gap and options to balance the budget (e.g. fund balance, special charges).

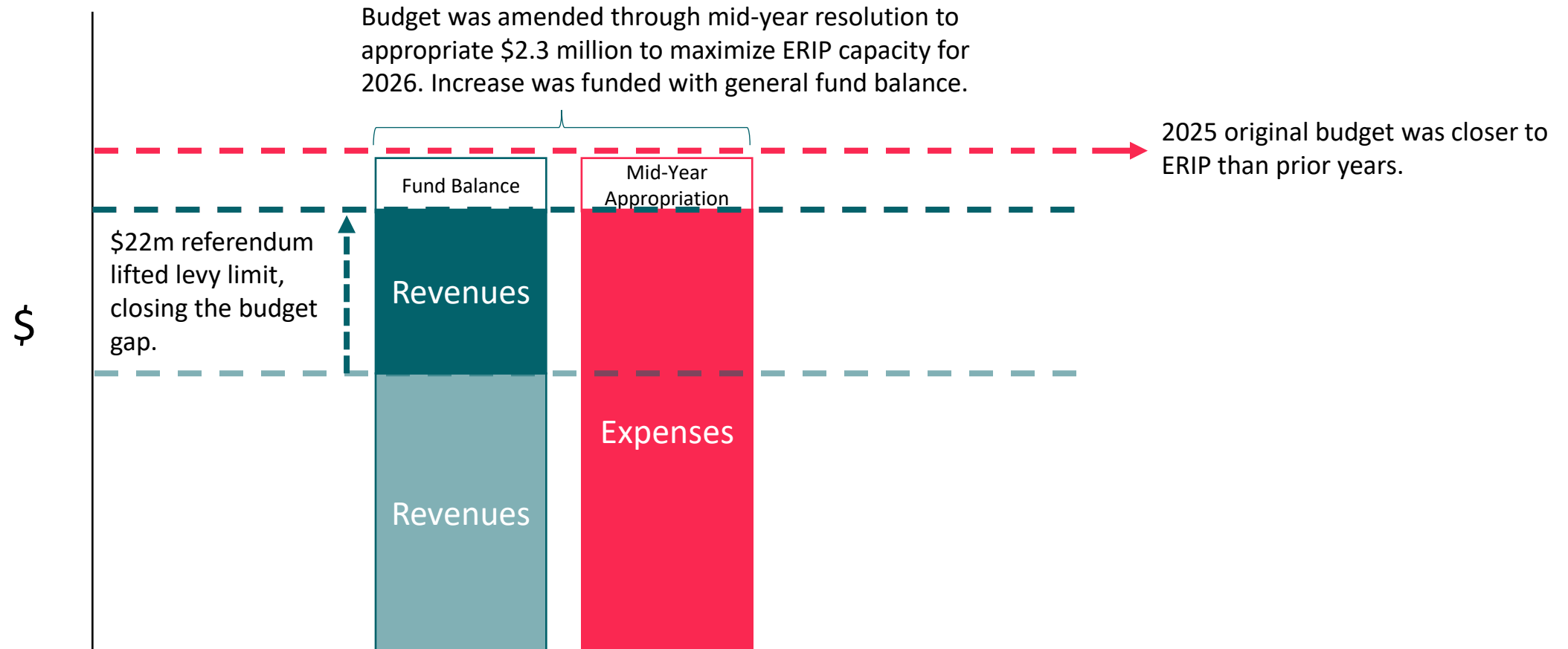
## Expenditure Limits

- The Expenditure Restraint Incentive Program (ERIP) limits growth in year over year expenditures.
- Compliance results in annual State Aid payments of \$7m-\$9m.
- Prior to 2026, ERIP limit had been significantly higher than levy limit, meaning we could have increased expenditures if revenues allowed.
- 2026 is first budget that had an ERIP constraint before levy constraint.

