

*City of Racine's Fiscal Condition*

# LIVING WITHIN ITS MEANS

*An independent third-party analysis*



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 was undertaken to provide citizens and policymakers in the Greater Racine region and across the state with an independent, comprehensive, and objective analysis of the fiscal condition of the City of Racine government. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations at both the City and State level and as they prepare for the arrival of Foxconn.

Report authors would like to thank Racine fiscal officials and departmental staff for their assistance in providing information on the City's finances and for patiently answering our questions.

In addition, we wish to acknowledge and thank the Johnson Foundation at Wingspread, which helped fund this research as part of its "Resilient Communities Initiative," which is focused on building resiliency in the Greater Racine Region to improve the social and economic health of all area citizens. We also thank the Northwestern Mutual Foundation and the Rockwell Automation Charitable Corporation for their long-standing support of our local government finance research.



City of Racine's Fiscal Condition:

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*An independent third-party analysis*

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# INTRODUCTION

Located on the shore of Lake Michigan, roughly 30 miles south of Milwaukee and 60 miles north of Chicago, the City of Racine would appear well-positioned for economic success. Not only does it have the ability to benefit from those two population hubs, but it also is home to major corporations like Modine, CNH America LLC, Twin Disc, and SC Johnson, and it recently was cited as having the most affordable housing market among 406 metropolitan markets across the world.<sup>1</sup>

Yet, as evidenced by its concurrent ranking as the fourth worst city in the U.S. for African Americans,<sup>2</sup> its low household incomes, and its declining population, that status has yet to be achieved.

With the imminent arrival of Foxconn in its suburban backyard, Racine now has a tremendous opportunity to live up to its economic potential. To do so, however, it will need to enhance its attractiveness to developers and to the thousands of new residents who may be seeking to relocate to fill the jobs promised by Foxconn and its supply chain.

A critical factor will be the capacity of Racine's city government to provide the public services and public infrastructure that developers and potential new residents will be seeking. And, like its citizens, Racine's municipal government is facing a series of longstanding financial challenges.

The preamble to the City's 2017 budget links several of those challenges to its relationship with the State of Wisconsin. According to the budget, Racine is squeezed on the revenue side by State-imposed property tax limits and reduced State aids, and on the expenditure side by spending limits imposed by the State's Expenditure Restraint Program. Those factors require the City to "continue to look for ways to control costs in the face of increased demand for services."<sup>3</sup>

Other challenges have resulted from past decision-making and now must be addressed going forward. As noted by the Standard & Poor's ratings agency last summer, while possessing strong management with "good financial policies and practices," Racine suffers from a substantial debt burden caused by previous capital expenditures; and from a huge unfunded retiree health care liability caused by benefits promised to retired and active employees.<sup>4</sup>

While such challenges are not unique to Racine, they now take on increased importance with the arrival of Foxconn. On the positive side, Foxconn presents economic development and municipal revenue opportunities for the city; on the negative side, it raises the prospect of vastly increased municipal service demands that City leaders are just beginning to contemplate.

This report seeks to provide clarity on the scope and nature of the City of Racine's financial challenges by providing an independent analysis of the City's overall fiscal condition. The analysis employs a series of fiscal metrics suggested by the professional financial evaluation system of the International City/County Management Association (ICMA). The Wisconsin Policy Forum has used this

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<sup>1</sup> 13<sup>th</sup> Annual Demographia International Housing Affordability Survey, January 2017, [http://demographia.com/media\\_rls\\_2017.pdf](http://demographia.com/media_rls_2017.pdf).

<sup>2</sup> Evan Comen and Michael B. Sauter, "The Worst Cities for Black Americans," 24/7 Wall Street, Nov. 3, 2017, <https://247wallst.com/special-report/2017/11/03/the-worst-cities-for-black-americans-2/>.

<sup>3</sup> City of Racine 2017 Adopted Budget, p. 1.

<sup>4</sup> S&P Global Ratings Summary for City of Racine, August 10, 2017.



methodology to produce several reports on local governments in Milwaukee County, including the City of Milwaukee, Milwaukee County, and the Milwaukee Public Schools.

The ICMA system relies heavily on trend analysis to offer the kind of evaluation that rarely is possible during time-sensitive budget deliberations. The system helps governments better understand the nature of their revenues and expenditures, as well as their long-term and current budget solvency. It also examines revenue and expenditure challenges and how those influence service levels.

In keeping with this approach, we organize the report as follows:

- The first section explores indicators that reflect Racine’s fiscal environment, confirming that its economic and socioeconomic challenges are vast when compared to similar-sized cities in Wisconsin and the Midwest.
- Next, we examine Racine’s revenue portfolio and trends. We find that its two largest revenue sources – State shared revenue and property tax levy for operations – have shown remarkably little growth. Where revenue growth *has* occurred it has been tied to debt service, reflecting a prudent effort to lower long-term debt but placing substantial pressure on property taxpayers.
- Not surprisingly, when we next explore the City’s expenditure trends, we see position reductions in parks and public works that are creating service impacts. We also observe challenges involving the City’s transit system, which is struggling to maintain regional service in the face of declining ridership and an increased need for scarce property tax resources.
- Our analysis of Racine’s long-term fiscal prospects includes detailed examination of its retiree health care liabilities and capital debt and quantifies the alarmingly high levels of both. Given the City’s revenue constraints, these long-term obligations pose a serious threat to the City’s fiscal future.
- Finally, we find good news in our review of the City’s cash position and reserves. Racine’s strong showing in those areas reflects its sound fiscal management and shows that despite the City’s precarious long-term outlook, it is far from facing immediate fiscal crisis.

The Johnson Foundation at Wingspread provided financial underwriting for this report as the first in a series on the fiscal health of the municipalities in the Greater Racine Region. This is part of the Foundation’s “Resilient Communities Initiative,” which is focused on building resiliency in the Greater Racine Region to improve the social and economic health of all area citizens. Enhanced understanding of the fiscal health of Greater Racine is a key input into regional discussions that can catalyze cross-border collaborative problem-solving and action.

We hope this report will provide policymakers and civic leaders with baseline information that can instruct its deliberation of strategies to fortify the City’s fiscal condition and create opportunities for regional prosperity. Furthermore, with greater understanding of the City’s financial strengths and weaknesses, we hope community stakeholders will be better equipped to consider the City’s economic development opportunities and objectives, and to consider whether the fundamental municipal services that are required to accommodate such development can be appropriately provided and sustained.



# METHODOLOGY AND DATA

In seeking to provide an objective assessment of the City of Racine’s fiscal condition, this report leans on the ICMA’s Financial Trend Monitoring System, the purpose of which is to:

- *Examine local government financial condition—the forces that affect it and the obstacles to measuring it*
- *Identify existing and emerging financial problems*
- *Develop remedies for these problems*

The heart of the ICMA system is the selection of a group of indicators critical to local circumstances and the collection of information relevant to those indicators. The analysis tracks trend results for the selected indicators over a five-year period.

ICMA does not provide a formula for interpreting the gathered information. Rather, the format organizes and frames the data, providing a context by which to reach informed judgment. Per the ICMA handbook:

*Evaluating a jurisdiction’s financial condition is a complex process...Not only are there large numbers of factors to evaluate, but many of them are also difficult to isolate and quantify. Relationships between the factors add to the complexity. Some are more important than others, but often this cannot be determined until all the factors have been assembled...No single indicator is conclusive.*

ICMA created its methodology for evaluating local government finance in the early 1980s. Its fiscal indicators focus on four types of solvency:

- **Cash solvency**, which refers to a government’s ability to pay its bills and meet its payroll;
- **Budgetary solvency**, defined as “a government’s ability to generate enough revenues over its normal budgetary period to meet its expenditures and not incur deficits”;
- **Long-run solvency**, which examines future costs incurred by current fiscal decisions; and
- **Service-level solvency**, which is the “ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its citizens desire.”

Per the ICMA system, this analysis is wide-ranging with indicators specifically selected to address all four forms of solvency cited above. Indicators on fiscal liquidity and fund balances demonstrate cash solvency. Indicators on retirement spending, and debt shed light on long-term solvency. Indicators on revenues and expenditures reveal underlying factors that affect budget and service solvency. Trends are tracked from 2012 to 2016 so actual (as opposed to budgeted) financial data can be used; on issues deemed worthy of deeper analysis, the report examines more recent budgeted data.

In addition to using the ICMA indicators as a primary evaluative tool, this report utilizes a multitude of related data to create a context and an analytical framework that complements indicator information. City of Racine Comprehensive Annual Financial Reports (CAFRs), budget documents, actuarial reports, and other select studies were the major data sources consulted. The report also draws upon demographic, economic, social, and housing data from the U.S. Census and other national sources. The Consumer Price Index was used to assess the impact of inflation.



# RACINE'S FISCAL ENVIRONMENT

## ANALYZING THE ENVIRONMENT WITH THE ICMA SYSTEM

Before considering key financial indicators that speak to a local government's fiscal condition, it is important to have a basic understanding of the government's economic and socioeconomic environment. In this section, we review a small set of indicators to further such understanding.

ICMA cites an array of environmental indicators that a financial analysis should contemplate, including changes in community needs and wealth, economic and demographic conditions, disaster risk, and the nature of existing political structures and relationships. These "external" factors can affect citizens' needs and demands for government services and programs, as well as the ability of a government to pay its bills, sustain programs, and maintain long-term solvency. Under the ICMA system, the ultimate purpose of an environmental analysis is to assess whether "environmental factors provide enough resources to pay for the demands they make."

## ANALYSIS

One of the most fundamental indicators that can influence a city's financial condition is the size of its population and the direction of population change.<sup>5</sup> A city with an expanding population often can access a growing base of tax revenue to support core services. Conversely, a city with a shrinking population often must spread the cost of such services among fewer people, which can impact its capacity to maintain service levels and hamper efforts to attract new residents. Population decline also makes it more difficult to undertake and afford new initiatives.

Racine's population reached its peak in 1970 at 95,162. The city's population has been on the descent since that time, and stood at 77,571 according to the most recent U.S. Census estimates. The most precipitous drop occurred between 1970 and 1980, when the city lost more than 10% of its population (9,437 residents). The population has stabilized somewhat since 2005, dropping by about 4% since that time.

Another critical aspect of municipal fiscal health is the overall vitality of the local economy. Between 2012 and 2016, Racine showed mixed and uneven progress with regard to most key economic indicators (as shown in **Table 1**), though the city's unemployment rate did improve substantially.

A particularly relevant economic indicator that relates to municipal fiscal health is property values, which are central to a city's ability to generate property tax revenue. As shown in the table, Racine's equalized property value fell by more than 10% over the five-year period, though the city did see a reversal of the downward trend in 2016 with a 1.3% increase. Also, while the City's 2017 equalized value is not shown in the table, Racine saw another 2.6% increase in that year. (For the other indicators shown in **Table 1**, 2016 was the last year for which data were available.)

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<sup>5</sup> We produced a comprehensive set of "community indicators" for Racine and surrounding communities for the Johnson Foundation at Wingspread as part of its Resilient Communities initiative in the summer of 2017. That information can be accessed at <https://publicpolicyforum.org/research/racine-area-community-indicators>.



**Table 1: Trends in select environmental indicators, City of Racine, 2012 to 2016**

Year	Median Household Income	Mean Household Income	Equalized Value*	Percent in Poverty	Unemployment Rate	Civilian Labor Force
2012	\$38,789	\$50,408	\$3,587,222	21.5%	11.7%	38,473
2013	\$38,072	\$49,931	\$3,265,953	22.9%	11.8%	37,721
2014	\$39,623	\$51,605	\$3,208,323	22.4%	8.4%	37,859
2015	\$41,455	\$52,354	\$3,172,985	21.6%	7.0%	38,003
2016	\$41,178	\$52,745	\$3,212,360	21.9%	6.4%	37,770
<b>5-yr difference</b>	<b>\$2,396</b>	<b>\$2,229</b>	<b>(\$374,862)</b>	<b>n/a</b>	<b>n/a</b>	<b>(1,372)</b>
<b>5-yr % change</b>	<b>6.1%</b>	<b>4.4%</b>	<b>-10.4%</b>	<b>n/a</b>	<b>n/a</b>	<b>-3.5%</b>

\* In thousands

Source: Comprehensive Annual Financial Reports; U.S. Census, American Community Survey; Bureau of Labor Statistics

Overall, the city's income and poverty levels remain stubbornly out of line with state and national averages. For example, Racine's 2016 median household income of \$41,178 lagged Wisconsin's total of \$54,610 and the U.S. figure of \$56,516, while its poverty rate of 21.9% greatly exceeded the state rate of 11.8% and the U.S. rate of 14.8%. Those indicators of economic distress can produce added stress on the City budget given that high levels of poverty can place greater demands on certain municipal services, such as public safety and public health.<sup>6</sup>

A national bond rating agency has expressed concern about the city's economy. In August 2017, Standard & Poor's reported that it considered Racine's economy "very weak," citing its low per capita effective buying income and low property values when compared to national averages. The report's authors added that they "do not believe the city's economy score will improve over the next five years."<sup>7</sup>

Additional perspective on Racine's environmental challenges can be gained by comparing its environment with similar cities in Wisconsin and neighboring states. **Table 2** provides perspective on financial capacity (i.e. the ability of city government to generate tax revenues) and **Table 3** looks at indicators that speak to financial demand for municipal services. For the list of peer cities, we selected cities in Wisconsin, Illinois, Indiana, and Iowa that have similar populations to Racine.

**Table 2** indicates that when compared to the 10 peers, Racine ranks near the bottom when it comes to median and mean income levels and per capita property values. These indicators of wealth can be linked to a city's capacity to generate resources required to support municipal services.

<sup>6</sup> Racine, state and U.S. data obtained from U.S. Census QuickFacts and represent American Community Survey 2016 five-year estimates.

<sup>7</sup> S&P Global Ratings Summary for City of Racine, August 10, 2017.



**Table 2: Environmental indicators related to financial capacity, Racine and comparable cities, 2016**

City	Population	Median Household Income	Mean Household Income	Per Capita Property Value*
Appleton, WI	73,446	\$53,878	\$70,860	\$67,243
Bloomington, IL	78,368	\$63,115	\$84,118	\$70,883
Champaign, IL	84,672	\$45,198	\$67,466	\$54,541
Decatur, IL	74,063	\$40,777	\$54,221	\$33,508
Green Bay, WI	104,951	\$43,473	\$58,064	\$57,937
Hammond, IN	78,349	\$41,685	\$51,010	\$46,636
Janesville, WI	63,880	\$50,300	\$63,415	\$65,202
Kenosha, WI	99,865	\$49,636	\$62,426	\$60,808
Oshkosh, WI	66,713	\$43,960	\$55,508	\$56,604
<b>Racine, WI</b>	<b>77,931</b>	<b>\$41,178</b>	<b>\$52,745</b>	<b>\$41,221</b>
Sioux City, IA	82,666	\$46,028	\$60,236	\$47,619
<b>Racine rank*</b>	<b>7</b>	<b>10</b>	<b>10</b>	<b>10</b>

\* Ranked in descending order of financial capacity; for example, the city with the highest median household income is ranked 1st

Source: Comprehensive Annual Financial Reports; U.S. Census, American Community Survey

Similarly, when we look at indicators of demand for municipal services, such as unemployment, poverty, crime rates, and age of the housing stock, we see that Racine generally does not compare favorably with its peers (Table 3). In other words, **the demand on Racine's city government for certain municipal services likely is higher than in the other similar-sized cities, while the capacity of its taxpayers to support that demand likely is lower.** For the purpose of this fiscal condition analysis, that suggests responses to budget challenges that involve increasing local taxes and fees and/or cutting services may produce harsher ramifications in Racine than in other similar-sized cities.

**Table 3: Environmental indicators related to financial demand, Racine and comparable cities, 2016**

City	Annual Unemployment Rate	Percent in Poverty	Less than H.S. Diploma	Crimes Per 10,000		Housing**		
				Violent	Property	Units per 10,000	% Owner Occupied	Built Prior to 1950
Appleton, WI	3.8%	12.1	7.9%	27.56	171.47	4,085.59	66.2%	26.2%
Bloomington, IL	5.1%	12.9	4.6%	39.35	172.64	4,323.70	60.3%	20.1%
Champaign, IL	5.1%	25.8	4.5%	72.13	327.53	4,394.61	46.8%	13.2%
Decatur, IL	7.3%	25.1	12.4%	54.88	371.95	4,828.59	61.7%	32.3%
Green Bay, WI	4.1%	18.3	12.5%	48.03	219.33	4,311.44	56.0%	24.1%
Hammond, IN	6.6%	23.4	19.9%	70.01	357.31	4,134.19	60.5%	48.5%
Janesville, WI	4.5%	14.7	8.5%	20.84	253.40	4,294.77	65.8%	21.5%
Kenosha, WI	5.2%	19.3	11.5%	35.83	219.70	4,089.22	56.1%	29.7%
Oshkosh, WI	3.8%	19.5	10.0%	21.18	220.94	4,265.74	52.8%	34.7%
<b>Racine</b>	<b>6.4%</b>	<b>21.9</b>	<b>17.9%</b>	<b>47.33</b>	<b>294.96</b>	<b>4,338.84</b>	<b>54.1%</b>	<b>48.3%</b>
Sioux City, IA	3.6%	15.0	16.2%	44.46	395.47	4,048.34	64.0%	42.1%
<b>Racine rank*</b>	<b>9</b>	<b>8</b>	<b>10</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>9</b>	<b>10</b>

\* Ranked in descending order of financial capacity; for example, the city with the lowest poverty rate is ranked 1<sup>st</sup>

\*\* For housing, a higher incidence of home ownership relates to lower financial demand. A lower incidence of units per 10,000 people reflects higher population density but also fewer units per capita to maintain.

