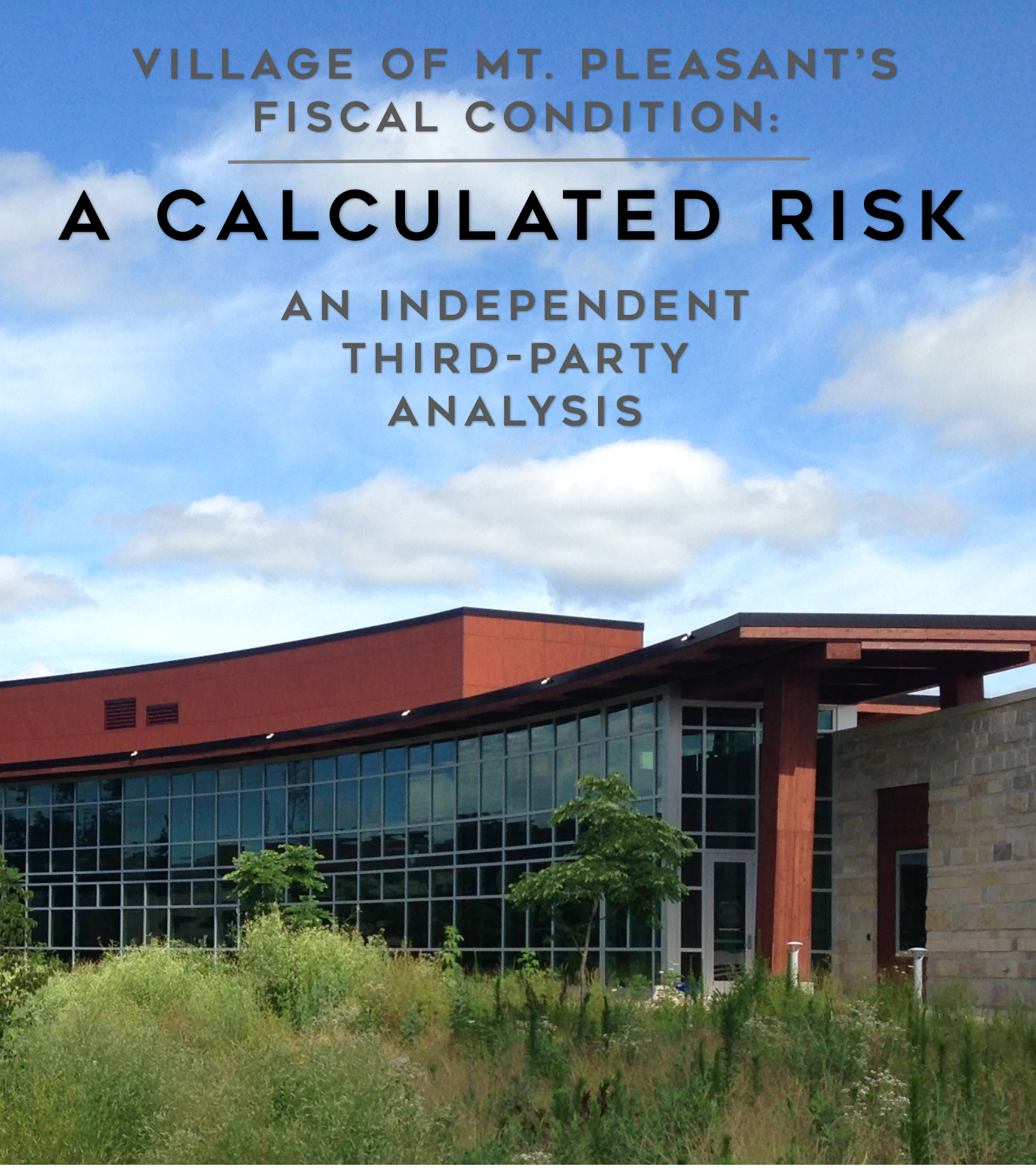
VILLAGE OF MT. PLEASANT'S FISCAL CONDITION:

A CALCULATED RISK

AN INDEPENDENT THIRD-PARTY ANALYSIS



WISCONSIN POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum (WPF) 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 impartial analysis of the fiscal condition of Mount Pleasant's village government. It was preceded by a fiscal analysis of the city of Racine and a similar analysis of Caledonia's village government. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations, and that it will provide useful baseline information as they assess potential budgetary consequences related to the COVID-19 pandemic.

Report authors would like to thank Mount Pleasant fiscal officials and departmental staff for their assistance in providing information on the village's finances and for answering our many 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." The initiative is a collaborative project 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 for its long-standing support of our local government finance research.

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A CALCULATED RISK

An independent third-party analysis

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INTRODUCTION

Once a quiet suburban community that few outside of the Milwaukee-Chicago corridor knew existed, the Village of Mount Pleasant plunged into national consciousness in the fall of 2017 with a White House announcement that the Taiwanese technology giant Foxconn had chosen it as the site for a huge new industrial plant. The plant – and the thousands of jobs it would create – promised to transform Mount Pleasant into the anchor of a new "Wisconn Valley" that would move both the state and the region into global prominence as one of the world's technology hubs.

The COVID-19 Pandemic

The research for this report was initiated in the fall of 2019 and largely completed prior to the onset of the COVID-19 pandemic in March 2020.

It is far too early to assess the pandemic's impacts on Mount Pleasant's 2020 budget and longer-term financial outlook, as the severity of those impacts will be influenced by the length of the economic downturn and the availability of federal and state financial support for local governments. For a broad overview of potential impacts on cities and villages statewide, see our April 2020 report.