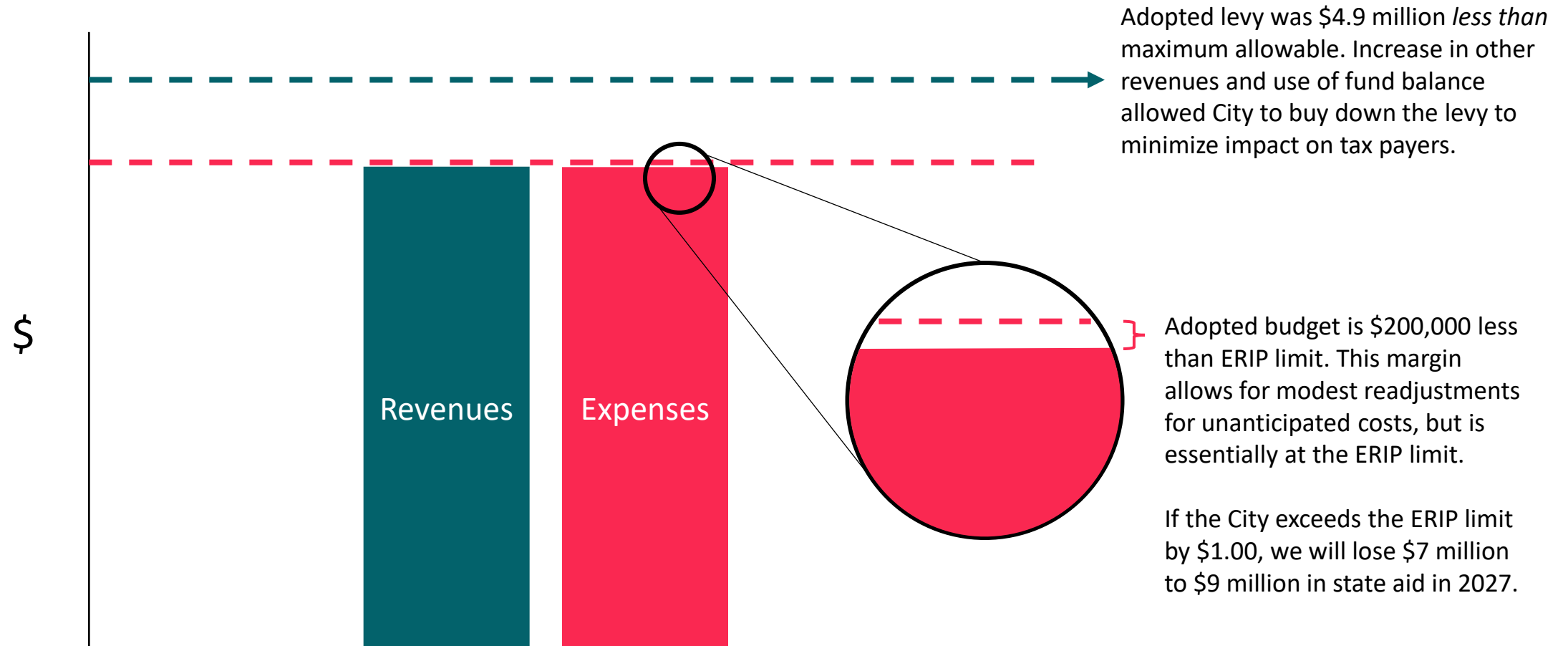
# Historically, the levy limit has been the primary budget challenge.



# In 2025 budget, the property tax levy referendum helped close the gap.



# The 2026 budget was the first time we hit the ERIP limit before the levy limit.



# 2027 Cost to Continue Process

Cost to Continue (C2C) is the first step of developing the city's operating budget. It is a baseline estimate of how much it will cost the City to provide the same level of service in the upcoming year.