Source: Comprehensive Annual Financial Reports; U.S. Census, American Community Survey; Bureau of Labor Statistics

# BUDGETARY SOLVENCY: REVENUES

## ANALYZING REVENUES WITH THE ICMA SYSTEM

A key feature of any fiscal assessment is to determine whether revenues are increasing at a rate sufficient to sustain existing levels of services and program operations. The ICMA handbook states that “under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and expenditure.”

Since local governments rely upon multiple revenue sources, ICMA emphasizes that solvency may reflect decisions not just about whether or how much to increase taxes and fees, but also about the nature and relative proportion of different types of revenue streams. Whether a government relies mainly upon the property tax or fees, or is able to de-emphasize locally generated revenues because of sustained support from higher levels of government, can have a significant impact on its fiscal circumstances.

The ICMA system, therefore, encourages close examination not only of total revenues, but of a government’s revenue *characteristics*. In fact, two primary considerations are revenue flexibility and dependability. In the organization’s professional judgment, **a local government’s fiscal condition is strongest when it has diverse revenue sources that are not overly dependent upon external factors; when a significant portion of its revenues grow with the rate of inflation; and when its revenues are flexible and free from spending restrictions.**

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### *Summary of Revenue Findings*

*Racine’s revenue picture does not fare well when measured against ICMA standards. Its operations are heavily dependent on only two revenue sources – property taxes and intergovernmental revenues – both of which are severely constrained by external factors and neither of which has grown at the pace of inflation. While the City has seen growth in its debt service levy, use of those additional dollars is limited to a single purpose.*

*To offset lack of growth in major sources, City leaders did generate growth in other, lesser sources of revenue in 2012-2016 period, such as increased recycling fees, stepped up enforcement and collection of parking fines, and higher payments in lieu of taxes from the water utility. However, those revenue enhancements were unable to fully offset the lack of growth in the City’s major revenue streams.*

*Overall, the City’s constrained revenue portfolio poses a significant challenge to its ability to maintain service levels and invest in quality-of-life and economic development initiatives.*

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## ANALYSIS

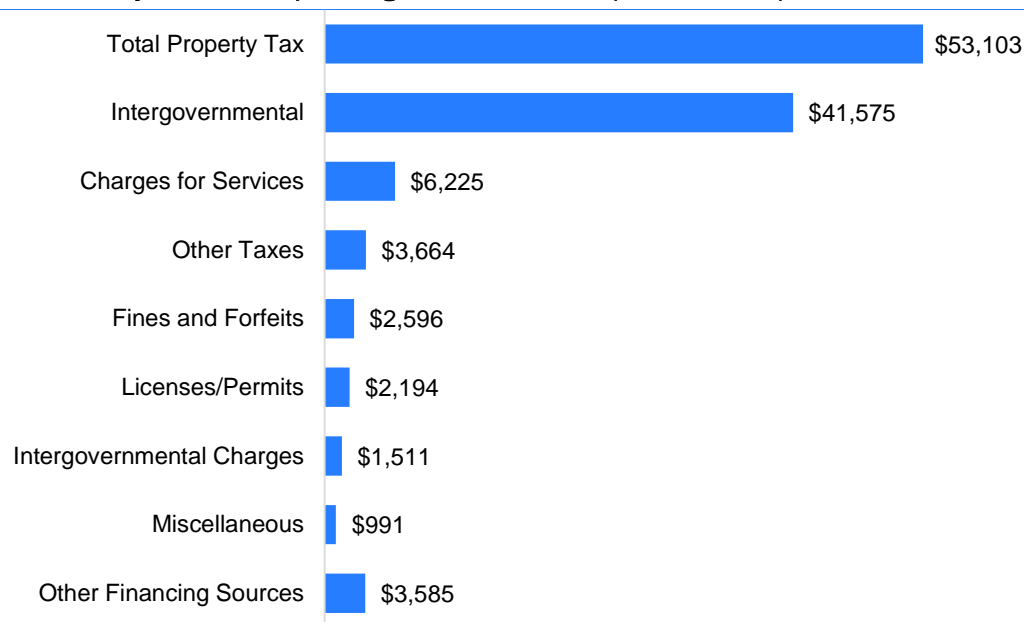
### Major revenue sources

The City of Racine's budget is comprised of a General Fund, which houses basic municipal services such as police, fire, and public works that are supported by property taxes and general revenue; several special revenue funds, such as for libraries and recycling, which are supported by user-based fees, but which also may receive property tax support; enterprise funds, such as for sewers and water, which are designed to derive their revenues exclusively (or almost exclusively) from the enterprise in which they are engaged; and funds for capital projects and debt service.

Our analysis of City revenues in this section focuses on the General Fund, debt service, and a limited number of special revenue and enterprise fund departments that receive funding from the property tax. Our focus on property tax-dependent functions reflects the importance of that funding source to the City's overall financial structure. Not included in our analysis are special revenue funds for private property and sanitary sewer maintenance; capital projects; and most enterprise funds (including water, wastewater, and storm water utilities, parking, and golf courses).

**Chart 1** presents Racine's actual operating revenues in 2016 for all property tax-dependent functions. Most of those functions are contained in the City's General Fund, which received \$81.6 million of the \$115 million total shown in the chart. There are seven major distinct revenue sources that support the General Fund and other property tax levy-dependent functions. We provide brief descriptions of those sources below.

**Chart 1: City of Racine operating revenues, 2016 (in thousands)**



Source: City of Racine financial records



Property Taxes are designated as the primary source of municipal tax revenue per Wisconsin statutes.<sup>8</sup> The State has established property tax "levy limits" by statute; those limits currently restrict annual increases for municipalities for operating purposes to no more than the percentage increase in equalized value from net new construction. Separate requirements apply to levy used for debt service. Property taxes collected by the City are allocated primarily to the General Fund (\$32.2 million in 2016) and debt service (\$16.5 million). Smaller amounts are allocated to special revenue funds (\$2.9 million) and two enterprise funds (transit and civic center - \$1.5 million).

Intergovernmental Revenues are grants and aids that come from the State and, to a much smaller degree, the federal government and other local levels of government. About two-thirds of the City's intergovernmental revenues come from the State's shared revenue and expenditure restraint programs (\$27.6 million of the \$41.6 million received in 2016). Other major sources of intergovernmental revenue include General Transportation Aids (\$4.4 million) from the State, State and federal aids that flow to the City's transit system (\$5.6 million), and intergovernmental payments from neighboring municipalities to support City libraries and to meet revenue sharing requirements from a sanitary sewer agreement.

Charges for Services are revenues received for services delivered by City departments. State statutes specify the types of services for which user fees can be assessed and prohibit the establishment of fee amounts that exceed the cost of service (i.e. recycling fees only can be used to support the cost of recycling services, as opposed to general government expenditures). Charges for services in Racine's property tax-dependent functions include recycling fees, transit fares, library fees, parks/recreation fees, and commercial fire inspection fees.

Intergovernmental Charges are revenues received from other governments for services provided by the City of Racine that benefit their citizens, as well. Those include payments from adjacent communities for transit, water/wastewater, and fire services.

Other taxes refer primarily to payments in lieu of taxes (PILOTs) received from the City's water and sewer utilities as well as interest and penalties from delinquent property taxpayers.

Licenses and Permits are revenues that accrue from charges assessed by City departments that grant a person legal permission to engage in a business, occupation, or other regulated activity. An example is permit and development fees charged to developers.

Fines and Forfeitures constitute revenues received from individuals violating municipal laws, such as municipal court and parking fines.

The broad overview of Racine's revenue characteristics shown in **Chart 1** conveys the challenging fiscal scenario faced by City leaders. **We see that just two revenue sources – the property tax and intergovernmental revenue – comprise 82% of the City's total revenue** for the functions in question.

In general, a lack of revenue diversity can be problematic for local governments in that different revenue sources are impacted to varying degrees by external factors, such as the health of the local economy or political considerations. Possession of a wide variety of revenue sources can help

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<sup>8</sup> Local governments also are allowed an "add-on" to the State motor vehicle registration fee (the so-called wheel tax) that only can be used for transportation purposes, and they are authorized to levy a hotel/motel room tax of up to 8%. Racine does not employ a local wheel tax and but does receive 15% of the proceeds from an 8% Racine County hotel/motel tax.

alleviate impacts on programs or services should one specific revenue source be severely affected by such circumstances.

In the case of Racine – as well as many other Wisconsin municipalities – this problem is even more challenging. That is because the two revenue sources that comprise the bulk of the City’s revenue pie – and that define its lack of revenue diversity – are highly restricted:

- **Property tax.** Racine’s largest revenue source is constrained by State of Wisconsin levy limits that restrict annual growth in the property tax levy for operating purposes to the percentage increase in property values that result from new construction. Over the 2012-2016 timeframe, the percentage increase in new construction never exceeded 0.5% annually, thus affording Racine little capacity to increase property taxes to support its operations.

The State’s levy limits do permit adjustments for levy used to pay debt service on certain types of general obligation (G.O.) debt, however, and the City has used this flexibility to its fiscal advantage. We take a more in-depth look at that circumstance later in this report.

- **Intergovernmental revenue.** The vast majority of Racine’s intergovernmental revenue comes from the State and is dependent, therefore, upon biennial State budget deliberations. This dependence is most pronounced with regard to the shared revenue/expenditure restraint program, which comprised 66% of all intergovernmental revenues and 24% of total revenues in 2016.

Wisconsin’s shared revenue program was created in 1911 to reimburse local governments for property tax exemptions adopted by the state. Over time, the distribution formula has been modified to reflect the “needs” of municipalities, under the rationale that areas with low per capita property values require greater assistance from the State to maintain services and programs.

The expenditure restraint program (ERP), meanwhile, was enacted in 1990 to reward municipalities with high property tax rates for limiting spending growth. According to the Wisconsin Department of Revenue, the program was a response “to criticism that the state shared revenue program...encouraged municipalities to increase spending.”<sup>9</sup> ERP payments are distributed as a distinct component of the shared revenue program.

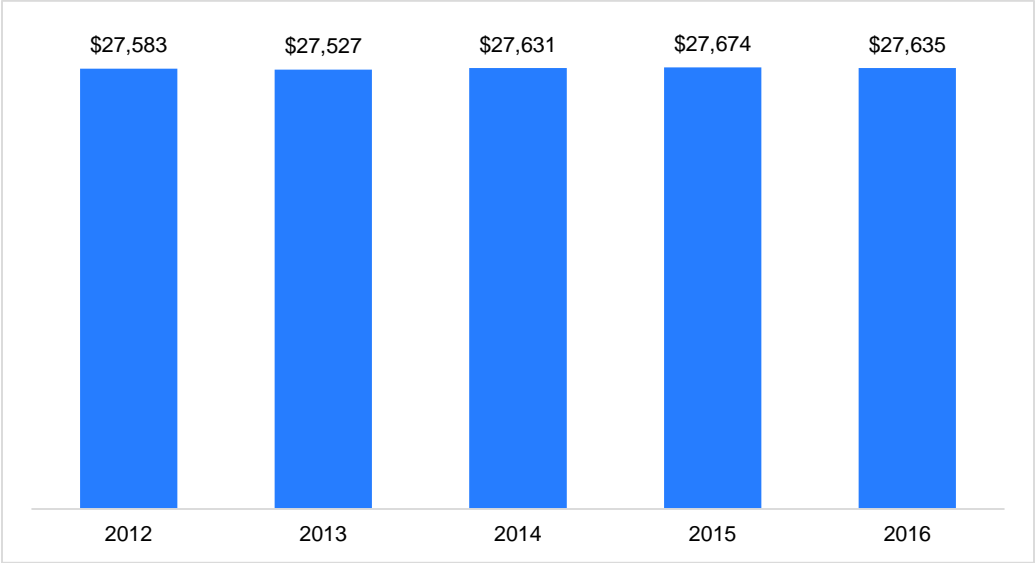
While the principles behind both programs are sound, the practical reality for Racine policymakers is that the combined payment (unadjusted for inflation) has been flat for several successive years, as shown in **Chart 2**. If the payment had kept pace with inflation, it would have been \$1.2 million higher than the amount actually received in 2016. Again, this is particularly problematic given the prominence of this revenue source in Racine’s overall fiscal structure.

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<sup>9</sup> Wisconsin Department of Revenue, <https://www.revenue.wi.gov/DORReports/16erp.pdf>.



**Chart 2: City of Racine State shared revenue payments, 2012-2016 (in thousands)**



Source: City of Racine financial records



## REVENUE TRENDS

The ICMA system relies on trend analysis over a five-year period to provide a more complete perspective than can be obtained from a single year's slice of data. ICMA's five-year trend indicators signal whether a government's finances are stable, improving, or deteriorating. To analyze the City of Racine's revenue picture, we use three indicators: operating revenues per capita in constant dollars; intergovernmental revenue as a percentage of operating revenue; and local tax revenue in constant dollars.

**Table 4** offers an overview of Racine's actual operating revenues for property tax-dependent budgets from 2012 to 2016. **Table 5** provides a similar overview but only for the General Fund. While the ICMA system refrains from citing revenues that are related to debt service, we show them in **Table 4** and use that table for our ICMA indicators because a substantial portion of the City's property tax revenue is used for that purpose. The various individual revenue sources that appear in both tables were described earlier in this section.

As shown in **Table 4**, Racine's total operating revenues for property tax-dependent budgets increased 7.1% from 2012 to 2016. Our measure of inflation – the Consumer Price Index – increased by 4.5%, which means the City's revenue growth exceeded the rate of inflation. That trend – which is considered an indicator of fiscal health as long as it is within reason – also is reflected in per capita operating revenues, as seen in **ICMA Indicator 1** (though per capita growth is slightly larger because of a decline in population).

When we consider the General Fund, a different picture emerges. As shown in **Table 5**, General Fund revenues increased by 3.3% over the 2012-2016 period, which was below the rate of inflation. This reflects the fact that virtually all of the City's growth in the property tax levy was dedicated to debt service.

### ICMA Fiscal Indicator 1 – Net Revenues Per Capita

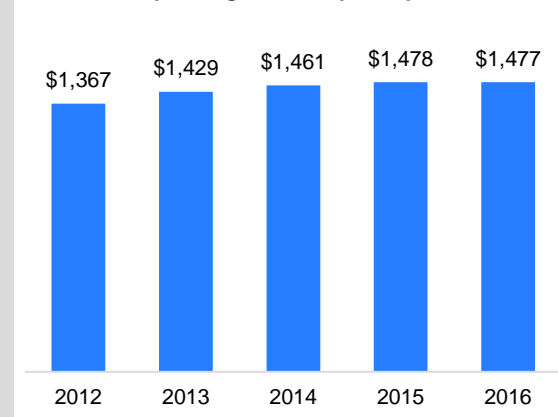
*Why it is Important* – Steady revenue generally is associated with stable operations and level of service, although total revenue changes may mask sizeable variations in individual revenue sources.

*ICMA Warning Sign* – Decreasing net operating revenues per capita in constant dollars.

*City of Racine Finding* – The City of Racine enjoyed nominal per capita revenue growth of 8.0% from 2012-2016, and 4.7% growth when adjusted for inflation. Such growth generally would be viewed as a sign of fiscal health. However, much of this growth is attributed to the property tax and has been restricted to use for debt service, the effects of which create concerns for taxpayers and for service solvency. Consequently, this is a trend that **requires monitoring**.



Operating Revenue per Capita



Source: U.S. Census and City of Racine financial records



**Table 4: City of Racine revenues, property tax-dependent functions, 2012 to 2016<sup>10</sup>**

	2012	2016	% Change
Total Property Tax	\$47,188,813	\$53,103,144	12.5%
Intergovernmental	\$39,818,127	\$41,574,712	4.4%
Charges for Services	\$6,979,848	\$6,224,986	-10.8%
Fines and Forfeits	\$1,641,297	\$2,596,299	58.2%
Licenses/Permits	\$1,626,773	\$2,194,499	34.9%
Intergovernmental Charges	\$1,780,953	\$1,511,082	-15.2%
Miscellaneous	\$1,769,280	\$991,014	-44.0%
Transfers	\$1,114,681	\$0	-100.0%
Other Taxes	\$2,979,547	\$3,664,009	23.0%
Other Financing Sources	\$2,889,271	\$3,585,134	24.1%
<b>Total Revenues</b>	<b>\$107,788,590</b>	<b>\$115,444,879</b>	<b>7.1%</b>

Source: City of Racine financial records

**Table 5: City of Racine revenues, General Fund, 2012 to 2016**

	2012	2016	% Change
Intergovernmental	\$32,749,237	\$34,138,204	4.2%
Property Taxes	\$31,601,627	\$32,154,461	1.7%
PILOT/Interest & Penalties	\$2,979,547	\$3,664,009	23.0%
Charges for Services	\$4,037,872	\$3,346,342	-17.1%
Fines/Forfeitures	\$1,400,742	\$2,324,968	66.0%
Licenses/Permits	\$1,626,773	\$2,194,499	34.9%
Intergovernmental Charges	\$1,780,953	\$1,511,082	-15.2%
Other Financing Sources	\$0	\$1,204,204	100.0%
Miscellaneous	\$1,250,981	\$610,689	-51.2%
Transfers	\$1,114,681	\$0	-100.0%
<b>Total</b>	<b>\$78,542,413</b>	<b>\$81,148,458</b>	<b>3.3%</b>

Source: City of Racine financial records

<sup>10</sup> For purposes of trend analysis, in both **Table 4** and **Table 5** certain one-time sources of revenues (e.g. bond proceeds from debt refinancing) were not included in revenue totals. Also, it is important to note that changes in certain revenue categories may reflect accounting decisions, as opposed to actual revenue increases or decreases. For example, Charges for Services decreased by about \$358,000 in 2016 because of a change in the treatment of a fire department payment to the General Fund.