We could have delayed the report's release to allow time to evaluate how Mount Pleasant might be impacted by the pandemic's ramifications. Instead, we decided to release it as we had written it before the impacts of the economic crisis could be fully evaluated to provide policymakers and citizens with greater understanding of the village's fiscal condition heading into these chaotic times and its capacity to navigate the new financial challenges it will face.

While the potential economic benefit was off the charts, so was the financial commitment of both the state and the village to lure Foxconn to Wisconsin. The company was offered more than $2.8 billion in state incentive payments if it delivered the 13,000 jobs originally promised. The village and Racine County supported the project through the creation of a Tax Increment District (TID), initially projected at $763 million, to finance the land acquisition and public improvements needed to prepare the site for development.

Three years later, the size of the Foxconn facility has been substantially reduced and its number and types of anticipated jobs have changed, but forward momentum continues. A one-million-square-foot advanced manufacturing facility is near completion at the Mount Pleasant site, with three more buildings soon to be completed and production anticipated to begin in 2020. However, with the onset of the COVID-19 pandemic and a global economic downturn, new threats to that momentum may emerge with possible corresponding impacts on Mount Pleasant's finances.

This report seeks to provide clarity on the scope and nature of Mount Pleasant's financial strengths and challenges by providing an independent analysis of the village's overall fiscal condition. The bulk of our research was conducted before the current economic crisis took hold, and it is far too early to assess how the pandemic's impacts will affect the village's finances and the local economy over the long term. However, by providing a baseline analysis of Mount Pleasant's fiscal condition prior to the pandemic, as well as a brief analysis of the status of the Foxconn TID (TID 5) at this early juncture, we hope to provide policymakers and citizens with important perspective on the village's readiness to navigate the uncertain times ahead.

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 methodology to produce several reports on local governments in Milwaukee

and Racine counties, including one on neighboring Caledonia earlier this year and one on the city of Racine in 2018.

ICMA created its methodology for evaluating local government finance in the early 1980s. The system requires the selection and tracking of fiscal indicators to assess the underlying forces that may affect municipal finance. It focuses 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.
- **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."

In addition to offering an objective context with which to broadly consider the financial condition of Mount Pleasant's village government, this report undertakes deeper analysis of a handful of key fiscal issues that emerge from examination of the ICMA indicators. For example, the state's limits on annual property tax levy increases have impacted municipal governments throughout Wisconsin in varied ways. We analyze the implications of these limits for Mount Pleasant and how they have impacted other revenue decisions. Likewise, the report considers the consequences and implications of current operating and capital expenditure patterns, and analyzes how the village's debt and retirement obligations are likely to impact such patterns in the future.

Finally, no analysis of Mount Pleasant's financial condition can be conducted without consideration of TID 5, created by the village in 2017 to support its massive borrowing for the land acquisition and infrastructure improvements needed for the Foxconn development. We broadly consider the risks involved with the village's roughly $203 million in debt to support the TID, though it should be noted that any effort to assess that risk has now been complicated by the uncertainties associated with the COVID-19 economic ramifications.

This report has been generously financed (in part) by The Johnson Foundation at Wingspread as part of its "Resilient Communities Initiative." That initiative is designed to foster collaboration among governments and individuals in Greater Racine to address economic and social challenges confronting the region.

Enhanced understanding of Mount Pleasant's fiscal condition and challenges is a prerequisite to such cooperative action. We hope this report will provide Mount Pleasant and regional policymakers and civic leaders with baseline information that will support discussion about collaborative strategies to respond to fiscal and economic consequences associated with the pandemic, and will help them consider whether the fundamental municipal services that are required to accommodate Mount Pleasant's ambitious economic development objectives can be appropriately provided and sustained.

METHODOLOGY AND DATA

In seeking to provide an objective assessment of the Village of Mount Pleasant'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 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 a government better understand the nature of its revenues and expenditures, as well as its long-term and current budget solvency. It also examines the government's cash position and how revenues and expenditures influence service levels.

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. This analysis tracks trend results for the selected indicators over a six-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. As the ICMA handbook says:

> *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.*

Per the ICMA system, this analysis is wide-ranging with indicators specifically selected to address all four forms of solvency cited in the introduction to this report. Indicators on fiscal liquidity and fund balances demonstrate cash solvency. Indicators on retirement spending, debt, and the condition of village assets shed light on long-term solvency. Indicators on revenues and expenditures reveal underlying factors that affect budget and service solvency. Environmental indicators explore the broader forces influencing fiscal health. Trends are tracked from 2013 to 2018 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. Village of Mount Pleasant 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.

MOUNT PLEASANT'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 understand the government's economic and socioeconomic environment. In this section, we review a small set of environmental 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."

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, but through a more focused lens than can be gleaned from longer-term analysis. ICMA's five-year trend indicators also signal whether a government's finances are stable, improving, or deteriorating.

For Mount Pleasant, we use a six-year trend analysis covering 2013 through 2018. This is largely due to the fact that this study was done in conjunction with a fiscal analysis of the Village of Caledonia. The Caledonia report used a six-year time frame due to the availability of new budget data mid-way through the study. By using a similar time frame for Mount Pleasant, a closer comparison of these neighboring villages can be made across the reports.

Of course, a key weakness is that the environmental trend data fail to take into account both the growth in jobs and economic activity that have occurred since the onset of Foxconn-related development and, more recently, the impacts of the COVID-19 pandemic. Still, the environmental analysis in this section provides an important glimpse of key environmental and economic indicators for Mount Pleasant heading into these challenging times.