## City-Wide Adjustments

- Update revenue projections and remove one-time funding used to balance the 2026 Budget
- Personnel Costs
  - Estimated through a salary & benefit projection that incorporates step & longevity increases and negotiated increases
  - Includes placeholders for benefits rates, which will be updated later in the year
  - Based on 2026 payroll allocations
- ID Charges for internal services (Fleet, Insurance, Workers Compensation) and cost allocation plan

## Agency-Specific Adjustments

- Remove one-time funding and expenses from the 2026 Adopted Budget
- Annualize partial year commitments
- Build in contractually required increases for purchased services
- Agency C2C determined through meetings between agencies and budget staff

# 2027 Cost to Continue projects a revenue gap and exceeds the ERIP limit.

## General and Library Funds

### Revenues = \$472.1 million

Total revenues are \$19.4 million (4.3%) higher than the 2026 adopted budget. Assumptions:

- + \$18.5m: Levy increase
- + \$2.6m: Increase in ambulance fees
- +\$1.0m: Increase in building permit revenue
- - \$1.2m: Decrease in municipal service payment
- -\$1.0m: Decrease in interest earnings
- -\$2.2m: Removing fund balance applied
- +1.8m: Other adjustments to state aid, licenses, transfers, and other sources

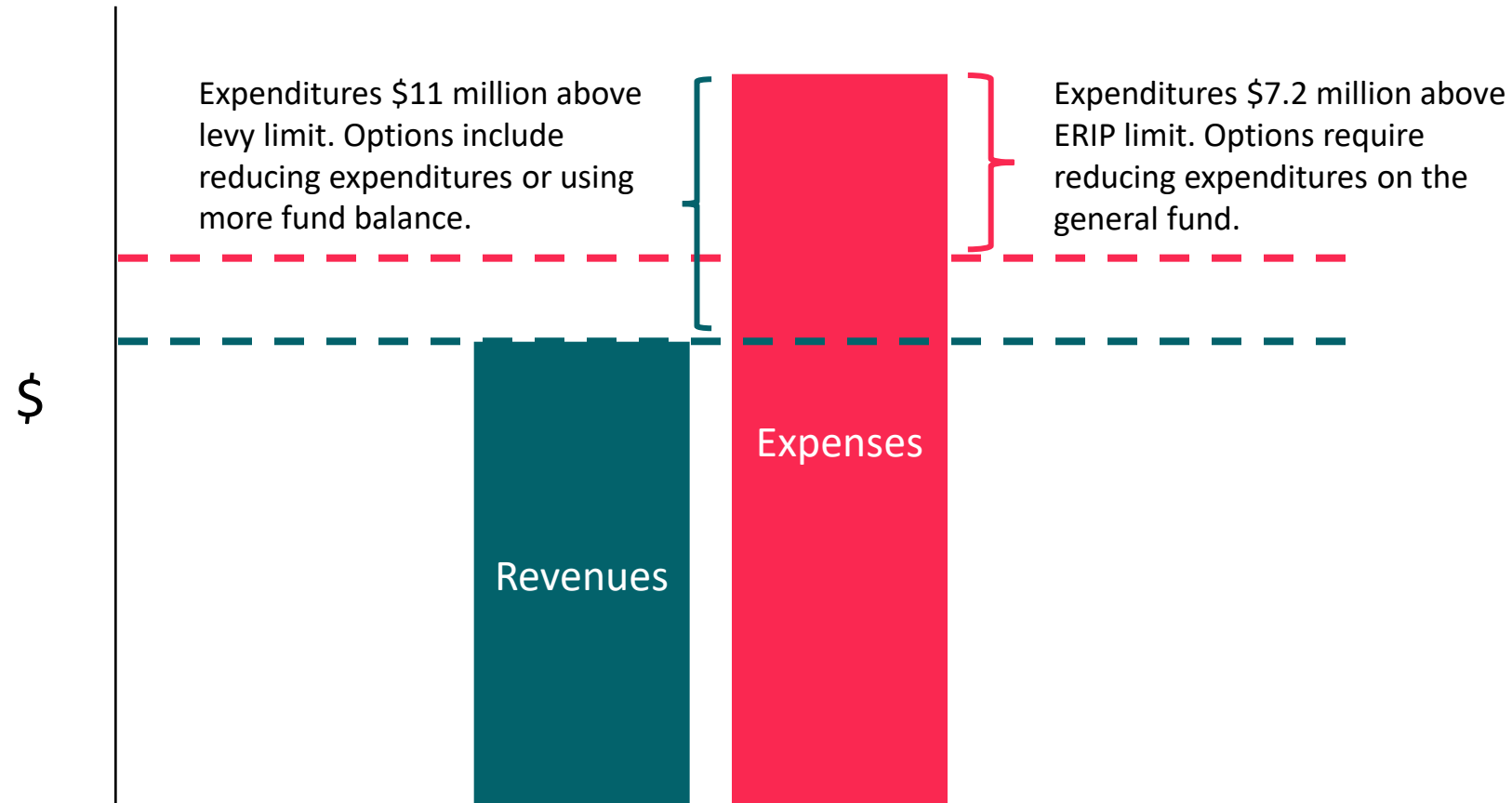
### Expenditures = \$483.2 million

Total expenses are \$30.4 million (6.7% ) higher than 2026 adopted budget. Major changes:

- + \$9.7m: Salary + benefits increases
- + \$9.5m: Metro subsidy increase
- + \$6.0m: Placeholder for GF Debt Service; excluded from ERIP calculations
- + \$2.6m: Non-Personnel Costs. Half of increase for software costs (\$1.3m). Library contract with Dane County (\$289,000), legal services and consulting for property tax challenges (\$225,000), building maintenance costs (\$170,000), and other expenses
- +\$1.5m: Fleet charges, primarily for increased fuel costs