When we examine the City's revenue trends in greater detail, we see it was able to realize sizable increases in relatively minor sources of revenue, such as fines/forfeitures and payments in lieu of taxes (shown in the "Other Taxes" line).<sup>11</sup> However, a disconcerting bottom line is that Racine's two largest revenue sources – property tax levy for operations and intergovernmental revenue – collectively failed to muster much growth.

As shown in **ICMA Indicator 2**, the City's intergovernmental revenue constituted a slightly smaller percentage of the City's overall revenue for its property tax-dependent budgets in 2016 than it did in 2012, which is considered a positive trend. Yet, the increased pressure on local taxpayers and service users to bridge the gap has negative ramifications given the limited taxpayer capacity and low household incomes described in the previous section.

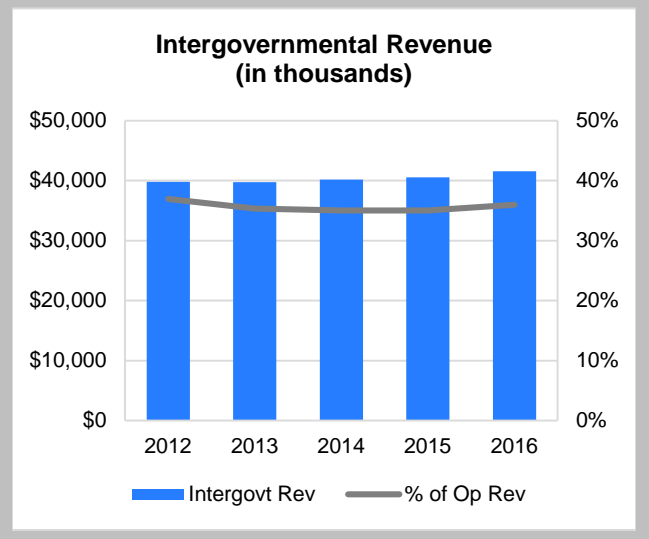
The trend in intergovernmental revenue also has impacted Racine's service solvency. With growth in the property tax dedicated mainly to debt service, there has been little other revenue growth available to sustain "costs to continue" in areas like wages, benefits, and commodities for General Fund departments. This has required City leaders to make difficult decisions with regard to departmental staffing and programs, as we will discuss in greater detail in the next section of this report.

**ICMA Fiscal Indicator 2 – Intergovernmental Revenue as a Percentage of Operating Revenue**

*Why it is Important* – Racine depends heavily on intergovernmental revenue, which is derived overwhelmingly from State funds. This is the City's second largest revenue source.

*ICMA Warning Sign* – An increasing percentage of intergovernmental revenue as a proportion of operating revenues.

*City of Racine Finding* – As a percentage of the City's overall revenue for property tax-dependent budgets, intergovernmental revenue declined from 36.9% in 2012 to 36.1% in 2016. While this would appear to be a sign of fiscal health given ICMA's warning about over-reliance on a single revenue source, the fact that the City's revenue structure essentially requires this reliance makes this trend problematic. Specifically, per State statutes, City leaders lack alternative major revenue options outside of the property tax to make up for the flat growth in intergovernmental revenue, putting increased pressure on that source and making this a trend that **requires monitoring**.



<sup>11</sup> In both of the tables above, the increase in licenses/permits and decrease in charges for services over the period is attributed, in part, to the reclassification of building permits from the service charge line item to the licenses/permit line item in 2014.

With regard to property tax revenue, **ICMA Indicator 3** indicates that overall, this resource grew by 12.5% from 2012 to 2016 (and by 9.0% when adjusted for inflation). At first glance, it would appear that this increase helped the City accommodate flat growth in intergovernmental revenue and allowed it to maintain a healthy level of overall revenue growth.

As mentioned above, however, virtually all of the City's property tax levy growth from 2012 to 2016 was directed toward debt service. In fact, as shown earlier in **Table 5**, the amount of levy devoted to General Fund operations increased by only \$553,000 (1.7%) over the period, while the amount dedicated to debt service grew by \$5.9 million (55.0%). This reflects both the impacts of property tax levy limits – which essentially only allowed for growth in the debt service levy – and a deliberate decision by City leaders to act more aggressively in paying down long-term debt. Additional discussion of that issue is provided later in this report.

It is also important to recognize the effects of this overall growth in the property tax levy on residents and businesses. Over the 2012-2016 timeframe, as the City's total property tax levy grew from \$47.2 million to \$53.1 million, its equalized property value declined by 10.4%. Consequently, the property tax *rate* for City government grew from \$12.39 in 2012 to \$16.74 in 2016 (35.0%).

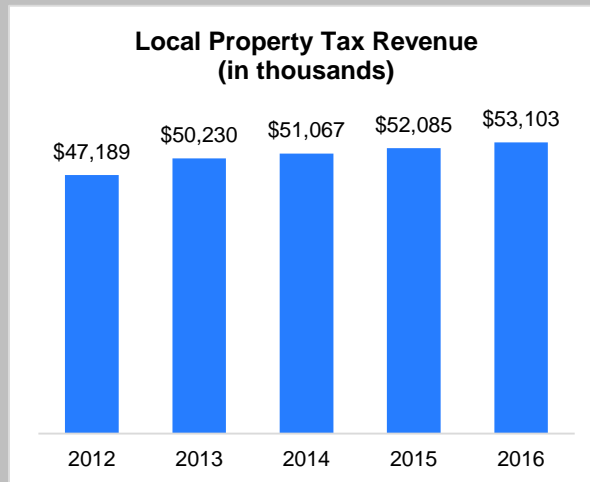
Finally, as noted above, faced with limited revenue growth from its largest sources, the City was able to generate growth from smaller sources to fill part of the gap. As shown in **Chart 3**, three such sources – parking fines, payments in lieu of taxes from the City's water utility, and recycling fees – collectively produced \$1.8 million more in revenue in 2016 than they did in 2012.

**ICMA Fiscal Indicator 3 – Growth in Property Tax Revenue**

*Why it is Important* – Property tax revenue is Racine's largest single revenue source. A decline in this source may reflect structural problems, such as a loss of population, a depressed economy, and/or decline in local property values, but a substantial increase may indicate over-reliance that can harm the municipality's ability to compete for residents and jobs.

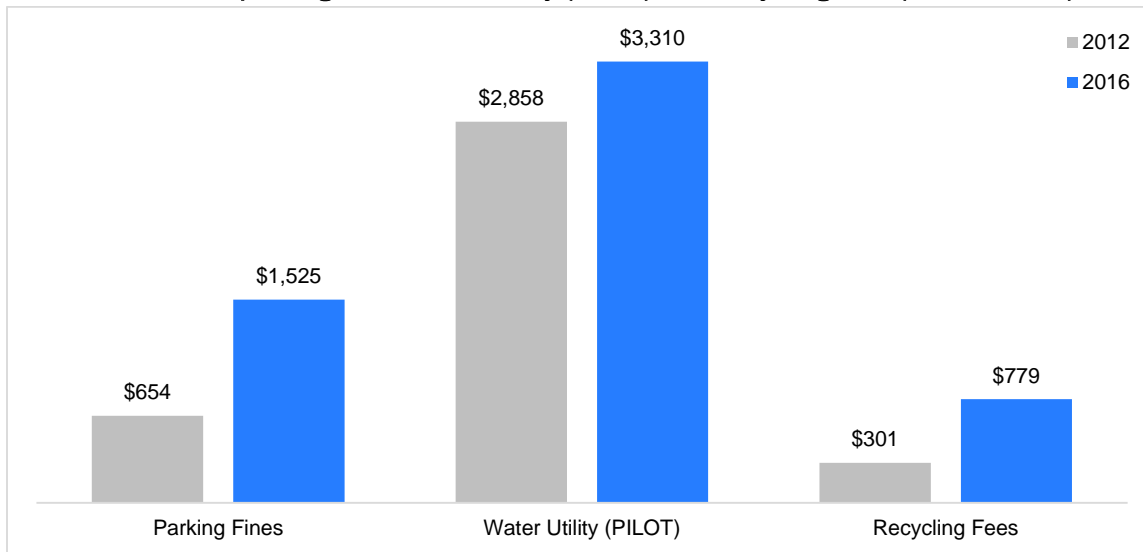
*ICMA Warning Sign* – Decline in tax revenues in constant dollars.

*City of Racine Finding* – The City experienced a 12.5% increase in property tax revenues from 2012 to 2016, which equates to a 9.0% increase in constant dollars. While this growth has allowed the City to enhance the rate at which it is paying down debt, the impact on residents and businesses should be considered and **requires monitoring**.



Source: City of Racine financial records

**Chart 3: Growth in parking fines, water utility (PILOT), and recycling fees (in thousands)**



Source: City of Racine financial records

### Major issue: Racine's property tax contradiction

Our analysis suggests that on the one hand, the State's property tax levy limits are precluding Racine from experiencing sufficient revenue growth; yet, on the other, the property tax burden for Racine residents and businesses is high and has grown sharply. As we have explained, this apparent contradiction is attributed to the inability of Racine's *operating levy* collections to increase even at the rate of inflation given the State's caps on that portion of the levy; and its corresponding use of growing amounts of *debt service levy* – which has not been similarly restricted – to reduce its long-term debt load.

The operating levy limit essentially restricts annual growth in the amount of property tax levy dedicated to operating purposes to the previous year's percentage growth in net new construction.<sup>12</sup> As shown in **Chart 4**, that has afforded Racine little capacity to increase its operating levy over the past five years.

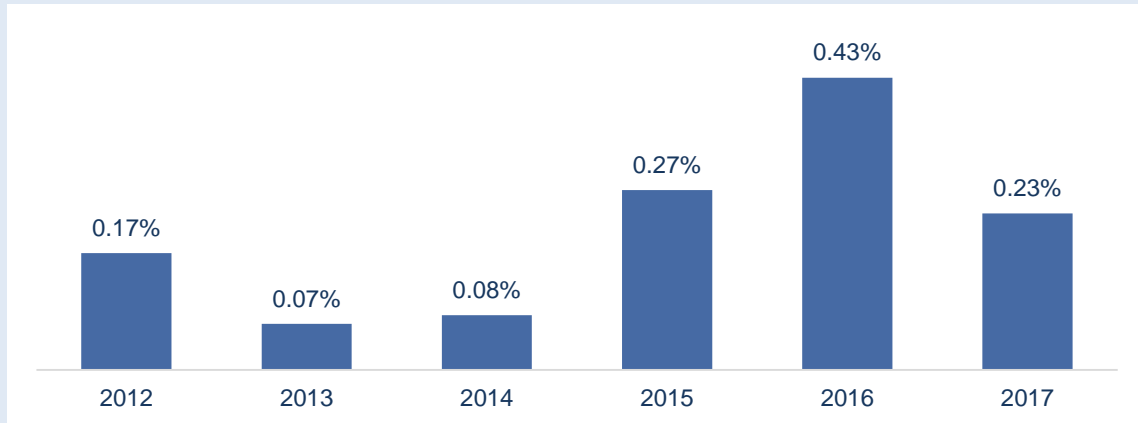
Under State statute, payments associated with general purpose debt are excluded from the levy limit. Consequently, the City had the ability to increase its levy to accommodate whatever increase in debt service it either was required to make or elected to make.

As we will explain in greater detail below, Racine leaders decided to begin paying off their sizable amounts of long-term debt in an aggressive fashion beginning in 2013, using the debt service levy exclusion to do so. While this was a laudable move to improve the City's overall financial health, it also produced a sizable increase in the City's property tax rate.

<sup>12</sup> Property tax levy used for capital purchases is included under this definition of "operating purposes."

In fact, the owner of a median-priced home in Racine (\$104,000 in 2016) would have seen his or her property tax bill increase by \$452 between 2012 and 2016 (assuming no change in the value of the home during that time).

**Chart 4: New construction as a percentage of total equalized value, 2012-2017**



Source: Wisconsin Department of Revenue

The impact of this trend on Racine’s competitiveness vis-à-vis its neighbors is a concern. As shown in **Chart 5**, the municipal tax rate in Racine<sup>13</sup> far exceeds those of Caledonia, Mount Pleasant, and Sturtevant, which may affect the City’s efforts to attract and retain new residents and businesses. Ironically, to the extent this circumstance contributes to the City’s financial challenges, its ability to provide services that *benefit* the surrounding communities (e.g. libraries, cultural assets, and transit) also may be threatened.<sup>14</sup>

**Chart 5: Municipal tax rates in Racine and surrounding communities, 2012 vs. 2016**



Source: Wisconsin Department of Revenue

<sup>13</sup> The municipal tax rate is the amount per \$1,000 of assessed value paid by property owners for the municipal portion of their property tax bill.

<sup>14</sup> Racine does receive reimbursement from surrounding communities and/or Racine County for certain services that are regional in nature. It is beyond the scope of this report to determine whether such payments appropriately reflect the level of service provided, but we hope to explore that question in future research on regional service sharing.

Looking to the future, there is cause for optimism in that the City's need to increase its debt service levy has lessened as a result of its aggressive debt repayment policies. Meanwhile, Foxconn-related development made possible by the growth in jobs and residents may offer the prospect of future growth in new construction. Yet, the City's ability to increase its operating levy may be limited for affordability reasons given the extent to which it already has increased the levy in recent years to pay off debt. Also, **to the extent that new construction in Racine occurs within new tax incremental districts, the City would not enjoy the direct property tax levy benefits for several years.**

## SUMMARY

Racine's revenue structure provides little ability to meet inflationary increases in operational costs given the flat growth of intergovernmental revenues and the minimal growth in property tax levy devoted to operations. Enhanced collections of fines, fees, and PILOT revenues has countered these trends somewhat, but the City's overall ability to generate revenue growth to meet its operating expenditure needs is quite limited and is likely to be an ongoing challenge.

At the same time, its decision to increase property taxes to pay off debt has left it with a property tax rate that is quite high when compared to surrounding communities. That may limit its future willingness to increase property tax collections even if it is able to do so under State levy limits.

# BUDGETARY SOLVENCY: EXPENDITURES

## ANALYZING EXPENDITURES WITH THE ICMA SYSTEM

A key element of any assessment of fiscal stability is the extent to which a government's expenditure patterns are consistent with its revenue-generating capacity. The ICMA system uses indicators that measure expenditure growth and display how it follows revenue trends. The ICMA indicators also demonstrate a municipality's ability to manage resources over time and can reveal expenditure patterns that suggest long-term instability.

The essence of the ICMA system is an in-depth examination of expenditures and how they contribute to budgetary solvency. ICMA suggests, for example, that fiscal analyses look at the factors driving expenditure increases and their implications for a government's overall fiscal condition. The ICMA system also encourages examination of whether expenditure increases are tied to fixed costs or adding to levels of future costs in a manner that places long-term budget solvency at risk.

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### *Summary of expenditure findings*

*Our analysis of City of Racine expenditures shows that the overall growth rate of 5% from 2012-2016 slightly exceeded the 4.5% rate of inflation. While this growth was not unreasonable, the fact that all of it was attributed to increased spending on debt service is problematic on two fronts:*

- 1. High levels of debt service expenditures put considerable pressure on the City's property taxpayers.*
- 2. Lack of expenditure growth in General Fund departments required cuts in positions and reduced service levels, particularly in the areas of public works and parks/recreation.*

*On the positive side, the City's ability to reduce pension payments because of negotiated contributions from public safety employees – as well as its ability to keep health care spending in check – were critical to avoiding even deeper position cuts. Another positive factor has been the City's conservative budget policies, which have allowed it to maintain a healthy General Fund balance and use reserve contributions to stave off programmatic cuts.*

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## ANALYSIS

Our analysis of City of Racine expenditures again encompasses the City's operating budget per our earlier definition (i.e. General Fund departments, debt service, and other funds that are at least partially supported by the property tax). As additional context, however, we again isolate only the General Fund.

It is important to note that analysis of functional expenditures by local governments can be affected by accounting procedures. For example, some governments allocate fringe benefit expenditures directly to departments so they are folded into departmental budgets, while others account for them separately so they appear in a non-departmental account. Within that decision-making, there also can be differences in the treatment of fringe benefit costs for active vs. retired employees. In Racine, fringe benefit costs for active employees are allocated to departments and included in departmental budgets, while benefit costs for retirees are included in a non-departmental line item. We isolate all fringe benefits for separate analysis later in this section.