Analysis

One of the most fundamental environmental indicators that can influence a municipality's financial condition is the size of its population and the direction of population change. A village with an expanding population often can access a growing base of tax revenue to support core services. Conversely, one with a shrinking population 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.

Mount Pleasant has benefited from a growing population. The municipality existed as a township from its founding in 1845 until September 2003, when it incorporated as a village. In 1940, 6,760 residents were recorded in the U.S. Census. That number nearly doubled to 11,339 by 1950 and has continued to grow to its current population peak at 27,014.

Another critical aspect of municipal fiscal health is the overall vitality of the local economy. Between 2013 and 2017 (which is the most recent 5-year American Community Survey dataset available as of this report), Mount Pleasant showed steady progress in nearly all key economic indicators (as shown in **Table 1**). The size of the civilian labor force is the one exception, which shrank by 903 people (-6%). Of course, these data were collected before the arrival of Foxconn, which is expected to significantly grow the local workforce and population.

A particularly relevant economic indicator that relates to municipal fiscal health is property values, which are central to a village's ability to generate property tax revenue. As shown in the table, Mount Pleasant's equalized property value increased by 17% over the five-year period (again, these figures do not account for the Foxconn development). Unemployment in 2017, at 4.6%, was 3.6 percentage points lower than in 2013. Median household incomes increased 10%.

Table 1: Trends in Select Environmental Indicators, Village of Mount Pleasant, 2013 to 2017

Year	Median Household Income	Mean Household Income	Equalized Value*	Percent in Poverty	Unemployment Rate	Civilian Labor Force
2013	$63,771	$77,688	$2,314,862	6.8%	8.2%	13,973
2014	$65,347	$80,440	$2,380,865	6.9%	7.8%	13,945
2015	$63,295	$79,163	$2,434,660	7.3%	6.5%	13,693
2016	$63,799	$80,927	$2,516,623	6.5%	5.0%	13,497
2017	$70,096	$85,060	$2,704,382	6.6%	4.6%	13,070
5 - yr difference	$6,325	$7,372	$389,520	n/a	n/a	-903
5 - yr % change	10%	9%	17%	n/a	n/a	-6%

*In thousands
Source: U.S. Census, 5-year American Community Survey; Wisconsin Department of Revenue

Overall, the village's income and poverty levels fare much better than state and national averages. For example, Mount Pleasant's 2017 median household income of $70,096 was significantly higher than Wisconsin's average of $56,759 and the U.S. figure of $57,652. Meanwhile, its poverty rate of 6.6% was far below the state rate of 12.3% and the national rate of 14.6%. Those indicators of economic well-being benefit Mount Pleasant's budget given that areas with high levels of poverty can place greater demands on certain municipal services, such as public safety and public health.[1]

Mount Pleasant enjoys credit ratings in the top tier of the ratings system used by national ratings agencies, though it was downgraded by Moody's in August 2019 from an Aa2 (Moody's third-highest category) to Aa3 (the fourth-highest category). Moody's also assigned the village a negative outlook, which suggests about a one in three chance of another downward adjustment within the next 18 months.[2] The rationale cited for the downgrade was the increased debt burden and uncertainty related to Foxconn as well as state-imposed property tax levy limits, which restrict revenue flexibility. These factors will be explored later in the report.

Additional perspective can be gained by comparing Mount Pleasant's environment with similarly populated villages and cities in Wisconsin. **Table 2** provides perspective on financial capacity (i.e. the ability of village government to generate tax revenues) and **Table 3** looks at indicators that speak to financial demand for municipal services per pre-Foxconn 2017 data.

1 National, state, and Mount Pleasant data obtained from U.S. Census American Community Survey estimates.
2 Moody's Investors Service, *Rating Symbols and Definitions*, January 2020.

Table 2 indicates that when compared to the 13 peers, Mount Pleasant ranked in the upper half with regard to median and mean income levels and per capita property values. These indicators of wealth can be linked to a village's capacity to generate resources required to support municipal services.

Table 2: Environmental indicators related to financial capacity, Mount Pleasant and comparable cities, 2017

Community	Population	Median Income	Mean Income	Per Capita Property Value
Mequon, WI	23,787	$109,488	$172,120	$193,824
Muskego, WI	24,731	$ 86,588	$105,278	$119,620
Caledonia, WI	24,803	$77,240	$90,673	$84,526
Pleasant Prairie, WI	20,552	$76,258	$95,860	$159,703
Mount Pleasant, WI	**26,300**	**$70,096**	**$85,060**	**$102,828**
De Pere, WI	24,695	$67,913	$76,618	$78,375
Sun Prairie, WI	32,112	$67,512	$79,761	$92,947
Fitchburg, WI	27,914	$66,110	$88,060	$105,826
West Bend, WI	31,656	$55,962	$69,948	$84,665
Neenah, WI	25,821	$55,940	$76,710	$81,147
South Milwaukee, WI	21,185	$51,484	$63,217	$56,719
Stevens Point, WI	26,526	$44,333	$57,593	$70,926
Superior, WI	26,473	$43,836	$57,752	$62,922
Mount Pleasant Rank	6	5	6	5

* Ranked in descending order of financial capacity; for example, the village 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 Mount Pleasant compares favorably with its peers (**Table 3**). **In other words, the demand on Mount Pleasant's village government for certain municipal services is likely similar if not somewhat lower than in the other similarly sized cities and villages.** This finding suggests that responses to budget challenges that involve increasing local taxes and fees and/or cutting services may produce more modest ramifications in Mount Pleasant than in other similar-sized cities.