**\$11.0 million gap between revenues and expenditures**  
**\$7.2 million above ERIP limit**

# 2027 Cost to Continue projects a revenue gap and exceeds the ERIP limit.



# Cost to Continue Adjustments: Expense Details(GF + Library)

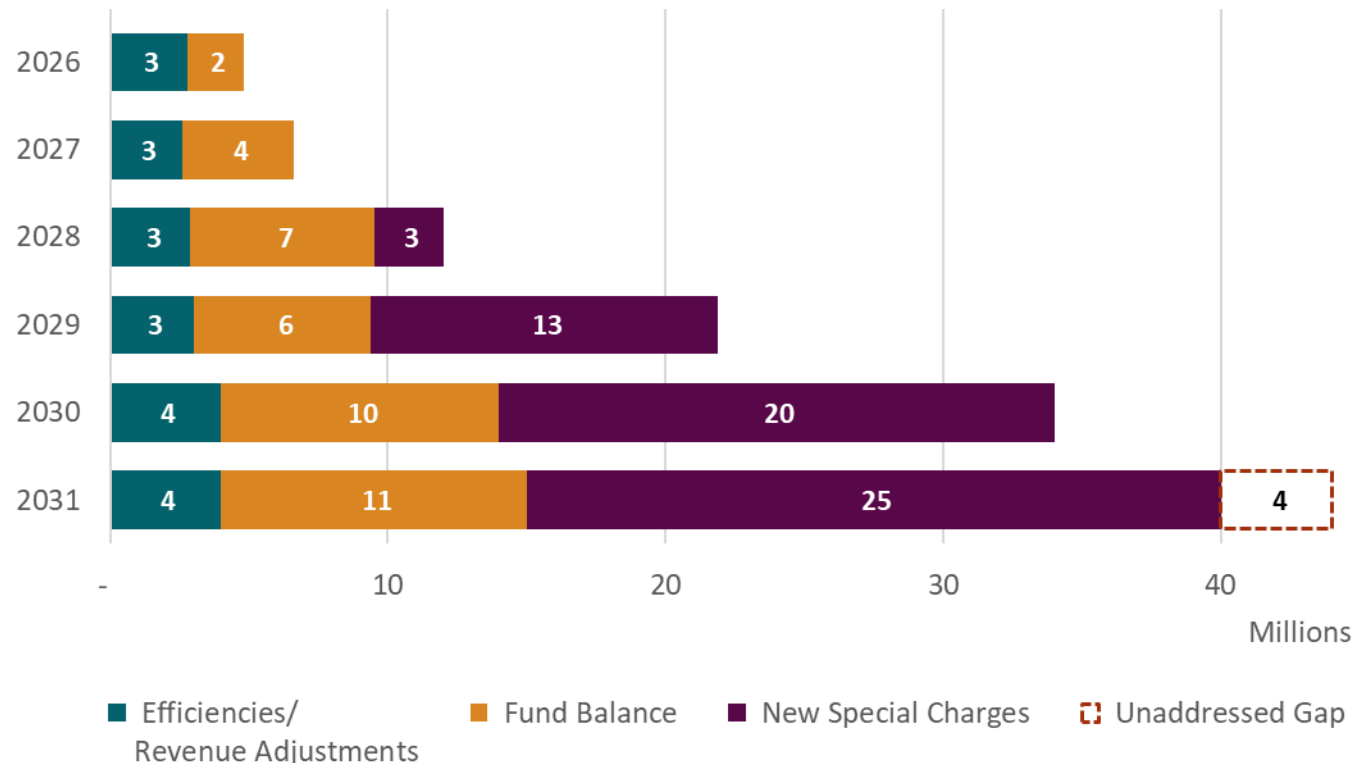
Category	Assumptions
Personnel Costs	<p>\$9.7 million increase in salaries and benefits</p> <ul style="list-style-type: none"> <li>\$6.6 million increase in perm wages: 3% increase for GMEs and protective service based on negotiated agreements and Step/Longevity adjustments. Partially offset by \$2 million decrease in pending personnel that was associated with partial year positions in 2026.</li> <li>\$466,000 reduction in Clerk’s Office: elections staffing for two fewer elections</li> <li>\$2.7 million increase in health insurance: anticipated increase of 8.5% on local plans</li> <li>\$1.6 million increase in WRS and FICA: increase on base wages and assuming 2.5% WRS rate increase</li> <li>Maintain citywide salary savings rate of 3% and maintain 0.75% budget efficiency reduction</li> <li>Recalculation of salary savings and budget efficiency added \$0.6 million to budget, despite being calculated on a higher base. This is related to one-time adjustments and reallocations that resulted in more savings from these two items in 2026.</li> </ul>
Elections	<ul style="list-style-type: none"> <li>\$592,000 reduction for elections-related expenses including staffing and postage costs</li> <li>Overall Clerk costs reduced \$211,000; savings from biennial election cycle offset by increases for purchased services (facility rental, other costs) and higher insurance charges</li> </ul>