**Chart 6** shows the functional breakdown of Racine's actual operating expenditures for property tax-dependent functions in 2016. We see that public safety is the single largest expenditure category at \$45 million, comprising 39% of the total. Debt service is next at \$18.2 million (16%). Other major areas of departmental spending include public works, transit, and education/recreation.

When we examine five-year trends per the ICMA methodology, we find that the growth in Racine's expenditures on the functions that are subject to our analysis modestly exceeded the 4.5% rate of inflation, increasing by 5.0% from 2012 to 2016 (**Table 6**). On a per capita basis, they grew by 5.8% from 2012 to 2016, as seen in **ICMA Indicator 4**.

### ICMA Fiscal Indicator 4 – Net Expenditures Per Capita

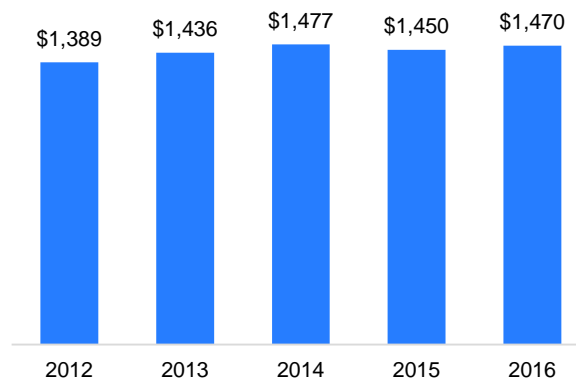
*Why it is Important* – In a state of good fiscal health, a government's per capita expenditures in constant dollars should hold nearly level or increase slightly and should not exceed per capita operating revenues. A scenario in which expenditures increase too rapidly may cast doubt on long-term funding sustainability.

*ICMA Warning Sign* – Imbalance between expenditures and net operating revenues or a large increase in expenditures in constant dollars.

*City of Racine Finding* – Per capita expenditures increased 5.8%, which is modestly higher than the 4.5% rate of inflation. Virtually all of the growth was related to debt service, which reflects (in part) a prudent decision by City leaders to more aggressively retire debt, but which also reflects the extent to which high levels of debt drive overall expenditures. This pattern is indicative of a long-term **threat** to Racine's fiscal condition and it **requires careful monitoring**.



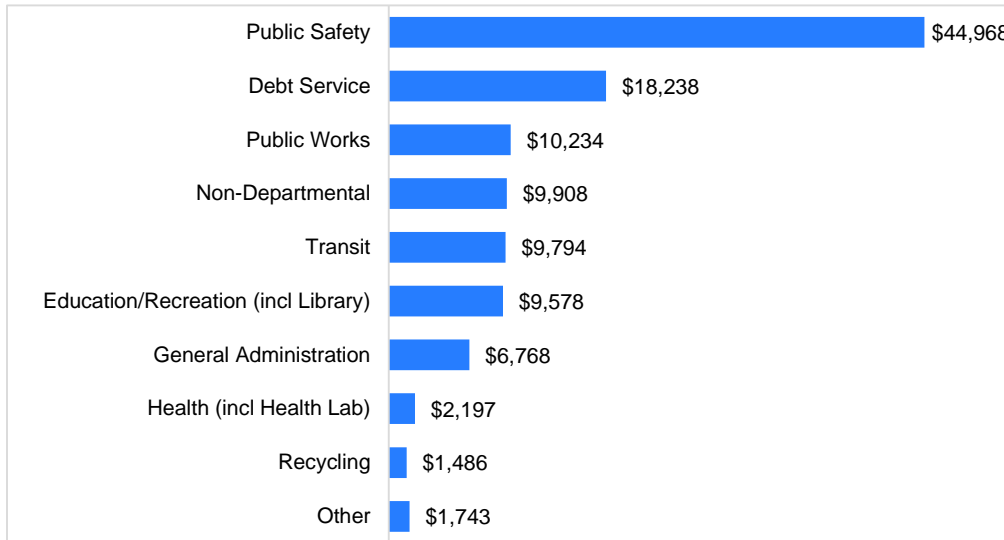
### Operating Expenditures Per Capita



Source: City of Racine financial records; U.S. Census



**Chart 6: City of Racine operating expenditures, 2016 (in thousands)**



Source: City of Racine financial records

**Table 6: City of Racine expenditures, property tax-dependent departments, 2012-2016**

	2012	2016	% Change
General Administration	\$6,026,254	\$6,767,748	12.3%
Non-Departmental	\$9,868,483	\$9,908,043	0.4%
Health (incl Health Lab)	\$1,973,431	\$2,196,523	11.3%
Public Safety	\$45,574,194	\$44,968,187	-1.3%
Public Works	\$11,328,997	\$10,233,867	-9.7%
Education/Recreation (incl Library)	\$9,870,972	\$9,578,432	-3.0%
Recycling	\$1,423,902	\$1,485,821	4.3%
Debt Service	\$11,437,259	\$18,238,478	59.5%
Transit	\$9,847,917	\$9,793,533	-0.6%
Other	\$2,138,451	\$1,743,104	-18.5%
<b>Total</b>	<b>\$109,489,860</b>	<b>\$114,913,736</b>	<b>5.0%</b>

Source: City of Racine financial records

In a government that has healthy revenue growth and a growing tax base, this level of expenditure growth would be viewed as manageable. However, given Racine’s challenges in both of those areas, the need to accommodate such expenditure growth represents a formidable challenge.

There are several reasons why a government entity might increase expenditure levels, including population growth and implementation of new services. **Table 6** shows in Racine’s case, growing debt service payments were the primary culprit. In fact, when we isolate only the General Fund departments in **Table 7** (i.e. we exclude debt service and special funds like Library and Recycling), we see expenditures *declined* by \$1.4 million (1.7%) over the 2012-2016 timeframe.<sup>15</sup>

<sup>15</sup> The growth in General Administration in both tables is attributed, in part, to the transfer of housing and fair housing functions into that line item during the five-year period.

**Table 7: City of Racine operating expenditures, General Fund, 2012-2016**

	2012	2016	% Change
General Government	\$14,825,508	\$16,675,791	12.5%
Non departmental	\$9,868,483	\$9,908,043	0.4%
Administration	\$6,026,254	\$6,767,748	12.3%
Health	\$1,798,680	\$1,917,056	6.6%
Public Safety	\$45,574,194	\$44,968,187	-1.3%
Public Works	\$11,328,997	\$10,233,867	-9.7%
Education/Recreation	\$6,489,877	\$5,915,310	-8.9%
<b>Total General Fund</b>	<b>\$81,086,485</b>	<b>\$79,710,211</b>	<b>-1.7%</b>

Note: The General Government total for 2012 does not reflect the sum of the two components below because building Inspection was moved from Public Works to General Administration in 2012. For consistency, the 2012 expense is shown in Administration although it was originally budgeted in Public Works.

Source: City of Racine financial records

There is no question that long-term debt – and the need to service that debt with principal and interest payments in annual budgets – is a foremost fiscal concern for the City of Racine. In this case, however, growing debt payments over the 2012-2016 timeframe can be seen in both a positive and a negative light.

On the positive side, these growing payments reflect resolve among City fiscal officials and elected leaders to more aggressively pay down capital debt, which is a prudent fiscal strategy. The intent was to utilize the City’s legal capacity to levy additional property taxes for debt service purposes (as described in the previous section) as a means of reducing long-term debt and, ultimately, stabilizing annual debt service obligations. That, in turn, would allow the City to conduct annual borrowing in the future at levels deemed appropriate to meet capital needs. In addition, beginning in 2012, the City initiated a strategy of capitalizing certain equipment and related expenses as a means of shifting those costs to the debt service levy and freeing up levy capacity for operating purposes.

The success of the City’s aggressive debt repayment strategy was reflected by the S&P August 2017 analysis, which stated that “approximately 93.4% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.”<sup>16</sup> Furthermore, the City has been fiscally prudent in its borrowing, issuing G.O. bonds with a payback period of 14 years, despite a statutory allowance of up to 20 years. Also, because the City has used its debt service levy to accommodate the growing payments, the payments have not supplanted funds from other City departments or services (though they have impacted the property tax levy burden on City residents, as discussed previously).

On the negative side, the amount that Racine is committing to annual debt service is striking. When we consider the property tax levy used to support debt service in 2016 – \$16.5 million – we see that it comprised 31% of the City’s total levy of \$53.1 million. By comparison, the City of Milwaukee dedicated \$61.2 million of its \$256.7 million property tax levy to debt service that same year (24%) while the City of Kenosha dedicated \$10.4 million of its \$49.5 million levy to debt service (21%).

<sup>16</sup> S&P Global Ratings Summary for City of Racine, August 10, 2017.

## CITY WORKFORCE

The size of the government workforce is another important fiscal indicator tied to government expenditures. Racine's workforce decreased between 2012 and 2016, with a loss of 46 full-time equivalent (FTE) positions (from 764 to 718, or 6%). As shown in **ICMA Indicator 5**, authorized positions per capita declined by 5% to 9.19 per 1,000 residents.

**Table 8**, which shows workforce trends for major City functions, reveals that public works experienced the largest reduction in positions (12.85 FTEs) in the 2012-2016 timeframe, while health and libraries suffered the largest losses on a percentage basis. Police and fire were spared from position reductions (in fact, the police department gained 6 FTEs).

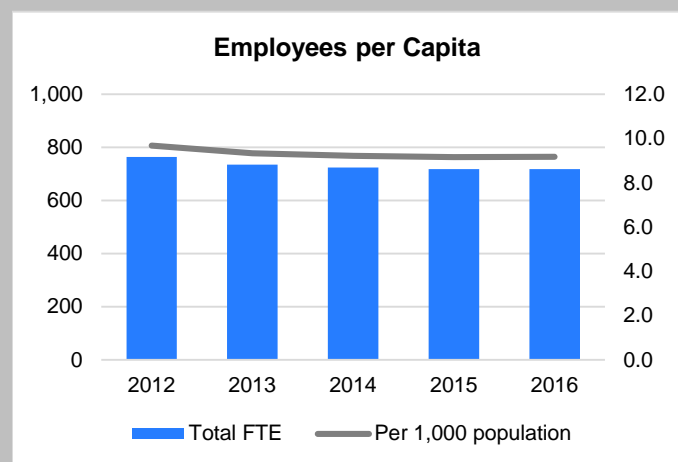
The ability of City leaders to trim workforce during a time of population and tax base loss should be seen as a sign of fiscal health. However, service-level impacts associated with reductions in individual functions and departments also need to be considered, as we will discuss below.

### **ICMA Fiscal Indicator 5 – Employees Per Capita**

*Why it is Important* – A government's per capita employees has implications for budget solvency because of the significant impact of personnel costs on local government budgets. An increase in employees per capita may have long-term growth implications and may indicate that the government is expanding operations, becoming more labor intensive, or that productivity is declining.

*ICMA Warning Sign* – Increasing number of municipal employees per capita.

*City of Racine Findings* – The City's workforce declined by 46 FTEs from 2012 to 2016 and by 5% in terms of per capita employees. This is a **positive indicator** of fiscal health, but the uneven distribution of the cuts may be cause for concern. Specifically, service-level impacts in the areas of public works and parks/recreation **require monitoring**.



Source: City of Racine financial records; U.S. Census

**Table 8: Workforce trends for major City functions**

Employees by Major Function	2012	2016	% Change
Police	235.5	241.5	2.5%
Fire	141.0	141.0	0.0%
Public Works	99.6	86.7	-13.0%
General Admin	62.4	58.4	-6.5%
Library	48.6	40.3	-17.0%
Parks & Recreation	32.0	28.0	-14.3%
Health	25.3	20.5	-19.0%

Note: Building Inspection functions moved from Public Works to General Administration during the period but are shown in General Administration in both 2012 and 2016 for comparative purposes.

Source: City of Racine financial records and data obtained from departments

## DEPARTMENTAL BREAKDOWN

As previously noted, most of the City's expenditure growth from 2012 to 2016 was attributed to increasing debt service payments, which grew from \$11.3 million in 2012 to \$18.2 million in 2016 (60%).<sup>17</sup> Meanwhile, General Fund expenditures declined from \$81.1 million to \$79.7 million (1.7%).

It is no surprise, then, that while debt service's share of spending in the major functional areas increased from 10.4% to 15.9%, the proportional shares decreased for public safety (2.5 percentage points), public works (1.4 points) and education/recreation (0.7 points), as displayed in **ICMA Indicator 6**. A scenario in which one function is obtaining the vast majority of the limited additional dollars available to support City services can be problematic. Indeed, ICMA suggests that such a situation bears watching in light of potential consequences to the level and quality of services in other departmental budgets (also referred to as service solvency).

When we drill down into departmental expenditures even further, we see that the Department of Public Works (DPW) is an area that raises concerns with regard to service solvency. As shown in **Chart 7**, that function saw an expenditure reduction of \$1.1 million (9.7%) from 2012 to 2016. Also, as noted above, DPW experienced a reduction in positions of 12.85 FTEs (equivalent to 12.9% of its workforce).

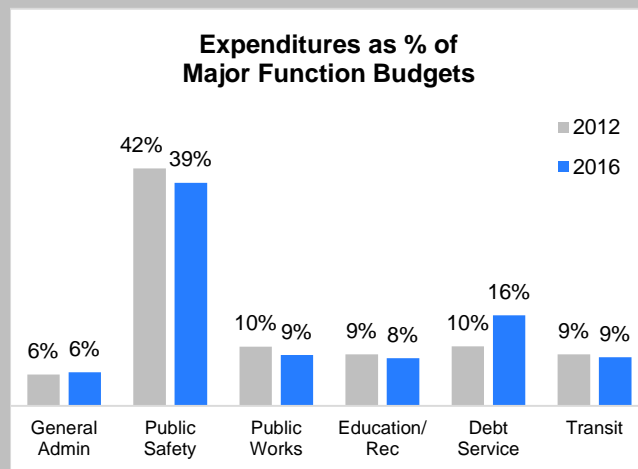
Racine officials acknowledge these reductions have produced service-level impacts, particularly with regard to City streets. For example, to reduce energy costs, the City removed 1,000 streetlights during the 2012-2016 timeframe that it formerly leased from We Energies. While many of these were deemed redundant under a new streetlight spacing policy, a substantial number likely would have remained if not for budget constraints.

### ***ICMA Fiscal Indicator 6 – Expenditures by Major Functions***

*Why it is Important* – This indicator of relative funding by function helps explain the causes and impacts of revenue and expenditure changes.

*ICMA Warning Sign* – An increasing proportion of expenditures by one or two functions.

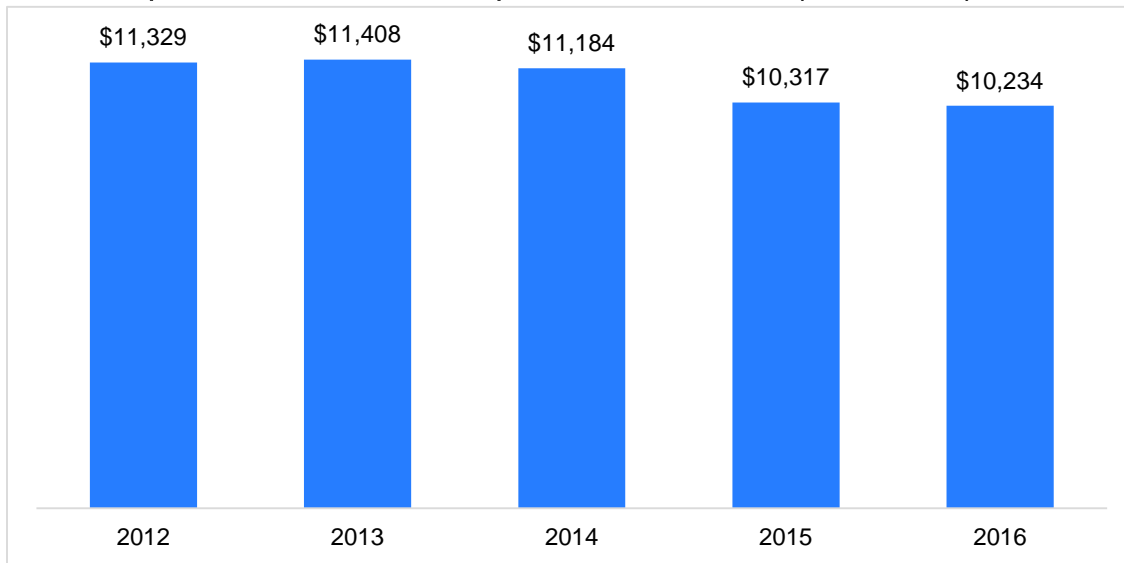
*City of Racine Finding* – Debt service expenditures grew by 60% from 2012-2016, while General Fund departments collectively experienced a decrease in spending. Particularly hard hit were the Public Works and Education/Recreation functions. The inability to allocate additional resources to General Fund departments to meet their inflationary needs on an annual basis can pose a **threat** to service solvency and **requires careful monitoring**.



Source: City of Racine financial records

<sup>17</sup> These figures and other references to debt service expenditure trends throughout this report exclude one-time payments associated with bond refunding/refinancing.