Table 3: Environmental indicators related to financial demand, Mount Pleasant and comparable cities, 2017

Community	Annual Unemployment Rate	Percent in Poverty	Less than a H.S. Diploma	Crimes per 10,000		Housing**		
				Violent	Property	Units Per 10,000	% Owner Occupied	Built Prior to 1950
Stevens Point	5.2%	23.1%	6%	65	211	3,870	49%	30%
Superior	5.4%	18%	6%	95	475	3,878	55%	46%
South Milwaukee	6.3%	16.3%	9%	42	168	4,845	60%	3%
Fitchburg	5.4%	12.2%	7%	117	191	3,677	49%	5%
Neenah	5.1%	11.1%	6%	72	201	3,975	66%	23%
Sun Prairie	3.4%	9.1%	4%	30	168	3,197	57%	8%
West Bend	3.8%	8%	6%	74	372	3,243	65%	15%
Pleasant Prairie	5.4%	7.5%	7%	32	211	4,995	81%	9%
De Pere	4.5%	7.4%	4%	40	78	4,157	62%	12%
Mount Pleasant	**4.6%**	**6.6%**	**6%**	**49**	**193**	**3,903**	**78%**	**9%**
Caledonia	5.3%	5.4%	6%	42	79	4,139	83%	9%
Mequon	2.5%	4.8%	3%	14	75	4,315	85%	9%
Muskego	3.3%	2%	4%	9	75	4,151	84%	8%
Mt Pleasant Rank	8	10	4	6	7	6	9	6

* Ranked in ascending order of financial capacity; for example, the village with the highest poverty rate is ranked 1st

** 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.**

Summary of Revenue Findings

Mount Pleasant's operations are primarily dependent on property taxes, which comprise 72% of revenue for the functions considered in this report. While overall levy increased by 11% from 2013-18 (above the 7.8% rate of inflation), the amount devoted to general operations and related functions decreased by 7%. This is largely due to an increased amount of levy devoted to roads and other capital projects, which received no levy allocation in 2013 but saw an appropriation of more than $800,000 by 2018.

Overall, revenue budgeted for property-tax dependent functions decreased by 0.4%. While some smaller revenue streams like investment income and fines, forfeitures, and penalties did grow somewhat, they were not enough to offset the decreased levy allocation. Intergovernmental revenue – the village's second highest revenue stream at 7% of revenue – fell by 11%.

Nevertheless, Mount Pleasant was able to use its available resources to maintain services, even increasing its staff by 5 FTEs during the 2013-2018 period. Prior to the COVID-19 economic crisis, the village's revenue outlook appeared stable.

Analysis

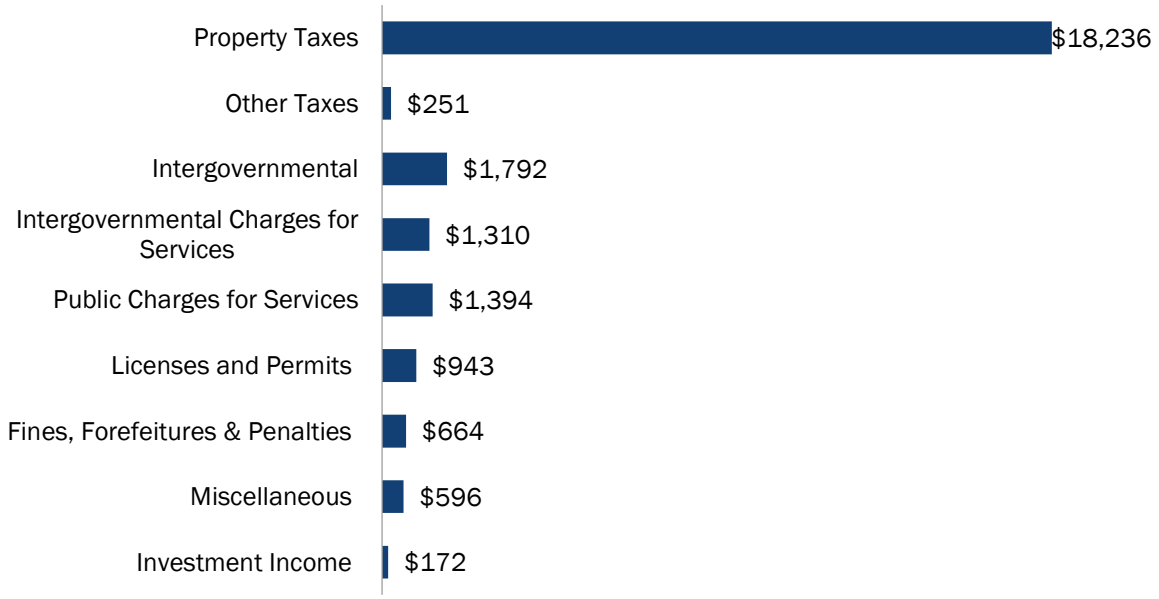
Major revenue sources

Mount Pleasant'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 recycling and solid waste, which can be supported by a mix of funds like user-based fees, grants, and property tax support; funds for capital projects and debt service; and enterprise funds such as for sewers and storm water, which are designed to derive their revenues primarily from the enterprise in which they are engaged.

Our analysis of village revenues in this section focuses on the General Fund, debt service, and a limited number of special revenue and enterprise funds that receive at least some funding from the property tax. Our focus on property tax-dependent functions reflects the importance of that funding source to the village's overall financial structure. Not included in our analysis are capital projects and enterprise funds that do not use property tax levy, including storm water and sewer utilities.

Chart 1 presents Mount Pleasant's actual operating revenues in 2018 for all property tax-dependent functions. Most of those functions are contained in the village's General Fund, which received $19.6 million of the $25.4 million total shown in the chart. There are nine major sources of revenue that support the General Fund and other village functions that receive property tax revenue. We provide brief descriptions of the major sources below.