Direct Appropriations	<ul style="list-style-type: none"> <li>Adds \$6.0m placeholder for Debt Service</li> <li>\$95,000 increase to reverse additional Room Tax support for the Zoo in 2026</li> <li>\$225,000 increase in consulting and legal service costs for Assessor-related property assessment challenges</li> </ul>
Purchased Services	<ul style="list-style-type: none"> <li>Adds \$1.3m in agencies for software costs (\$971,000 in IT, \$274,000 in Police, \$35,000 other agencies)</li> <li>\$170k increase in building maintenance costs</li> <li>Other major changes: Library Dane County contract (\$289,000); Police non-software purchased services (\$170,000); Clerk storage facility rental (\$149,000)</li> </ul>

# Cost to Continue Adjustments: Other Adjustments(GF + Library)

Category	Assumptions
<b>General Fund Subsidies</b>	
Metro Subsidy	<ul style="list-style-type: none"> <li>Adds \$9.5m to Metro subsidy (2027 total: \$34.5 million)</li> <li>Reflects increased personnel, fuel, and paratransit provider costs</li> </ul>
PHMDC Subsidy	<ul style="list-style-type: none"> <li>Increased \$744,000 based on cost to continue and equalized value</li> </ul>
<b>Billings and Charges</b>	
Fleet Rate	<ul style="list-style-type: none"> <li>Fleet budget increased by \$2.2 million related to increased fuel (\$1.5 million) other adjustments</li> <li>\$1.5 million increase in GF billings</li> </ul>
Cost Allocation	<ul style="list-style-type: none"> <li>Updated plan increases billings to enterprise agencies by \$148,000</li> </ul>
Other billings and charges	<ul style="list-style-type: none"> <li>Insurance: Charges to the General Fund increased by \$167,000</li> <li>Worker's Compensation: Charges to the General Fund increased \$27,000</li> </ul>