**Chart 7: Department of Public Works expenditures, 2012-2016 (in thousands)**

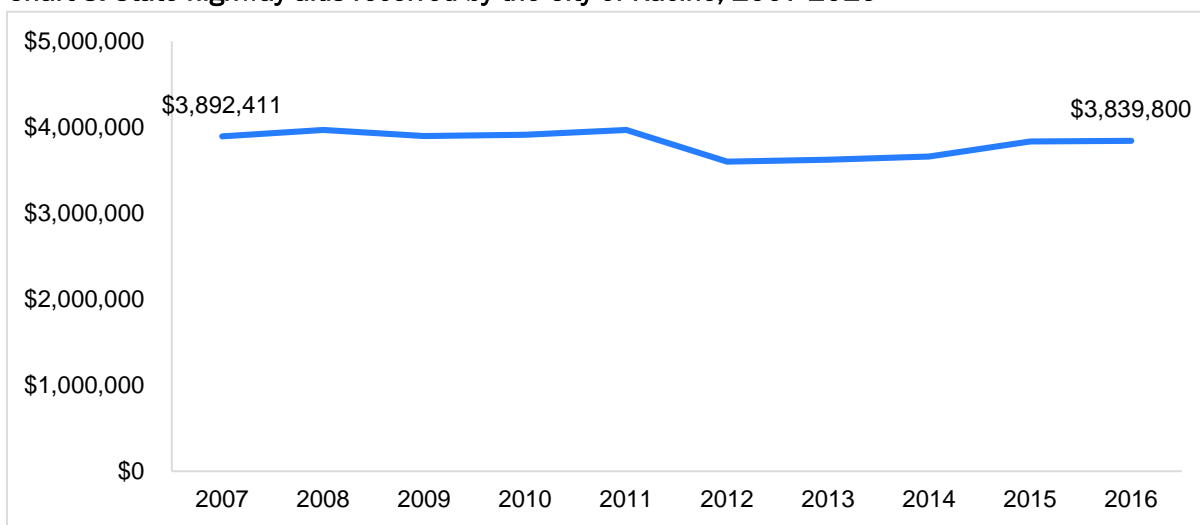


Source: City of Racine financial records

DPW also eliminated six positions from street maintenance during the five-year period and was forced to end its practice of routine pothole filling (potholes now are addressed only when reported). These reductions in staffing and maintenance were part of a lengthier trend that included additional position reductions and elimination or reduction of other routine maintenance practices, including asphalt crack filling and joint repair and replacement. According to public works officials, **because of these trims to routine maintenance, the City now must engage in more frequent emergency actions.**

The service-level reductions in public works were tied not only to Racine's local revenue constraints, but also to the stagnant nature of State highway aids. While those aids increased during the five-year timeframe that is the primary basis for our analysis, a look back over 10 years shows the City was receiving about \$110,000 less in nominal terms in 2016 than it received a decade earlier (**Chart 8**).

**Chart 8: State highway aids received by the City of Racine, 2007-2016**

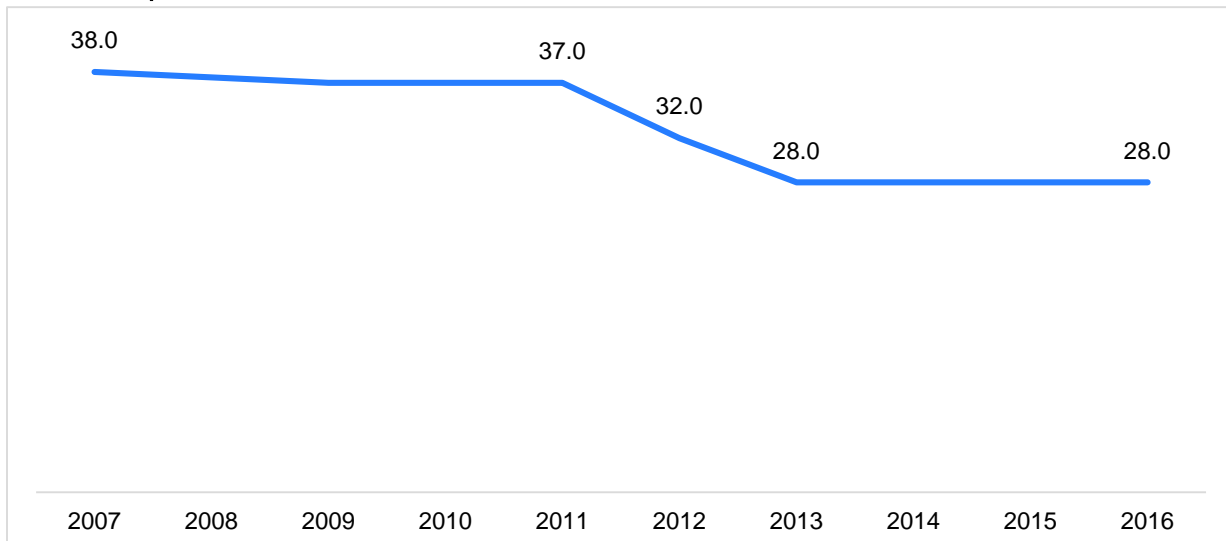


Source: City of Racine Department of Public Works

Another area of potential concern with regard to service solvency is education and recreation. This functional area includes City parks and community centers, as well as recreation, the museum, the zoo, and libraries. Expenditures declined by \$293,000 (3%) from 2012 to 2016 and the function lost 12 positions.

Again, City fiscal officials expressed concern about difficult service-level challenges, particularly with regard to parks and recreation. The parks and recreation department lost four FTEs during the 2012-2016 timeframe and an additional six positions in the preceding five years, as shown in **Chart 9**. In response to service-related concerns raised by those reductions, the 2018 budget did add back two tree trimmers and two equipment operators to the parks department.

**Chart 9: Department of Parks and Recreation FTEs, 2007-2016**



Source: City of Racine Department of Parks and Recreation

At the same time, according to department officials, the department has added additional responsibilities as demands for new bike paths, pocket parks, and related amenities grew over the period. For example, in recent years the City completed two bike path additions, added two pocket parks, and regained responsibility for park land within the Festival Hall grounds.

Department officials also point to challenges resulting from the City's inability over several years to provide pay increases for part-time recreational staff (such as umpires, lifeguards, etc.), which has made it difficult to appropriately staff recreation functions. The 2018 budget also provided some relief in this area with the adoption of pay increases for part-time staff.

Public safety is the largest component of the City budget and one that policymakers often prioritize. A \$606,000 expenditure reduction over the five-year period typically would elicit service-level concerns, particularly given that salaries and fringe benefits can be more difficult to control in this area of the budget in light of the exemption of public safety unions from the provisions of Act 10.

In this case, however, the City was able to reach agreement with its public safety unions for members to contribute to the Wisconsin Retirement System (WRS). The resulting cost saving allowed it to absorb the reduction without a decrease in positions. In fact, the police department gained six

FTEs during the 2012-2016 timeframe (losing two sworn officer positions while gaining 8 civilian positions) and the fire department retained the same number of positions.

Given that Racine’s police department received 35% of General Fund expenditures in 2016 (\$27.6 million of the \$79.7 million total), we sought additional context on the City’s police spending. We attempted to compare per capita spending on police with the comparable Wisconsin cities cited earlier in this report, but that analysis is complicated by the fact that different cities have different methodologies for allocating fringe benefit expenditures to departments.

We were able to secure data on sworn police officers published by the Wisconsin Office of Justice Assistance. While caution should be used in interpreting the data given that the latest year for which it is available is 2012, we found that Racine’s 2.5 sworn officers per 1,000 residents was the highest among the comparable cities (Table 9) and also the highest among the 11 cities in Wisconsin with populations between 50,000 and 250,000.

This may be attributed – at least in part – to the higher crime rates experienced in Racine as compared to its peer cities, as also shown in the table. Another possibility is that Racine’s police department serves more of a regional role than police departments in the comparison cities and/or that the role played by the Sheriff in local law enforcement differs among the cities. Regardless of its cause, we see that police staffing may place more intense budgetary pressure on Racine than that faced by similar-sized Wisconsin cities.

**Table 9: Police staffing and crime rates, Racine vs. comparable Wisconsin cities**

	Sworn Officers/1,000 residents (2012)	Violent Crime/10,000 (2016)	Property Crime/10,000 (2016)
<b>Racine</b>	<b>2.5</b>	<b>47.33</b>	<b>294.96</b>
Kenosha	2.0	35.83	219.70
Green Bay	1.7	48.03	219.33
Janesville	1.6	20.84	253.40
Appleton	1.5	27.56	171.47
Oshkosh	1.5	21.18	220.94

Source: Wisconsin Office of Justice Assistance, U.S. Census

Finally, Racine’s conservative budget practices have allowed it to grow its reserves and to use reserve transfers to fill gaps in annual budgets, thus enabling City leaders to avoid more substantial position reductions and lessening impacts on service solvency. For example, unlike some local governments, Racine fully funds all of its budgeted positions and does not budget any savings from the temporary vacancies that inevitably occur every year because of employee turnover. Instead, the savings that accrue from vacancies and from other conservative budget practices – such as cautious revenue estimates – typically fall to the bottom line and buttress the General Fund balance. City reserves are discussed in greater detail later in this report.

## FRINGE BENEFITS

Fringe benefit expenditures are a substantial driver of budgetary solvency for local governments and merit separate consideration from other portions of the expenditure budget. In terms of the amount of money spent, that is certainly the case for Racine. Yet, notably, this is an area of the budget that has remained stable in recent years.

Our analysis of Racine's fringe benefit expenditures begins by looking at the combined total for pensions and health care for both active employees and retirees (these two areas comprise the vast majority of the City's fringe benefit spending). In 2016, actual spending for pensions and health care totaled \$25.8 million, or 22% of total spending.

While the magnitude of fringe benefits spending makes it a major factor in Racine's budget, **ICMA Fiscal Indicator 7** shows that the City has successfully controlled spending in this area, with total annual expenditures for pensions and health care declining during the 2012-2016 timeframe by \$446,000 (1.7%). Understanding how this occurred requires separate discussion of pension and health care spending.

With regard to pensions, the City of Racine – like every other local government in Wisconsin with the exception of the City of Milwaukee and Milwaukee County – is part of the Wisconsin Retirement System (WRS). The City makes a required employer contribution each year that is determined by WRS based on an annual actuarial valuation.

Racine was able to experience a sharp decrease in its WRS employer contribution in 2015 after it reached agreement with its public safety unions to have their members contribute 6.8% of their salaries toward the cost of their pensions. A similar requirement has been in place for general employees since the adoption of Wisconsin Act 10 in 2011. The agreement with public safety unions –combined with a dip in the overall WRS contribution rate between 2014 and 2015 – reduced the City's pension cost by about \$1.9 million that year, alleviating other budgetary pressures.

With regard to health care, the City runs a self-funded plan (i.e. instead of paying premiums to an insurance carrier, it operates a health insurance plan itself). This approach can save

### **ICMA Fiscal Indicator 7 – Fringe Benefits**

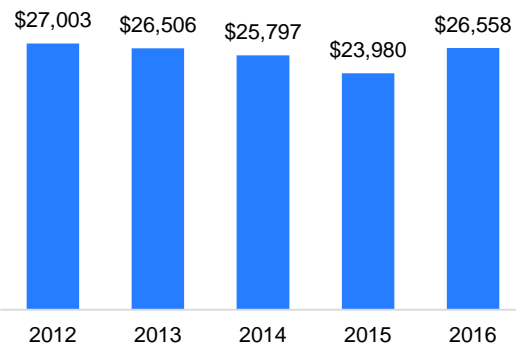
*Why it is Important* – The two primary forms of fringe benefit spending are health care and pensions, which have represented two of the largest and fastest-growing items of expenditure in the public sector in recent years. Many local governments have seen increases in health care and pension costs far surpassing the rate of inflation, creating debilitating impacts on budgets and fiscal condition.

*ICMA Warning Sign* – Increasing fringe benefits as a percentage of operating expenditures.

*City of Racine Finding* – Racine successfully controlled health care and pension spending from 2012-2016, which was essential to its efforts to avoid substantial service cuts in the face of its revenue challenges. However, part of this success involved the extension of pension cost sharing to public safety employees, which created a large one-time reduction in 2015. With health care expenditures beginning to rise once again, this is an area that **requires careful monitoring** going forward.



### **Fringe Benefits Expenditures (in thousands)**



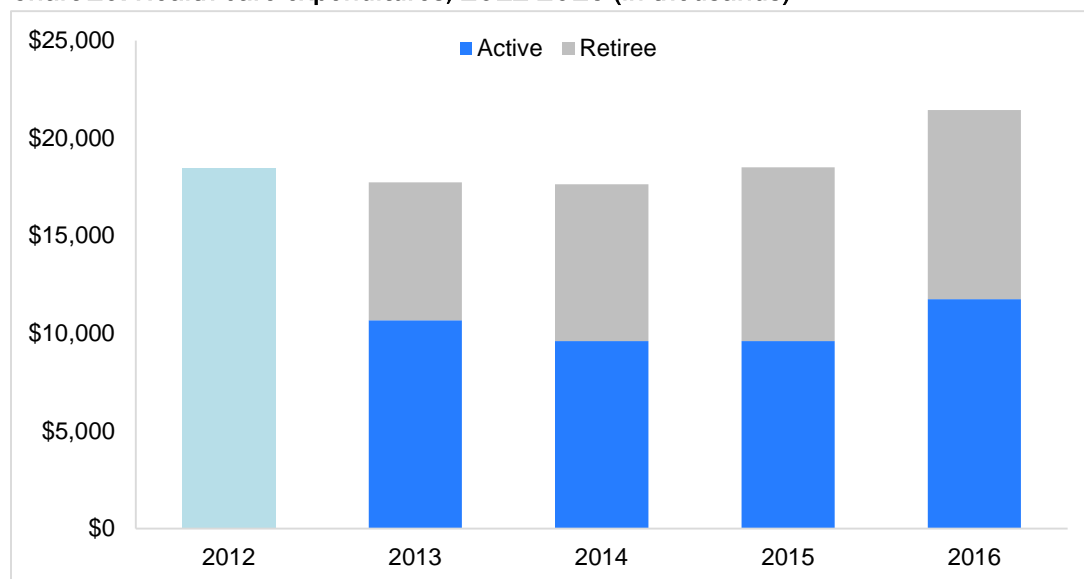
Source: City of Racine financial records



money by eliminating the portion of the premium that results in profit for the insurer, but it also can be more volatile because the City's actual spending each year is based on its claims experience (though this volatility is reduced through the City's purchase of stop-loss insurance). Racine provides health insurance both to active employees and to retirees.

As shown in **Chart 10**, Racine experienced relatively stable health care expenditures for most of the 2012-2016 timeframe, and the City even saw annual expenditures decline between 2012 and 2014. One causal factor for the decline was the workforce reductions described above, while another was changes made to deductibles and co-pays for active employees. Conversely, as shown in the table, increases in retiree health care drove the overall increase during the period.

**Chart 10: Health care expenditures, 2012-2016 (in thousands)**



Note: City officials were unable to provide a precise breakdown of active vs. retiree health care costs for 2012, so only total health care spending for that year is shown.

Source: City of Racine budget office

The chart also shows that health care spending swung upward by nearly \$3 million (16%) in 2016. City officials attribute that development, in part, to a surge in prescription drug claims that year for retirees. They say that issue now has been addressed by switching retirees to Medicare Advantage. In fact, in the 2018 budget, retiree health care expenditures are reduced by \$700,000 below the 2017 budget to reflect Medicare Advantage-related savings.

Overall, the City budgeted only a 1.5% increase in health care spending in 2017 and a 2% increase in 2018. While attaining such small increases would be an impressive accomplishment given that medical inflation typically is in the 5-6% range, they still required City leaders to identify an additional \$300,000 in 2017 and \$400,000 in 2018 from their constrained revenue streams. Going forward, fiscal officials expect they will need to accommodate annual increases in the 5% range, which would require them to add more than \$1 million each year to the health care budget.

Finally, while Racine's overall fringe benefits picture has not caused undue financial stress in recent years, its long-term obligations with regard to retiree health care spending represent one of its foremost fiscal challenges. We provide additional discussion of that topic in the following section.

## Major issue: Transit

While the ICMA indicators and analysis above do not reveal any specific concerns related to Racine's transit system, a set of fiscal and operational trends uncovered by deeper analysis merits discussion.

The transit system – called RYDE – is owned by the City of Racine but is operated by a private firm (First Transit) under contract with the City. Transit employees, therefore, are not City employees but instead work for First Transit, which has its own independent salary and fringe benefit structure. The vast majority of RYDE's service is traditional fixed route bus service, though the system also provides on-demand service for persons with disabilities. Transit policy is governed by the Racine Transit and Parking Commission, but the transit system's annual budget is under the purview of the Common Council and Mayor.

The three primary revenue sources for RYDE are intergovernmental revenue from the state and federal governments; revenue from users (also known as "farebox revenue"); and City property tax levy. The system also has traditionally received payments totaling more than \$300,000 annually from four neighboring communities to offset some of the cost of bus routes that cross municipal boundaries.