Chart 1: Village of Mount Pleasant operating revenues, 2018 (in thousands)



Source: Village of Mount Pleasant financial records

Property Taxes are designated as the primary source of municipal tax revenue per Wisconsin statutes.[3] Nevertheless, the state has established property tax "levy limits" through the biennial state budget that 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 village are allocated primarily to the General Fund ($13.1 million in 2018) and debt service ($2.8 million). Smaller but still significant amounts are allocated to special revenue funds. One example is a $1.15 million payment to the city of Racine to help support libraries and certain regional cultural attractions per a 2002 wastewater payment, of which $698,000 is provided through property tax levy. The village also allocates $910,000 in levy for a fund that finances solid waste removal services.

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. In 2018, 60% of the village's intergovernmental revenues that supported the General Fund came from state general transportation aids ($1 million of the $1.7 million total), while $331,000 (19%) came from the state's shared revenue and expenditure restraint programs.

Charges for Services are revenues received for services delivered by village 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). Examples include ambulance fees ($824,000) and smaller amounts in the $30,000 to $40,000 range for recreation and solid waste.

Intergovernmental Charges are revenues received from other governments for services provided by Mount Pleasant to those municipalities. The primary intergovernmental charges include payments by the Village of Sturtevant ($1.2 million) for its participation in the South Shore Fire Department (this is a joint department between the two villages but Mount Pleasant is the fiscal agent); and revenue for fire services provided to the Village of Elmwood Park ($44,370) by the joint department.

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

Fines and Forfeitures constitute revenues received from individuals violating municipal laws and include municipal court fines and parking fines.

The broad overview of Mount Pleasant's revenue characteristics shown in **Chart 1** conveys the challenging fiscal scenario faced by village leaders. **We see that just one revenue source – the property tax– comprises 72% of the village's total revenue** for the functions in question. Intergovernmental revenue comprises the second largest revenue stream at only 7%.

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

[3] 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 may levy a hotel/motel room tax of up to 8%. Mount Pleasant does not employ a local wheel tax but does receive proceeds from an 8% hotel/motel tax. Of the roughly $1 million in hotel/motel tax revenue, 75% goes to a local tourism commission, and 25% is kept for village operations.

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

In the case of Mount Pleasant and other local governments in Wisconsin, however, this problem is even more challenging because the two revenue sources that comprise the bulk of the village's revenue pie – and that define its lack of revenue diversity – are highly restricted:

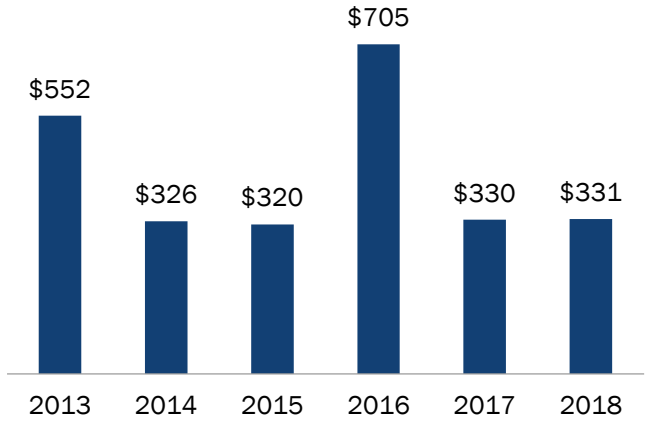
- **Property tax**. Mount Pleasant's largest source of revenue is constrained by State of Wisconsin levy limits that generally restrict annual growth in the property tax levy for operating purposes to the percentage increase in property values that result from new construction. Over the 2013-2018 timeframe, the percentage increase in new construction ranged from 0.2% to 2.9%, thus affording Mount Pleasant varying and mostly limited capacity to increase its largest revenue source to support its operations (though often the village has elected not to levy up to the maximum amount allowed).

  The State's revenue limits do permit adjustments for levy used to pay debt service on certain types of general obligation (G.O.) debt, however, and the village has used this flexibility to its fiscal advantage.

  Intergovernmental revenue. As noted above, the vast majority of Mount Pleasant's intergovernmental revenue comes from the State of Wisconsin and is dependent, therefore, upon biennial state budget deliberations. This lack of control for village leaders is most pronounced with regard to the shared revenue/expenditure restraint program, which comprised 19.3% of all intergovernmental revenues.

  Wisconsin's shared revenue program was created in 1911 as a means of reimbursing 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. More recently, state aid includes reimbursement for the absence of revenues from personal property that are now exempted.

  Chart 2: Village of Mount Pleasant state shared revenue payments 2013-18 (in thousands)



Source: Village of Mount Pleasant financial records

  The expenditure restraint program (ERP), meanwhile, was enacted in 1990 as a means of rewarding municipalities with high property tax rates for limiting growth in spending. 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."[4] ERP payments are distributed as a distinct component of the shared revenue program.

[4] Wisconsin Department of Revenue, https://www.revenue.wi.gov/DORReports/16erp.pdf.

Mount Pleasant's combined payment decreased by $221,000 (40%) from 2013 through 2018, as shown in **Chart 2**. In many of those years, the village did not qualify for expenditure restraint aid funds, which accounts for the somewhat large variations.

Revenue trends

To analyze Mount Pleasant's revenue picture, we use a six-year time frame, from 2013 through 2018 (the latest year for which audited actual revenue figures were available when we were conducting our analysis). We use three indicators: 1) operating revenues per capita in constant dollars; 2) intergovernmental revenue as a percentage of operating revenue; and 3) local tax revenue in constant dollars.