# Five-year operating budget plan presents a roadmap for closing the revenue gap.

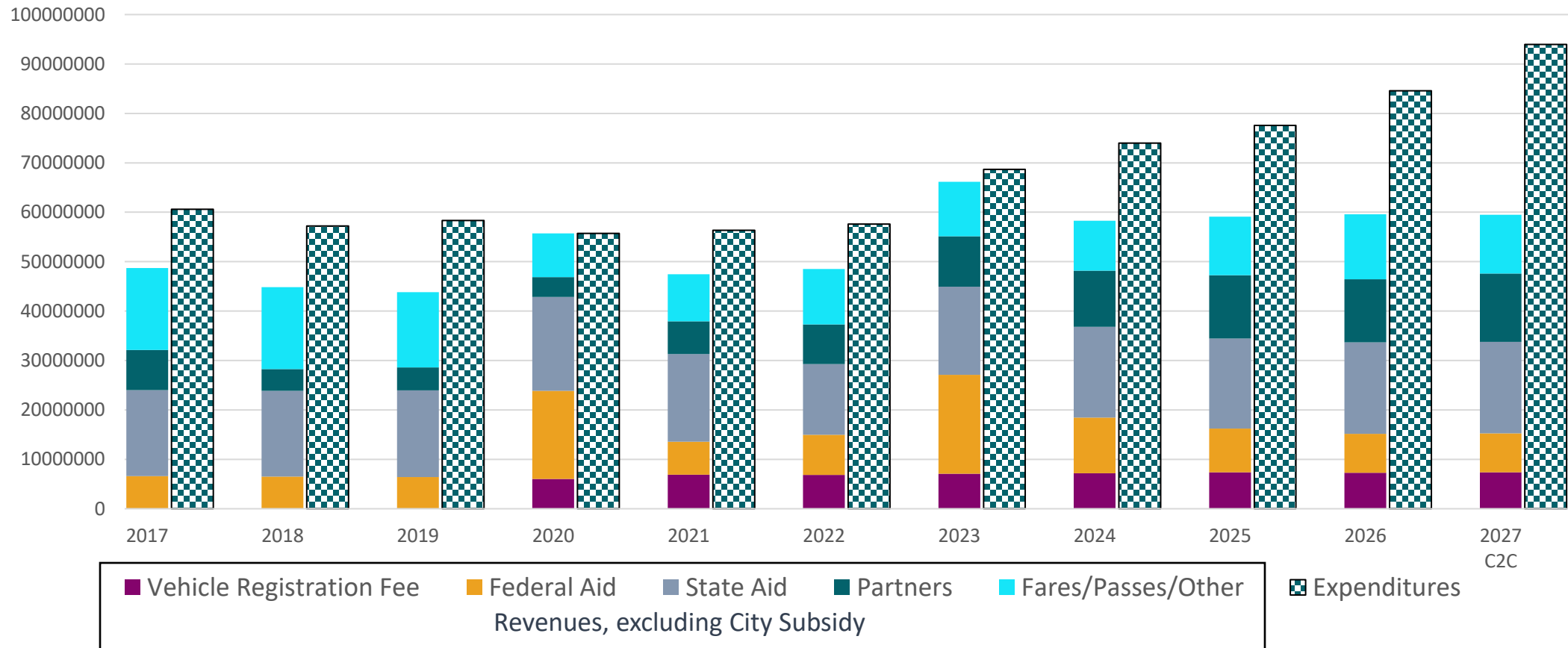
Five-Year Plan to Balance the Operating Budget (2026 Adopted)



- Five-year plan first introduced in 2025 adopted budget, updated for 2026.
- Plan assumed using \$40m of fund balance to close future gaps.
- Model assumed growth in personnel costs and inflation for non-personnel costs, but did not factor in current fuel prices or significant growth in Metro subsidy.
- Applying fund balance helps with the levy limit but does not solve the ERIP issue. Reductions will be required to comply with ERIP.
- Plan will be updated in the 2027 executive budget summary.