As shown in **Table 10**, intergovernmental revenue – RYDE's largest revenue source – was largely flat during the 2012-2016 period (and actually decreased 5.3% since 2013), while farebox revenue declined. Meanwhile, the City's property tax contribution increased by about \$100,000. These trends have continued to the present, with intergovernmental and farebox revenues budgeted in 2018 at roughly the same amounts as 2016, but the local property tax revenue up an additional \$100,000 to \$1.3 million.

**Table 10: Three major sources of RYDE revenue, 2012-2016**

	2012	2013	2014	2015	2016	5-Yr Change
State/Federal	\$4,659,264	\$4,956,815	\$4,834,537	\$4,703,364	\$4,694,466	0.8%
Property Tax	\$1,099,223	\$1,100,000	\$1,100,000	\$1,200,000	\$1,200,000	9.2%
Fares	\$1,646,702	\$1,624,850	\$1,754,638	\$1,654,329	\$1,562,719	-5.1%

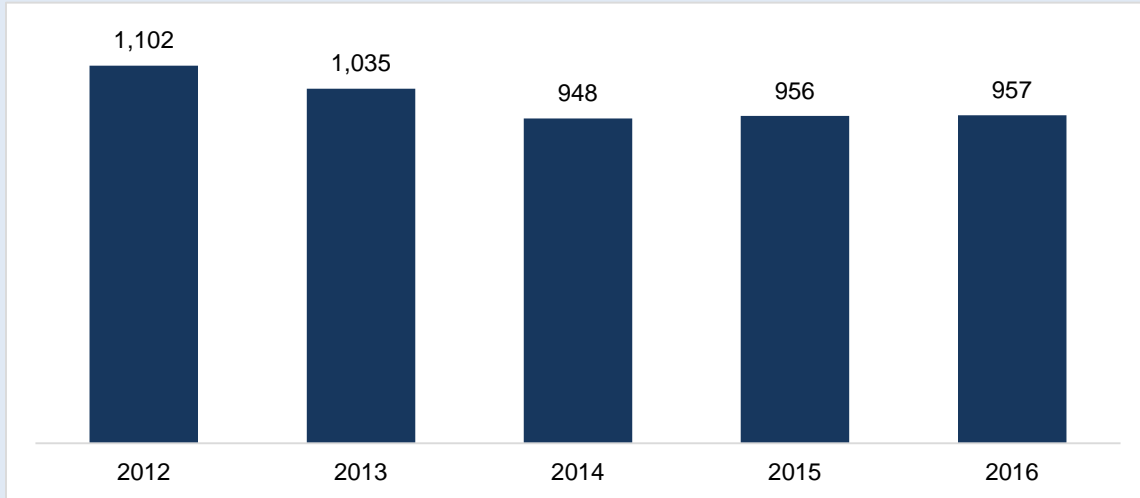
Source: City of Racine Department of Public Works

At first glance, the \$200,000 increase in the City's property tax levy support for RYDE from 2012 to 2018 would not appear to be a major fiscal concern given Racine's total operating budget of more than \$100 million. The City's operating levy as a whole only grew by \$375,000 over that period, however, which means that more than half of the increase was dedicated to RYDE.

Recent ridership trends also pose a concern, as they suggest that the City's need to increase its property tax levy contribution to offset declining farebox revenue will have to continue. Local bus trips fell by 13% between 2012 and 2016, as shown in **Chart 11**. While, ostensibly, ridership declines could allow transit officials to make cost-cutting modifications to routes – thus offsetting diminished farebox collections – there is risk that the opposite phenomenon also could occur, i.e. route modifications could produce even greater losses in ridership and

even bigger losses at the farebox. Consequently, if additional state and/or federal support does not materialize, then the likely choice for Racine officials will be either to dedicate more of the City's limited operating levy resources to RYDE or reduce existing levels of transit service.

**Chart 11: Unlinked local transit trips on RYDE, 2012-2016 (in thousands)**



Source: City of Racine Department of Public Works

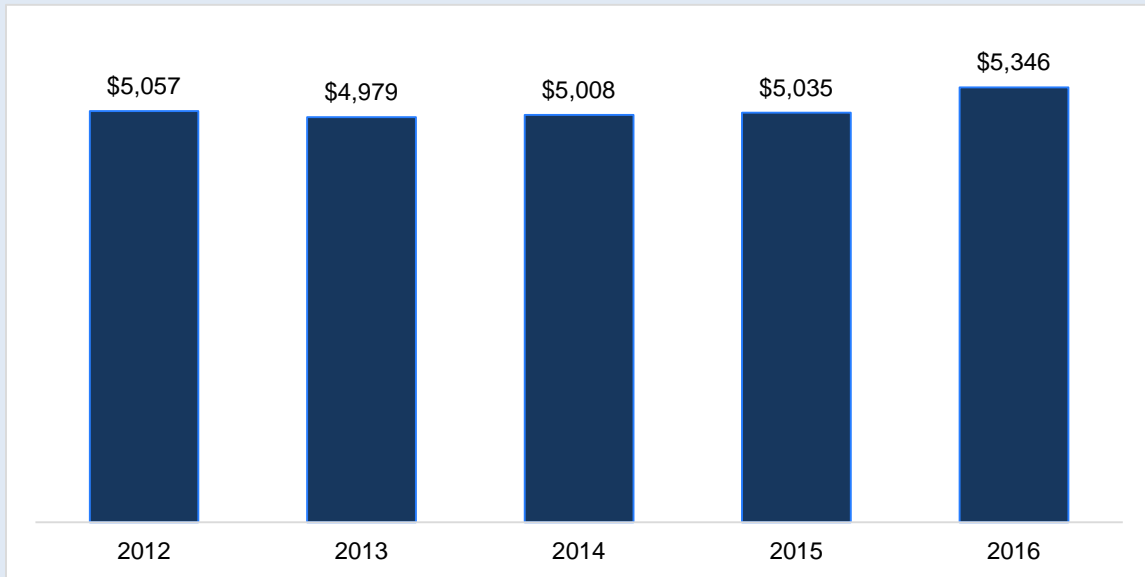
An immediate issue that has emerged in light of these concerning fiscal trends is whether the City of Racine should continue to provide (and subsidize) service that extends into other communities. This issue recently came to a head in Sturtevant, where elected officials voted late last year to end the village's \$42,600 contribution to RYDE, which had helped support bus service to major employers in that community. According to Racine transit officials, the City also had been subsidizing the service with a tax levy contribution of about \$20,000. The Racine Transit and Parking Committee recently voted to discontinue the service in light of Sturtevant's withdrawn contribution.

Racine also receives substantial contributions from Mount Pleasant (\$238,300 in 2018) and Caledonia (\$32,900) for service to those communities, while also contributing a combined \$72,000 of tax levy itself to support that service. Whether these subsidies for service outside of Racine can and should continue is likely to be debated as RYDE's fiscal challenges mount.

Ironically, these discussions may occur at the very time that a vast *expansion* of regional bus service appears to be needed in light of Foxconn and its anticipated related development. Indeed, Foxconn may provide Racine and its surrounding communities with a unique opportunity to tackle the issue of regional bus service collaboratively and to determine an equitable means of delivering and paying for a true regional transit system.

Finally, on the expenditure side, it is important to note that Racine officials do not have direct control over the salaries and benefits of RYDE employees, who work for First Transit. As shown in **Chart 12**, salaries and fringe benefits grew at reasonable levels (5.7%) from 2012 to 2016, but even such reasonable growth is difficult to accommodate given the system's revenue challenges. In fact, the sharp drop in the price of fuel during that timeframe was critical to RYDE's ability to offset personnel-related cost increases and maintain service levels, but there is no guarantee such good fortune will continue in the future.

Chart 12: Salaries and fringe benefit expenditures for RYDE, 2012-2016 (in thousands)



Source: City of Racine financial records

It should be noted that there also is a concern regarding the retirement benefits owed to RYDE bus drivers, who are members of the Teamsters union. The pension fund that supports Teamsters in several states – including Wisconsin – has an enormous unfunded liability, and it is possible that solutions adopted by Congress could require local employers to pay considerably more to address the shortfall. How and whether such a scenario could impact the City of Racine – which is not the direct employer but which does own the transit system – is uncertain.

## SUMMARY

ICMA indicators reveal Racine experienced modest overall expenditure growth from 2012 to 2016, but all of that growth was dedicated to increased debt service payments. With spending in other areas slightly declining in nominal terms, City leaders either were forced to trim positions or were unable to add positions eliminated in the previous five-year period. That was a sign of fiscal responsibility, but it also has produced service challenges.

A positive factor has been the City's ability to control expenditures on pensions and health care, in part because of its ability to extract pensions contributions from public safety employees. While expenditures on the pension side should remain relatively stable in light of the sound fiscal status of the Wisconsin Retirement System, health care spending will be far more difficult to control in the future and could become a substantial financial challenge for City leaders.

# LONG-TERM BUDGETARY SOLVENCY

## ANALYZING LONG-TERM BUDGETARY SOLVENCY WITH THE ICMA SYSTEM

The ICMA system is an excellent tool for examining long-term solvency, an inherently complex topic. Central to ICMA’s methodology is the question of whether a government is “currently paying the full cost of operating, or is it postponing costs to a future period when revenues may not be available to pay these costs.” To address this question, ICMA emphasizes exploring three areas that can have a major effect on future spending levels: retirement obligations; long-term borrowing; and maintenance of capital assets.

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### *Summary of long-term solvency findings*

*Racine’s leaders recently have taken important steps to address their most pressing long-term budget challenges by developing strategies to reduce health care costs and lower capital debt. Nevertheless, the depth of those challenges is enormous.*

*The City’s unfunded retiree health care liability exceeds \$500 million and annual retiree health care costs are projected to grow by almost \$500,000 per year. Meanwhile, despite a 3.4% reduction in long-term debt from 2012-2016, debt service payments continue to drive high property tax rates and are unlikely to decline in light of future capital needs.*

*Overall, Racine’s long-term budget outlook is very precarious. There is a threat that the City’s limited revenue growth will be consumed annually by its long-term obligations, which would jeopardize service levels in General Fund departments and preclude investment to meet new service demands or promote economic development.*

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## RETIREE HEALTH CARE

As discussed in the previous section, Racine's long-term obligations with regard to pensions are relatively stable given its participation in the Wisconsin Retirement System. WRS is considered one of the country's healthiest public pension systems in light of its healthy funding status (99.9% funded ratio of assets to liabilities). Moreover, the sharing of risk between retirees/employees and employers limits volatility for local government participants.

Retiree health care is a different story, however.<sup>18</sup> The City has offered an extremely generous retirement health care benefit to its employees, paying 100% of premium costs for life for eligible employees who retired before 2007. Action by City leaders reduced the percentage to 90 to 95% for most employees who retired after that date (or will retire in the future), and the lifetime benefit was cut off for most employees hired after 2007. Still, both active employees and new hires who work the requisite number of years continue to be promised coverage between their age of retirement and the age of 65 (i.e. the age at which they are eligible to enroll in Medicare), with most of the premium costs paid by the City. This continues to constitute a costly obligation for the City, as many of its employees are eligible to retire with full benefits at age 55 if they have accumulated 20 years of service.

Government entities are not required to pre-fund their existing retiree health care liabilities as they must do for pension liabilities, though retiree health liabilities must be reported as part of the government's financial statements. The City of Racine, like many other local and state governments, pays retiree health costs on a pay-as-you-go basis, meaning that it only pays medical costs incurred by retirees in a given year and does not pay down future liabilities.

According to Racine's most recent CAFR, the City would have needed to contribute an estimated \$32.7 million in 2016 to address both the annual cost of providing health insurance to retirees and the actuarially determined payment needed to fund its long-term liability. That is \$19.7 million more than the \$13 million it paid for the actual cost of health care delivered to retirees that year.<sup>19</sup>

In light of other budget constraints, the City has not had the ability to pay down its retiree health liability, nor is it likely that it will identify the resources to do so in the future. As detailed in **ICMA Fiscal Indicator 8**, this has produced a compounding effect on the unfunded liability, which grew from \$360 million to \$503 million (38%) between 2012 and 2015.<sup>20</sup> The size of the liability will continue to grow for quite some time assuming the City pays only a percentage of its hypothetical annual required contribution, though its payment did increase from 25.8% of the actuary's calculated contribution in 2012 to 39.8% in 2016.

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<sup>18</sup> For purposes of this analysis, when we refer to the City's "retiree health care" liability we are actually referring to its "Other Post-Employment Benefit (OPEB)" liability, which also includes life insurance benefits promised to retirees. Health care benefits make up the vast majority of the total OPEB cost, however, which is why our reference is to those benefits.

<sup>19</sup> The \$13 million differs from the lower amount shown for retiree health care spending in the previous section because the City's actuarial firm uses a different methodology to account for retiree health care costs than that used in budget documents; for example, the actuary's calculation includes an allocation for administrative costs.

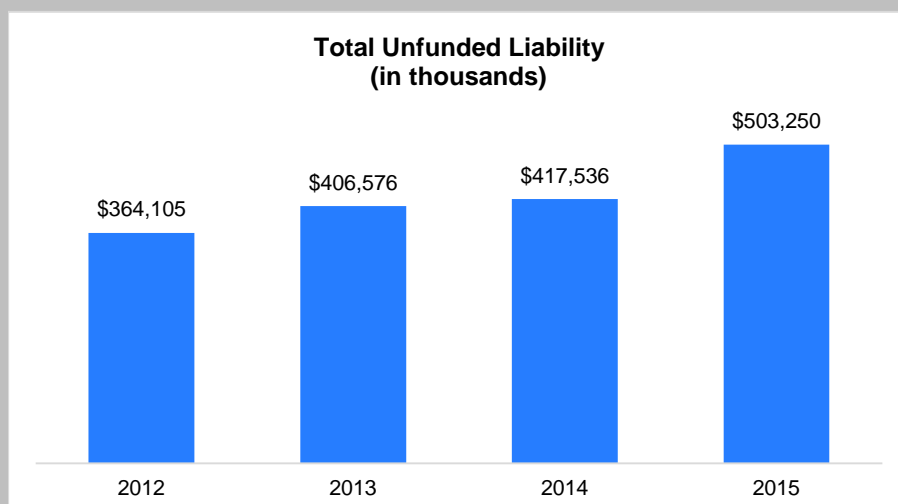
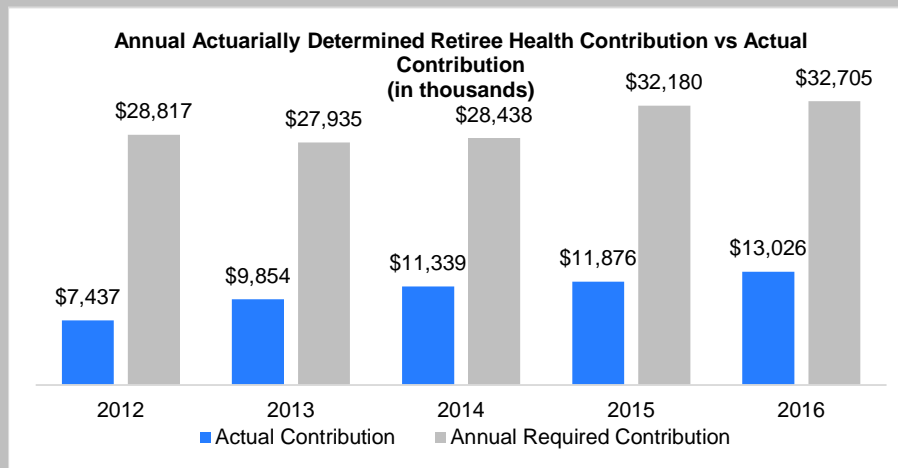
<sup>20</sup> The latest calculation of the City's unfunded liability by its contracted actuary occurred in March 2016 for the year ending on December 31, 2015. Consequently, a 2016 calculation is not available.

**ICMA Fiscal Indicator 8 – Retiree Health Care Funding\***

*Why it is Important* – Significant increases in retirement benefit spending can place strong pressure on government budgets. Because of the long-term nature of retirement health benefits, the difficulty of estimating liabilities, and the costs involved, local governments often do not pre-fund long-term liabilities, thus creating big challenges for future budgets.

*ICMA Warning Sign* – Severe underfunding of a government’s annual actuarially determined contribution and growing long-term unfunded liability.

*City of Racine Finding* – Like many local governments, Racine has opted to pay its retiree health care costs on a “pay-as-you-go” basis and has not made an annual contribution to pay down a portion of its liabilities for benefits promised to future retirees. Consequently, the City has amassed an actuarially determined unfunded liability that poses a **significant threat** to its long-term fiscal health. That threat is tempered somewhat, however, by the City’s recent efforts to control health care costs and by a shrinking gap between the actuarially determined and actual contribution.



\* This indicator was modified from an ICMA indicator based on pension funding and liabilities.

\*\* The latest actuarial report was from March 2016 and does not include a 2016 estimate.

Source: City Racine actuarial reports and financial records

## Major issue: impacts of retiree health care liability

On its face, Racine's unfunded liability for retiree health care would appear to be a fiscal challenge of epic proportions. As noted above, the latest actuarial report (delivered in March 2016) estimated that the liability stood at \$503 million at the end of 2015. On a per capita basis, that equates to \$6,454 for every city resident. By comparison, the City of Milwaukee's unfunded retiree health care liability of just over \$1 billion – which is considered to be an extremely formidable problem in its own right – equates to \$1,715 per capita.