Table 4 offers an overview of Mount Pleasant's actual operating revenues for property tax-dependent functions during the six-year time period. **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 village'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.

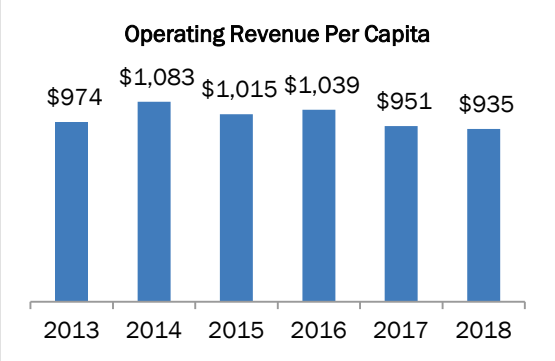
As shown in **Table 4**, Mount Pleasant's total operating revenues for property tax-dependent budgets *decreased* 0.4% from 2013 to 2018. For reference, the rate of inflation was 7.8% during that time period, and budgets for property tax-dependent functions decreased by 7.9% when adjusted for inflation. That trend of declining revenue is also reflected in per capita operating revenues, as seen in **ICMA Indicator 1**.

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.

Village of Mount Pleasant Finding – The Village of Mount Pleasant experienced a decline in per capita revenue of -0.4% from 2013-2018 and a -7.9% decline when adjusted for inflation. The majority of the decrease is attributed to a 7% decline in property tax revenue budgeted for property tax-dependent functions. While the decline did not have a noticeable impact on village service levels, it could be problematic if sustained and **requires monitoring.**



Source: U.S. Census and Village of Mount Pleasant financial records

Table 4: Village of Mount Pleasant revenues, property tax-dependent functions, 2013 to 2018 (in thousands)[5]

2018 Actuals	2013	2018	% Change
Property Taxes	$19,595	$18,236	-7%
Other Taxes[6]	$228	$251	10%
Intergovernmental	$2,002	$1,792	-11%
Intergov. Charges for Services	$1,500	$1,310	-13%
Public Charges for Services	$592	$1,394	135%
Licenses/Permits	$722	$943	31%
Fines and Forfeits	$608	$664	9%
Miscellaneous[7]	$244	$596	144%
Investment Income	$04	$172	4,402%
Total Revenues	**$25,461**	**$25,358**	**-0.4%**

Source: Village of Mount Pleasant financial records

When we consider the General Fund, a similar picture emerges. As shown in **Table 5**, General Fund revenues decreased by 2% over the 2013-2018 timeframe and by 7.2% when adjusted for inflation. While the village was able to increase revenue from Public Charges for Services, Licenses and Permits, and Fines, Forfeitures & Penalties, these areas represent only 12% of General Fund revenue. Property taxes represented 67% of total General Fund revenue in 2018, but their allocation to General Fund services decreased by 11% ($1.6 million) over the six-year period as additional property tax dollars were allocated for capital needs and regional cultural facilities. Similarly, intergovernmental revenue represented 9% of General Fund revenue in 2018, but decreased by 9% ($168,000) over the time period studied.

Table 5: Village of Mount Pleasant General Fund revenues, 2013 to 2018 (in thousands)

	2013	2018	% Change
Property Taxes	$14,753	$13,198	-11%
Other Taxes	$228	$251	10%
Intergovernmental	$1,884	$1,716	-9%
Intergov. Charges for Services	$1,500	$1,310	-13%
Public Charges for Services	$219	$1,140	419%
Licenses/Permits	$722	$943	31%
Fines, Forfeitures & Penalties	$608	$664	9%
Miscellaneous	$17	$228	1,264%
Investment Income	$4	$172	4,402%
Total	**$19,935**	**$19,622**	**-2%**

Source: Village of Mount Pleasant financial records

[5] For purposes of trend analysis, it is important to note that changes in certain revenue categories may reflect accounting decisions, as opposed to actual revenue increases or decreases.
[6] The "Other Taxes" category is mainly comprised of the village's share of a hotel/motel tax, which grew from $226,000 in 2013 to $248,000 in 2018.
[7] "Miscellaneous" revenues include sources that do not easily fall into the other major revenue categories and which tend to bring in relatively minor amounts of money. For example, the village codes donations toward the K-9 program in the police department as "miscellaneous" revenues.

As shown in **ICMA Indicator 2**, Mount Pleasant's intergovernmental revenue ranged from $1.3 million to around $2 million between 2013 and 2018, peaking at $2.1 million in 2016. As a percent of total operating revenue, this revenue stream fell from 7.7% in 2013 to 7.1% in 2018. Shared revenue/expenditure restraint payments declined by 40% ($221,000) during this period, or 15.5% when adjusted for inflation.

Notably, 2016 saw higher intergovernmental revenue than other years during the study period because of a $376,000 expenditure restraint payment from the state. In most years, the village did not receive expenditure restraint payments. Village officials say there was no established policy or strategy to budget in a manner that would secure expenditure restraint payments during this period; rather, budgets were established based on program and service needs and whether the expenditure restraint threshold was met was of secondary importance.