# Context on Metro Transit Revenues

Annual Gap between Revenues and Expenditures Filled by General Fund Subsidy  
 Federal Pandemic Aid from 2020 to 2023  
 No Growth in Revenues since 2023



# 2027 Budget Guidance

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# 2027 budget will include 2% reduction scenarios and no supplemental requests

- Due to expenditure limits, **all** agencies will be required to submit 2% reduction scenarios as part of their request.
- Baseline budget will continue a 3% average salary savings rate (All Funds) and 0.75% “Budget Efficiency” reduction for General, Library, and Fleet Funds.
- No new positions and no supplemental requests will be allowed.
- This year’s guidance on reductions and supplementals applies to enterprise and restricted funds, which have been historically excluded from budget cuts, to examine affordability of all City services.

# Budget Guidance:

## Base Budget

- **General, Library, and Fleet Funds:** Base budget will be 99.25% of cost-to-continue levels. This includes a built-in 0.75% budget reduction to reflect historic underspending levels. Department heads will be expected to manage to the 99.25% budget throughout the 2027 fiscal year.
- **Enterprise and Restricted Funds:** Agencies are directed to develop an operating budget plan consistent with current revenue projections for 2027. Revenue projections should limit the growth in user rates to the extent possible.
- **Salary Savings:** “Salary Savings” is used to reflect turnover and vacancies in an agency budget. All agencies, including enterprises, budget for salary savings. The citywide average is 3% of permanent wages, which is the same rate as 2026. Rates will be tiered from 0%-4% based on agency size.

# Budget Guidance:

## Reduction Scenarios (All, excluding grants)

- All agencies, including enterprise funds and restricted funds, must propose service reductions equal to at least 2% of the department's 2027 base budget. Grant funds are exempted from submitting a reduction proposal.
- Department heads are directed to review all services and activities. Our goal is to preserve core services while identifying lower priority services that could be eliminated. Plans should avoid, to the extent practicable, one-time savings from holding positions vacant and reductions in administrative costs (e.g. travel, training, office supplies) that do not impact service levels.
- Enterprise and restricted funds have been excluded from prior cut exercises based on the availability of revenue sources aside from the property tax. However, it is priority to examine affordability of all City services. The target for enterprise and restricted funds will be 2% of the request budget, excluding debt service and certain fixed costs determined by external entities.

# Budget Guidance:

## Reallocations, Personnel, and Supplementals

- **Reallocations:** Agencies may reallocate funding across services so long as the changes are net neutral and do not increase the agency's overall expenditures. Agencies may not change inter-departmental charges or shift costs to other departments.
- **Personnel:** Agencies will **not** be allowed to submit new position requests for 2027. This includes enterprise agencies. Agencies may request to recreate or reclassify existing positions, but must consult with HR on proposed changes.
- **Supplemental Requests:** Agencies will **not** be allowed to submit supplemental requests for 2027. Agencies may submit an optional 5-year planning document to identify future operating cost needs related to known projects (e.g. completion of a new facility, implementation of new software or equipment) that should be considered for future budget cycles.

# Budget Guidance:

## Other Considerations

- **Citywide Priorities:** Agency requests should be aligned with citywide priorities, including racial equity, social justice, and sustainability.
- **Creativity and Innovation:** Agencies are directed to be creative in developing proposals to reduce the cost-of-service delivery, including working across agencies to create cost-saving efficiencies.
- **Data-Informed Proposals:** Agencies that have completed the Results Madison data engagement will be expected to select 2-3 service indicators to present as part of their budget. These indicators will be published as part of the executive budget in October.