It is important to recognize that the unfunded liability calculation is based, over a 30-year timeframe, on a series of estimates and assumptions regarding factors such as future mortality rates, employee turnover, medical claims, and the rate of medical inflation. As noted by the City's actuary (Milliman) in its latest valuation of the unfunded retiree health care liability in 2016:

*The projections in this report are estimates and, as such, the City of Racine's actual liability will vary from these estimates. The actual liability will not be known until such time that all eligibility is exhausted and all benefits are paid. The projections and assumptions should be updated as actual costs under this program develop.<sup>21</sup>*

At least somewhat tempering the magnitude of the City's retiree health care challenge is its recent success in controlling its overall health care costs. As shown earlier in **ICMA Indicator 7**, health care costs increased by about \$3 million in the 2012-2016 timeframe, or an average of about 4% per year. As also discussed earlier, thanks in part to switching certain retirees to the Medicare Advantage plan for prescriptions, the City budgeted growth in health care expenditures of only 1.5% in 2017 and 2% in 2018.

If the City can continue to “beat” medical inflation on an annual basis – which according to the latest valuation report was expected to be in the 5-6% range annually – then the size of the unfunded liability may be overstated and may, in fact, diminish in future valuations.

Still, the sheer magnitude of the unfunded liability means it would need to diminish by a huge margin in order for it *not* to be considered an overwhelming fiscal challenge for a local government with the revenue constraints and other expenditure pressures faced by the City of Racine. Per the 2016 actuary report, Racine had a roster of 794 retirees (at an average age of 70.5 years) and 641 active employees who were eligible to receive the post-retirement health care benefit.<sup>22</sup> While better-than-expected results on health care claims and efforts to control costs through a variety of strategies may have positive impacts, the City faces a huge future obligation that is not going away.

The magnitude of future annual increases is uncertain, but the 2016 actuary's report did project the growth of the City's annual pay-as-you-go retiree health care expenditures over the 2016-2025 timeframe. Those projections – which are shown in **Chart 13** – show that

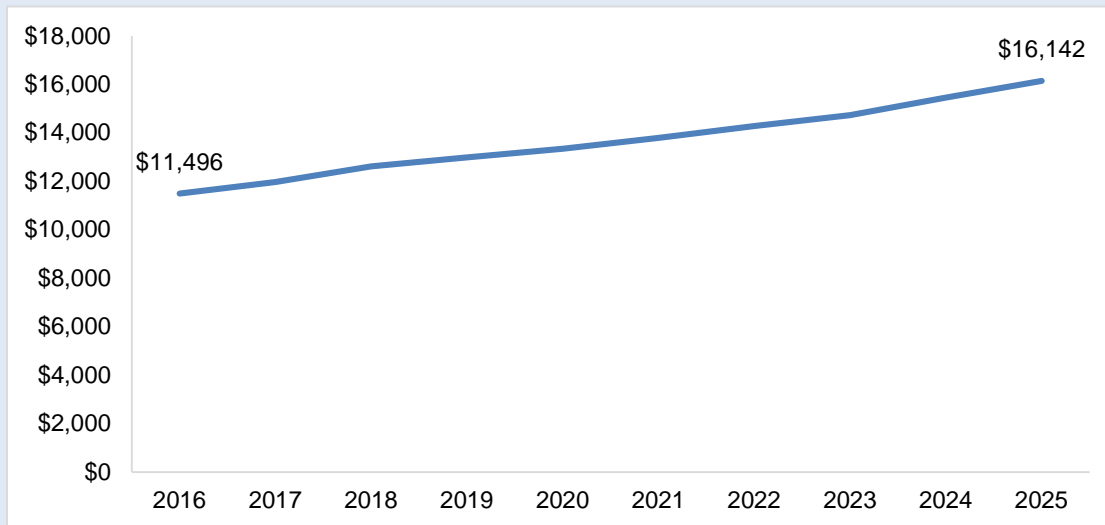
<sup>21</sup> Report from Milliman sent to the City of Racine's Benefits Coordinator, March 2, 2016.

<sup>22</sup> According to the report, 270 of the 641 active employees had pre-Medicare coverage only.



annual increases would average \$464,000. Given that the City's average total operating levy grew by an average of \$138,000 per year from 2012-2016, the dimension of this challenge comes into focus.

**Chart 13: Projected growth in annual retiree health care costs, 2016-2025 (in thousands)**



Source: Actuarial report by Milliman provided to City of Racine

Finally, the City could consider further modifications to its retiree health insurance benefit as a means of reducing the unfunded liability, though its efforts to do so could face legal challenge and may be limited to changes affecting new hires and/or certain classes of active employees. Racine has adopted a series of changes over the past decade, including the cessation of Medicare premium payments for employees hired after certain dates. Similar consideration could be given to ending the post-employment retirement completely for new hires (i.e. for pre-Medicare coverage as well), though the fiscal benefits associated with such a move would not be experienced for several years. The City of Milwaukee recently took such a step for its general employees, and Milwaukee County ended its post-employment health care benefit for new hires in the 1990s.

## LONG-TERM BORROWING

As discussed in the previous section, Racine officials have made a concerted effort to enhance the pace of debt retirement in recent years, earning praise from the S&P ratings agency. S&P also warns, however, that the City's overall debt liability profile is "weak" in light of its amount of long-term debt, which in 2016 was equivalent to 96.5% of its total governmental fund revenue.<sup>23</sup>

The City issues debt for multiple purposes, including the purchase of vehicles and equipment to support its programs; repairing or replacing major assets like buildings, streets, and bridges; addressing the capital costs of its business enterprises (e.g. water and sewer); and paying capital improvement costs incurred by tax incremental districts (TIDs).

<sup>23</sup> S&P Global Ratings Summary for City of Racine, August 10, 2017.

At the beginning of 2016, the City had total outstanding general obligation (G.O.) debt of \$104.2 million, which was a reduction of \$3.7 million (3.4%) from its \$107.9 million of G.O. debt in 2012.<sup>24</sup> It is worth noting that the City’s progress in reducing its debt intensified in the subsequent two years, with total G.O. debt falling to \$96.3 million as of January 1, 2018.

Changes to the amount of general government debt the City possesses from year to year result both from the amount of debt retired in that year and the amount of new debt issued. In recent years, Racine has been able to retire more debt than it is incurring on an annual basis. For example, \$15.2 million of principal was paid in 2017 and \$11.2 million of new debt was issued.

ICMA evaluates long-term debt by assessing whether overall borrowing endangers future ability to repay, as well as the impact of debt service payments upon current budgets. Under its standard, a local government’s debt “is proportional in size and rate of growth to its tax base; does not extend past the useful life of the facilities that it finances; is not used to balance the operating budget; does not require repayment schedules that put excessive burdens on operating expenditures; and is not so high as to jeopardize the government’s credit rating.”

A common measure of long-term debt is its relationship to equalized property value. Under State statutes, Racine’s general purpose debt cannot exceed 5% of its equalized value. In 2016, the City’s total G.O. debt (consisting of both general government debt and TID debt) was well within the state limit at 3.24%, as shown in **ICMA Indicator 9**. However, that ratio increased from 2012 to 2016 because the City’s property values declined.

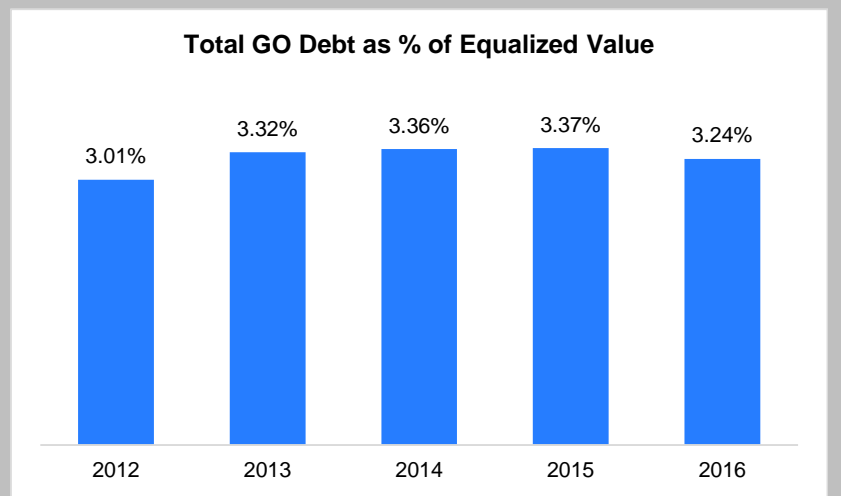
**ICMA Fiscal Indicator 9 – Long-term Debt**

*Why it is Important* – General Obligation (G.O.) debt is bonded debt for which the local government has pledged its full faith and credit and which is supported by tax revenues. National rating agencies routinely examine a local government’s debt load in setting a bond rating. Increasing debt is one possible indication of a deteriorating fiscal condition. Conversely, low debt may indicate an underinvestment in capital facilities.

*ICMA Warning Signs*

- Increasing net bonded debt as a percentage of property valuation.
- Overall net debt exceeding 10% of assessed valuation.

*City of Racine Finding* – The City’s ability to lower its long-term debt during the past five years is a positive sign of fiscal health. Unfortunately, the debt load as a percentage of equalized value increased because of declining property values. Also, despite the positive recent trend in the amount of debt, the magnitude of annual debt service payments in proportion to the City’s overall budget puts severe pressure on the property tax levy and is a **significant threat** to the City’s fiscal health.



Source: City Racine financial records

<sup>24</sup> General Obligation (G.O.) debt refers to debt backed by G.O. bonds, which are municipal bonds commonly used by local governments that are secured by the government’s pledge to use its taxing power to repay bond holders. These differ from “revenue bonds” – which the City also issues for its enterprise fund departments – in that they are not secured with a specific form of revenue, such as fees from users.

## Major issue: Debt service payments as a proportion of local revenues

While the City clearly has a manageable debt load when measured against the State’s debt limit, it is also important to recognize that a local government’s appropriate level of debt is linked to its specific fiscal circumstances. For example, governments with healthy annual revenue growth that do not face substantial long-term capital needs may be able to shoulder higher levels of debt (and higher annual debt service payments) than governments without such advantages.

As described in the previous section, Racine sharply increased its debt service levy over 2012-2016 to enhance the pace of debt retirement and better position it to issue new debt to address its future capital needs. Yet, by any objective measure, its debt burden – as characterized both by its amount of general debt and its annual debt service payments – remains quite high.

State and local governments across the United States use a series of metrics to assess their debt capacity. A particularly important metric for budgetary purposes is debt service as a percentage of “own source” or local revenues. In **Table 11**, we show Racine’s 2016 property tax levy payment as a percentage of its overall levy and compare that percentage to those of the five similar-sized Wisconsin cities cited earlier in this report. Racine’s is the highest.<sup>25</sup>

**Table 11: Debt service levy as a percentage of overall levy, Racine vs. comparable cities, 2016**

	Levy	Levy for Debt Service	Percent
Racine	\$53,103,147	\$16,504,887	31.1%
Kenosha	\$49,515,759	\$10,447,886	21.1%
Green Bay	\$54,578,745	\$9,100,200	16.7%
Appleton	\$38,953,797	\$2,928,106	7.5%
Oshkosh	\$37,861,700	\$11,166,600	29.5%
Janesville	\$35,201,846	\$7,310,066	20.8%

Source: Municipal government financial records

The question is whether recent efforts to more aggressively reduce the City’s total debt can be sustained and whether, in turn, that will allow it to control (or reduce) debt service payments in future budgets. In **Table 12**, we show planned future debt issuances for the next five years based on the City’s most recent 10-year capital improvements plan. Per that plan, bonding amounts would diminish and outstanding debt would continue to decline throughout the period, thus providing relief on annual debt service and potentially allowing City officials to reduce the debt service levy.

**Table 12: Projected future debt issuances and outstanding debt, 2018-2023**

	2018	2019	2020	2021	2022	2023
Future Debt Issuance	\$10,259,000	\$10,289,833	\$11,617,500	\$8,579,500	\$8,211,500	\$7,360,500
Projected Outstanding Debt	\$107,099,000	\$102,113,833	\$100,266,333	\$97,960,833	\$96,602,333	\$95,282,833

It is important to note, however, that the long-term capital improvements plan includes only projects that have been identified at this time and does not include projects that have yet to materialize but

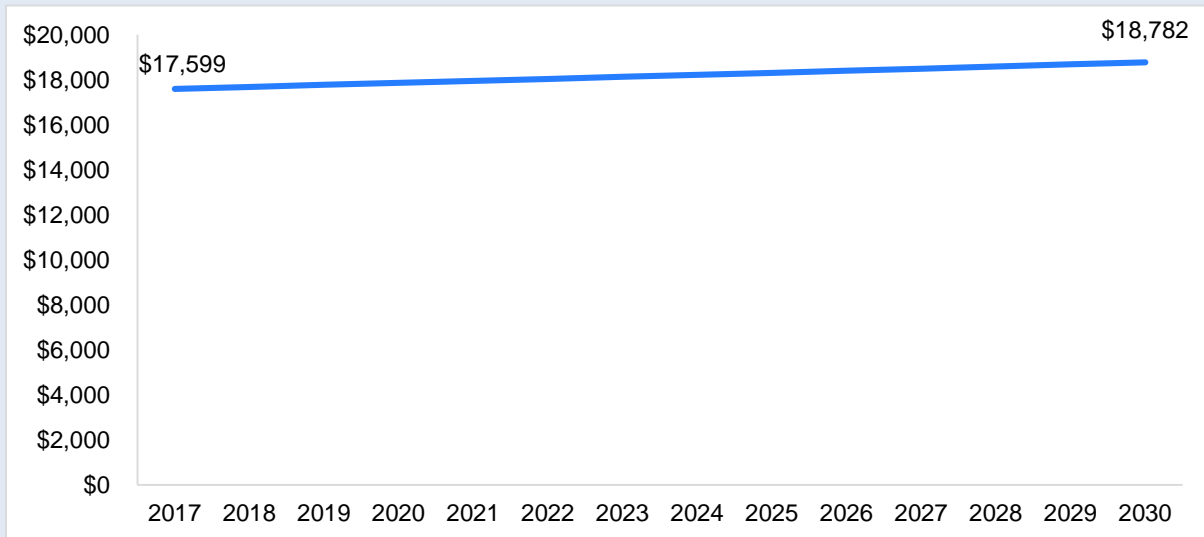
<sup>25</sup> Racine’s recent strategy of capitalizing certain equipment and related expenses also plays a role in its comparatively high debt level.



that inevitably will do so in the next 10 years. In fact, one specific project that has been noted in the long-term plan but that has not been factored into the above projections is the need for a new public safety building, which may cost up to \$30 million.

A potentially more accurate barometer of the City's future debt service outlook was provided by the City's bond underwriter (Baird) to its Finance Committee in October 2017. The underwriter constructed a scenario to illustrate the impacts on annual debt service from 2017 through 2030 if the City's G.O. borrowing increased at a rate of 2% annually (which could be seen as a proxy for the minimum amount required if the City wishes to appropriately address its capital needs). As shown in **Chart 14**, under such a scenario, the City could limit annual growth in debt service to about 0.5% annually.

**Chart 14: Potential growth in annual debt service, 2017-2030 (in thousands)**



Source: Report by City of Racine bond underwriter (Baird)

This modeling conveys both good news and bad news for Racine leaders. On the positive side, the City does appear to have the capacity to increase annual borrowing by a modest amount annually while keeping annual debt service payments relatively flat.

More troublesome, however, is the realization that the City likely will be unable to *reduce* debt service payments in the foreseeable future while maintaining an appropriate capital program, which means property taxpayers are unlikely to see relief from that component of the overall levy. Furthermore, it is not clear that an appropriate capital program *can* be sustained with increases of only 2% in annual borrowing given the age of the City's capital assets and the possible need to finance major new projects, such as a new public safety building or investments designed to maximize potential economic benefits from Foxconn.

From the perspective of the City's long-term fiscal solvency, it is both promising and laudable that its leaders have reduced long-term debt and made strategic decisions that may allow for relatively flat annual debt service payments for at least the next few years. Nevertheless, the fact that debt service relief is unlikely to be attainable will put even greater pressure on the General Fund to accommodate the City's other formidable revenue and expenditure challenges.

## MAINTENANCE OF CAPITAL ASSETS

According to the Government Finance Officers Association, "the performance of capital assets is essential to the health, safety, economic development, and quality of life of those receiving services."<sup>26</sup> Appropriately maintaining these assets requires a continuous long-term commitment. Yet, as ICMA has observed, many governments have not been willing to fully fund such costs and have seen underfunding of capital assets as "a relatively painless way to temporarily reduce expenditures and ease financial strain."

The City of Racine maintains a comprehensive capital budgeting process that entails the development of an updated 10-year capital plan as part of the annual budget. In addition to the capital plan, the Department of Public Works (DPW) catalogs the condition of bridges, streets, buildings, and other infrastructure and uses that information to update the plan and/or to make necessary capital requests outside of it as needs develop.