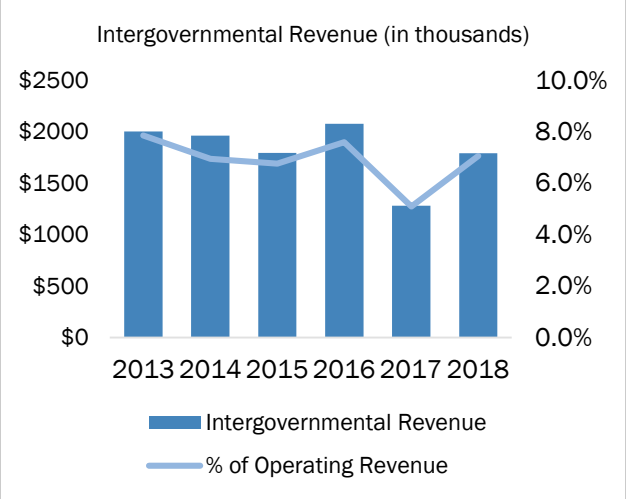
As will be discussed in the next section, flat or declining intergovernmental revenue paired with declining property tax levy dedicated to property-tax dependent functions limits the village's ability to keep pace with growing service demands. This is cause for some caution, although in the long term rising property values, population, and economic development may provide sufficient capacity to increase the property tax levy to keep pace with such demand.

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

Why it is Important – Mount Pleasant's second largest revenue source is intergovernmental revenue, which is derived overwhelmingly from state funds.

ICMA Warning Sign – An increasing percentage of intergovernmental revenue as a proportion of operating revenues given that the village has little control over this revenue source.

Village of Mount Pleasant Finding – As a percentage of the village's overall revenue for property tax-dependent budgets, intergovernmental revenue decreased from 7.7% in 2013 to 7.1% in 2018. While this is a sign of fiscal health when using the ICMA fiscal indicator parameters, the fact that it is the village's second largest revenue source and that the village possesses few other revenue options makes the trend problematic. Specifically, per state statutes, village leaders lack alternative major revenue options outside of the property tax to make up for negative growth in intergovernmental revenue. The decline places increased pressure on the property tax and **requires monitoring.**



Source: Village of Mount Pleasant budget documents

The village was able to modestly increase its property tax levy during the 2013-2018 period. As shown in **ICMA Indicator 3**, overall property tax collections increased by 11%, surpassing the 7.8% rate of inflation. However, property tax devoted to operational spending (per the definition used in this report) decreased by 7% during that time period.

Property tax levy revenue budgeted in the General Fund fell by 10% ($1.5 million) from 2013-18, and levy budgeted for debt service decreased 13% ($393,000). Meanwhile, levy budgeted for capital projects increased from zero in 2013 to $803,000 by 2018 and the levy contribution to support Racine libraries and cultural facilities increased by $337,000 (93%).[8] Smaller service areas that received increased levy included parks ($85,000, up from no levy support in 2013), recycling ($134,500, up 67%), and Mount Pleasant's contribution to the city of Racine's bus system ($51,000, up 28%).

It is also important to recognize the impact that property tax increases had on residents and businesses. Over the 2013-2018 timeframe, Mount Pleasant's equalized property value grew by 26% (while the levy grew 11%). Consequently, the property tax *rate* for village government decreased from $7.33 per thousand dollars of assessed value in 2013 to $6.94 in 2018. In other words, rising property values increased total levy revenue while decreasing the mill rate assessed per $1,000 of property value.

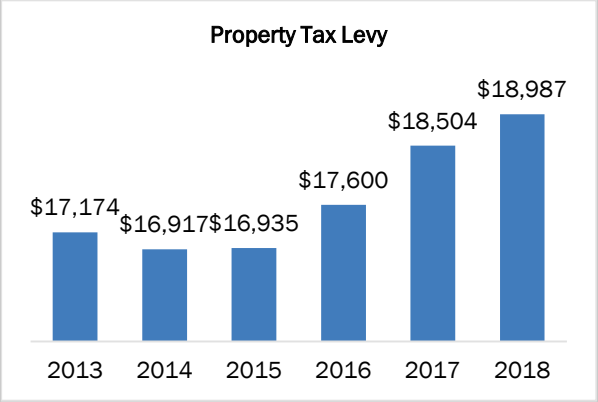
As discussed earlier, state-imposed levy limits tie growth in the levy used for operational purposes to the growth in property values attributed to net new construction. **Chart 3** shows that from 2013-18, net new construction increases ranged from 0.2% to 2.9%, with recent years seeing a relatively large upward shift. The increase in 2017 and 2018 helped accommodate a $904,000 increase in property tax revenues in 2017 and a $484,000 increase in 2018.

ICMA Fiscal Indicator 3 –Growth in Property Tax Revenue

Why it is Important – Property tax revenue is Mount Pleasant's largest single revenue source by far. A decline 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.