As a proxy for assessing Racine's commitment to ongoing investment in local infrastructure assets, we examined local financial support (both tax levy and bonds) for DPW assets during the 2012-2016 timeframe. As shown in **ICMA Indicator 10**, annual local support ranged from \$6.8 million to \$8.2 million during the five-year period in nominal terms, but was lower in each of the last three years than either of the first two years.

While this downward trend certainly should not convey that the City has failed to appropriately address infrastructure needs, it is cause for concern when considered in the context of the City's struggles to control its long-term debt. To the extent capital spending for basic infrastructure (e.g. roads, buildings) has been constrained in recent years because of an imperative to limit borrowing – or because other capital projects have received higher priority – a backlog of needs could develop and place even greater strain on future budgets. It should be noted that budgeted local support for DPW assets declined by \$300,000 from 2016 to 2017, but rose by \$900,000 in 2018 to nearly \$8 million.

### **ICMA Fiscal Indicator 10 – Capital Spending on Key Assets**

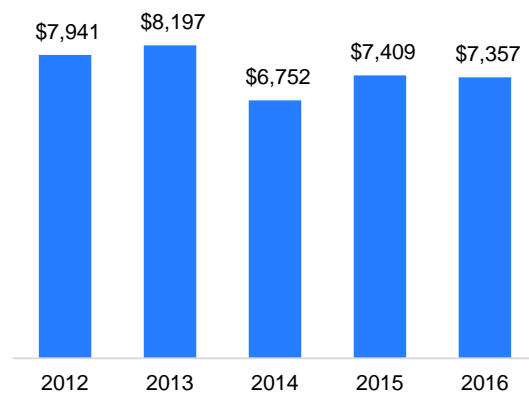
*Why is it important?* – Capital improvements and repair and maintenance expenditures provide an indication of whether capital needs are being addressed.

*ICMA Warning Sign* – A three year or more decline in capital improvement and maintenance expenditures.

*City of Racine Finding* – As a proxy for measuring the City's commitment to meeting its capital needs, we tracked capital spending on Department of Public Works capital assets (including streets, buildings, sidewalks, transit). Annual spending declined by 8.7% in nominal terms from 2012-2016, though it trended upward in the most recent two years. Given the constraints on capital spending posed by the City's substantial long-term debt, this is an area that **requires monitoring**.



### **Total Tax/Debt Support for DPW Programs (in thousands)**



Source: Racine Department of Public Works

<sup>26</sup> GFOA, "Best Practice: Asset Maintenance and Replacement," 2010. Accessed at: <http://www.gfoa.org/asset-maintenance-and-replacement>

## LONG-TERM BUDGET PROSPECTS

The retiree health care and long-term debt challenges outlined in this section – when combined with the revenue constraints described earlier – paint an alarming long-term budget picture for the City of Racine. Indeed, while any of these challenges might be deemed manageable when viewed individually, it is their confluence that raises significant concern.

Despite recent successful efforts to lower long-term debt, Racine’s annual debt service likely will remain at current levels or grow modestly for quite some time, thus discouraging significant increases in the operating portion of the levy even if new construction afforded an opportunity for City leaders to do so. Similarly, annual retiree health care costs also are likely to continue to grow despite the efforts of City leaders to control them over the past several years.

With revenue growth constrained, there is little or no room to respond to inflationary pressures associated with fixed costs, such as wages and benefits for active employees, fuel, commodities, etc. That, in turn, creates the need to gradually cut positions and/or reduce service levels, as we have seen in the areas of public works and parks/recreation over the past decade. Meanwhile, any potential investment in economic development initiatives or new positions to meet growing service demands is precluded.

Of course, these factors have existed for years, and City leaders were able to navigate them without producing untenable service-level impacts during the 2012-2016 timeframe. In the two budgets adopted since then, the City similarly has been able to get by without major cuts despite the lingering nature of these problems. It even mustered the capacity to add a few positions in 2018.

That ability can be attributed, in part, to sound fiscal management, including prudent build-up and use of reserves, successful negotiation with public safety unions to share the cost of retirement benefits, and effective strategies to grow relatively minor revenue sources. Good fortune also has been involved, such as an unexpected \$1 million increase in computer aid revenue from the State.

Perhaps the overriding questions, then, are whether 1) Racine’s leaders can continue to “get by” financially if their basic fiscal paradigm does not change; and 2) this is sufficient given both the opportunities and enhanced service demands posed by Foxconn.

Barring major changes in State revenue sharing policies or revenue limits, the answer to the first question would appear to depend on whether:

- *Some* growth in new construction materializes, which appears possible if the promise of Foxconn is realized;
- Health care cost increases can be kept in check;
- City leaders can continue to find ways to generate growth in service charges, fines, or licensing revenue to meet increased service demands; and
- The City’s capital needs can be accommodated without an explosion in debt.

The answer to the second question is much more subjective and speculative, and it is beyond the scope of this analysis to answer. That does not minimize its importance, however, both to the City of Racine and to the broader region.



Indeed, both questions speak to Racine’s identity as the urban center of a Greater Racine region that ostensibly needs to function as such with the arrival of Foxconn. Arguably, **the region needs a vital city center that contains the cultural and entertainment amenities and urban lifestyle that will be critical to attracting talent; yet, our analysis suggests that City government’s ability to maintain those amenities and an attractive urban core will come under increasing duress.**

The fact that the City of Racine provides a range of services that benefit residents of the entire region – including transit, libraries, a museum, zoo, civic center, and parks – is not disputed by surrounding municipalities. It is evidenced by revenue sharing arrangements that have been in place for years as part of sanitary sewer agreements, as well as direct payments that flow from Racine County to the City for libraries and from Caledonia, Mount Pleasant, and Yorkville for transit. City officials suggest, however, that these payments do not reflect the true regional benefit of the services provided and that they are particularly insufficient in light of the City’s fiscal woes.

As the City’s financial challenges mount and Foxconn moves closer to reality, it would appear appropriate to analyze that contention and also to explore new models for regional service provision, particularly with regard to the services cited above that already are subject to shared costs. A case for regional service provision also potentially could be made for public health, which is a county service in most other parts of the state but which requires more than \$2 million of annual property tax levy support from Racine taxpayers to maintain as a City service.

## **SUMMARY**

Our analysis of Racine’s long-term budget challenges and prospects conveys a somewhat contradictory set of circumstances. On the one hand, Racine’s leaders have recognized the depth of their long-term debt and retiree health care challenges and have taken steps to alleviate them. Furthermore, they have demonstrated sound management through their comprehensive capital planning process and their diligent efforts to reconcile their debt capacity with their future capital needs.

Yet, we also see that despite these efforts, the City’s long-term outlook is very precarious. “Controlling” debt and retiree health care obligations does not necessarily make them manageable in light of the City’s revenue challenges and the toll that has been taken from position and service reductions in previous years. Indeed, a picture emerges of a city government that will see its future revenue growth consumed by these future obligations, leaving little choice but to continue to gradually cut and to forsake new investment.

# CASH SOLVENCY

## ANALYZING CASH SOLVENCY WITH THE ICMA SYSTEM

Cash solvency refers to the ability of a government to pay its bills. Two ICMA measures for cash solvency pertain to liquidity and General Fund balance. Liquidity examines the extent to which governments have cash available to meet immediate and short-term obligations. If a government has a sufficient flow of revenues to meet expenditure commitments, then it has positive liquidity or cash flow. A positive fund balance, meanwhile, provides an indication of a government's ability to maintain cash solvency, as well as meet unanticipated emergencies.

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### *Summary of cash solvency findings*

*Racine maintains strong liquidity levels and a healthy General Fund balance, and it has been able to use its well-funded reserves to address annual operating budget challenges. Taken together, these factors convey a strong degree of cash solvency, though continued use of reserves may not be sustainable in the future at levels enjoyed during the past few years.*

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**ICMA Fiscal Indicator 11 – Liquidity**

*Why it is Important* – A key measure of a city’s short-term fiscal condition is its liquidity. ICMA defines liquidity as the ratio of cash and short-term investments to current liabilities. Assessing liquidity is complicated by the flow of payments in and out of government coffers in the course of the year. For this reason, evaluation of liquidity should take place at the same point in time, as we do here.

*ICMA Warning Sign*

- A decreasing amount of cash and short-term investment as a percentage of current liabilities
- Three or more years of a ratio of greater than 1 to 1.

*City of Racine Finding* – The City’s liquidity ratio is well within the ICMA standard; in fact, it has typically exceeded that standard by a factor of three. In addition, liquidity has improved over the past five years. This is a **positive indicator** of fiscal health.



Year	Ratio
2012	1 to 0.4
2013	1 to 0.3
2014	1 to 0.4
2015	1 to 0.4
2016	1 to 0.3

Source: City of Racine CAFRs

**ICMA Fiscal Indicator 12 – Fund Balance**

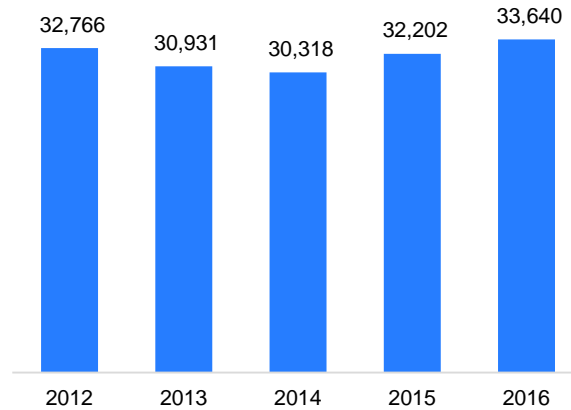
*Why it is Important* – Fund balances are a form of financial reserve that affect a government’s ability to meet unanticipated costs and emergencies.

*ICMA Warning Sign* – Declining General Fund balance as a percentage of net operating revenues.

*City of Racine Finding* – The City’s fund balance grew over the 2012-2016 period, in part because of conservative budgeting practices that allowed it to regularly realize year-end surpluses. This is a **positive indicator** of fiscal health, though the need to increasingly budget a draw from reserves could reduce margins in future years.



**General Fund Balance (In thousands)**



Source: City of Racine CAFRs

**ANALYSIS**

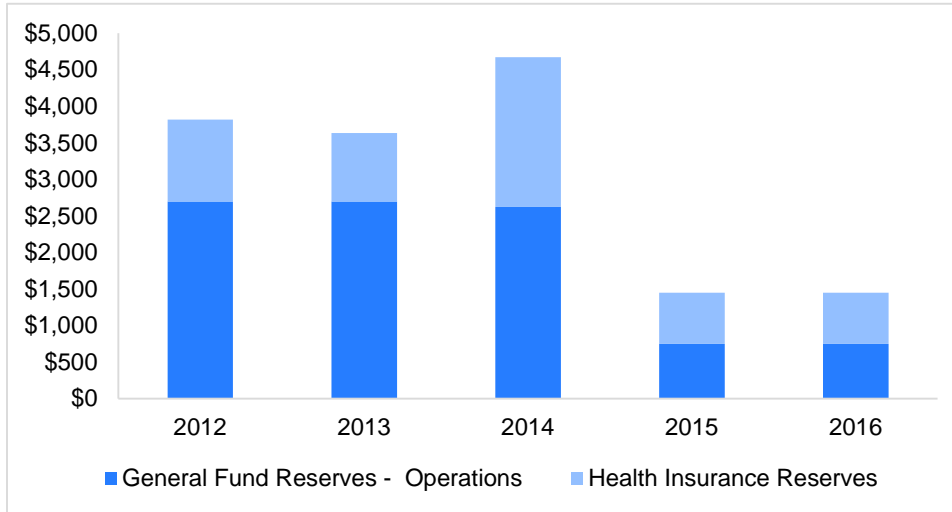
We consider the City of Racine’s cash solvency by examining its cash liquidity, General Fund balance, and reserve funds. As shown in **ICMA Indicator 11**, Racine has a liquidity ratio well within ICMA standards, and that ratio has improved over the five-year period. S&P cited the City’s “very strong liquidity” in its August 2017 analysis.

Racine’s General Fund balance also has been deemed healthy by S&P, which cites the City’s “very strong” budgetary flexibility. The City maintains a policy goal of ensuring that the year-end fund balance remains above 20% of anticipated General Fund expenditures, and it has regularly exceeded that goal. Meanwhile, its unassigned fund balance of \$24.7 million in 2016 represented about 32% of its General Fund revenues. That is an increase of about \$3.2 million from 2012, when the City’s \$21.5 million fund balance represented 29% of its operating revenues, as shown in **ICMA Indicator 12**.



Strong liquidity and a growing General Fund balance have enabled City fiscal officials to maintain well-funded reserves, which it has used to varying degrees to address operating budget challenges in annual budgets. As shown in **Chart 15**, after budgeting \$3.6 million to \$4.7 million in reserves to produce balanced budgets from 2012-2014, the City was able to lower those amounts considerably in 2015 and 2016. Budgeted use of reserves jumped up again to \$2.4 million in 2017 and \$4.3 million in 2018, however.

**Chart 15: Budgeted use of reserves, 2012-2016 (in thousands)**



Source: City of Racine budget office

Overall, it is hard to argue with the City’s increased use of these reserves to address operating budget needs during the past five years given the responsible manner in which it built them. Also, in practice, the City has rarely utilized the reserve amounts budgeted and, in fact, was able to replenish its General Fund reserves in 2015 and 2016. Nevertheless, this is an issue that bears watching in future years, as the practice of filling operating budget gaps with reserve funds is not sustainable over the long-term and signals deeper structural issues.

# CONCLUSION

Based on our analysis of 2012-2016 financial data using ICMA's Fiscal Trend Monitoring System, we find that the City of Racine's finances are well-managed and that its short-term financial outlook is relatively stable. Yet, our analysis also shows that several successive years of mounting fiscal challenges are taking their toll, and that the City's long-term fiscal outlook is worrisome.

The ICMA methodology provides a framework for local governments to assess their fiscal condition in four categories of solvency. Our findings for those categories with respect to Racine are as follows:

- **Cash solvency** is an area of strength for Racine, as the City maintains a healthy and growing General Fund balance and enjoys strong liquidity. Those strengths provide some flexibility to address weaknesses in other solvency categories and should reassure residents that their city government currently is financially secure and at little risk of short-term crisis.
- **Budget solvency** has been a longstanding challenge for the City and remains difficult. Growth in the City's General Fund revenues has been anemic (3.3% from 2012 to 2016), which contributed to the loss of 46 FTEs and placed significant pressure on departmental operations. The one area that did see substantial growth was debt service, which has improved the City's capital outlook but provided little relief for General Fund departments. Use of reserves and increased employee benefit contributions helped fill departmental budget gaps during the five-year period, but those strategies may have run their course.
- **Long-term solvency** is an area of great concern. Racine faces growing retiree health costs (stemming from an estimated \$503 million unfunded liability) and its \$18 million in annual debt service costs will be difficult to reduce in light of its capital needs. Those factors – combined with stagnant revenue growth – provide City leaders with little capacity in the future to address other inflationary cost pressures. Unless those circumstances change, departmental cuts may need to occur across city government – including to police and fire budgets that previously have been spared – at the very time that the Foxconn project and related development are likely to vastly increase service demands.
- **Service solvency**, particularly in the areas of public works and parks/recreation, has declined over the five-year period and even more when 10-year trends are considered. While the impacts have not been severe nor fully visible to residents, City officials warn of invisible costs, such as the need for expensive street repairs caused by reduction of routine maintenance. Should long-term issues intensify and annual budgets fail to meet departmental cost-to-continue needs, service-level concerns will grow deeper.

A noteworthy element of Racine's fiscal dilemma is that potential solutions are mostly beyond its control. Healthier revenue growth will be predicated on upward movement in the City's two largest revenue sources, one of which (intergovernmental) would require increased appropriations from the State or federal governments; and the other of which (property tax) is dependent upon larger economic factors and/or a modification of State levy limits. On the expenditure side, meanwhile, any effort to lower debt service payments either would require the City to stray from its responsible debt management policies or to disregard its capital needs.

One area of potential expenditure relief is retiree health, where City officials have reduced the benefit in recent years but potentially could consider additional modifications. Still, even that



approach – which *should* be deliberated given the City’s challenging long-term outlook – involves legal considerations and may not produce near-term savings. Racine leaders also could consider enhanced service sharing or functional consolidation with neighboring communities and/or Racine County, though such strategies may be more effective as a means of cost effectively accommodating growing service demands than as a tactic for generating immediate budgetary relief.

Overall, the concerns raised in this analysis should not be misconstrued as signs of immediate financial crisis. Rather, they should be seen as evidence of a gradually worsening financial paradigm that can continue to be tolerated for the time being, but ultimately could force damaging reductions to existing service levels and corresponding threats to future growth prospects if left unaddressed.

Also, it is important to recognize that Racine is not alone among Wisconsin municipalities – and, in particular, larger cities that are highly dependent on shared revenue – in facing mounting fiscal challenges. Racine’s challenges are exacerbated in ways that some others are not, however, as a result of its recent population decline and its lack of new development.

The intent of our analysis has been to provide an objective assessment of the nature and severity of Racine’s financial challenges, as well as the difficult set of circumstances that have created them. It is our hope that policymakers in Greater Racine and Madison will use our findings not to cast blame, but to determine a path forward that is both realistic and appropriate for Racine residents and for a larger region that has a huge stake in the City’s financial and economic well-being.



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