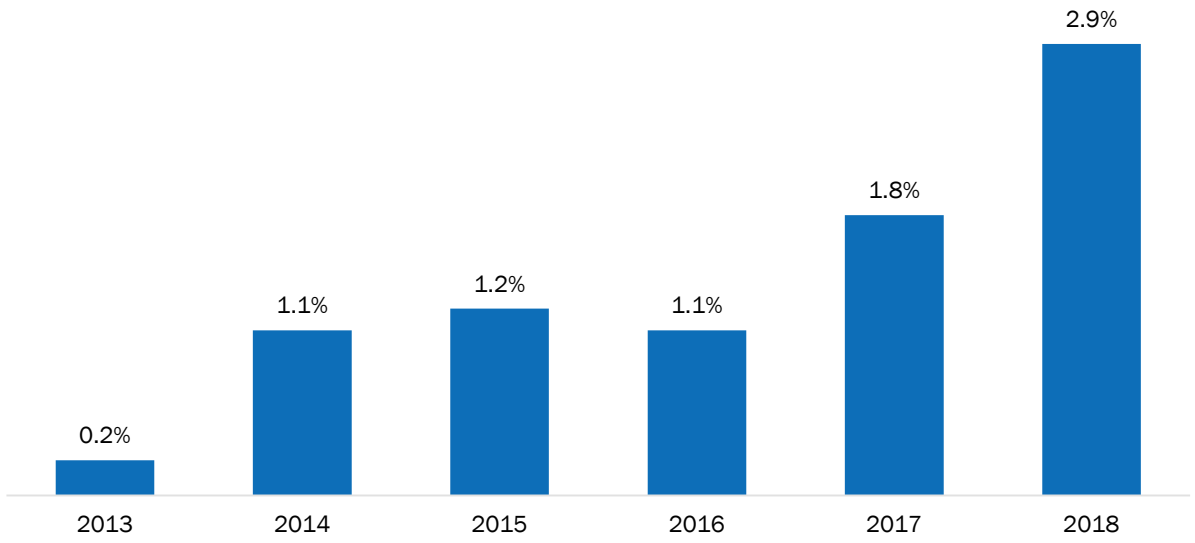
Village of Mount Pleasant Finding – The village experienced an 11% property tax revenue increase from 2013 to 2018, which is higher than the 7.8% CPI-measured rate of inflation over that period. This increase was aided by growth in property values and allowed for increased spending on capital and a handful of other needs, although levy devoted to the General Fund decreased by 10%. The slightly-above inflation increase allowed the village to meet its expenditure needs and per the ICMA standard is a **positive sign** of fiscal health.



Source: Village of Mount Pleasant financial records

[8] The village pays Racine roughly $1.3 million annually to support the city's zoo, library, and art museum, which serve a broader regional population. This payment is the "Shared Racine" line item in village budget documents and reflects a 2002 agreement involving the extension of sewer and wastewater services.

Chart 3: New construction percent of total equalized value, 2013-18



Looking ahead, the village anticipates substantial growth in property values and population resulting from Foxconn and other new economic development, particularly along the I-94 corridor. It is too early to tell what impact the COVID-19 economic consequences will have on such hopes. Regardless, it is important to note that while new development will benefit village finances over the long term, to the extent that it occurs within tax incremental districts it will be used first to pay off related debt and will not directly benefit most village operations for several years. An exception is public safety, which is legally able to receive a draw from the Foxconn TID to offset the cost of added police and fire services attributable to the TID.

Summary

Mount Pleasant's overall revenue growth exceeded the rate of inflation and largely allowed the village to meet its spending needs. Nevertheless, the village's lack of revenue diversity and the unavailability of new sources of revenue growth beyond the property tax bear watching. This is particularly true in light of the village's decision to devote property tax levy to its capital program, which caused levy support for the general fund to decline modestly. Looking forward, the village's revenue challenges will almost certainly intensify as a result of the economic consequences related to the COVID-19 pandemic, though to what extent is too early to tell. This could range from increased rates of delinquent property taxes to reduced revenues from public charges for services and room taxes as people abstain from activities outside of the home.

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 that growth 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 budgetary solvency at risk.

Summary of expenditure findings

Our analysis of Village of Mount Pleasant expenditures on property tax-dependent functions shows that the growth rate of 9% from 2013-18 slightly exceeded the 7.8% rate of inflation. This relatively modest spending growth is not cause for concern, but a couple of factors do bear watching.

The first is the disproportionate amount of new spending dedicated to public safety. While this is a highly prioritized service area and one where costs are more difficult to control, a continuation of this trend could impact service solvency in other areas.

Also, while fringe benefit costs largely held steady through most of the study's time frame, they rose by 12% ($355,000) from 2017 to 2018. Village officials anticipate that health care costs will continue to rise at approximately 4% annually, while pension costs also may also grow over time if the Wisconsin Retirement System is unable to recover recent investment losses.

Analysis

Our analysis of Mount Pleasant expenditures again encompasses the village'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 also isolate the General Fund.

It is important to note that analysis of local government functional expenditures can be impacted by accounting procedures. For example, some governments allocate fringe benefit costs directly to departments and fold them into departmental budgets, while others account for them separately in a non-departmental account. There also can be differences in the treatment of fringe benefit costs for active vs. retired employees. In the case of Mount Pleasant, fringe benefit costs for active employees and benefit costs for retirees are allocated to departments and included in departmental budgets. We isolate all fringe benefits for separate analysis later in this section.

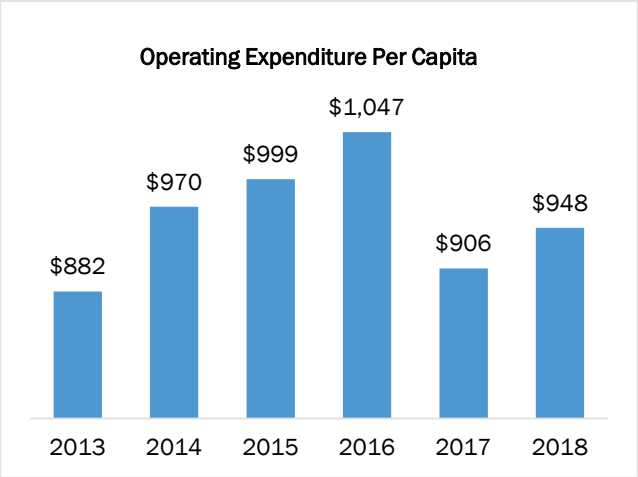
Chart 4 shows the functional breakdown of Mount Pleasant's actual operating expenditures for property tax-dependent functions in 2018. We see that public safety is the single largest expenditure category at $14.8 million, comprising 53% of the total.[9] Debt service is next, at $3 million (12%). Public works is the third largest spending category, at $1.8 million and 7% of total spending. Other major areas are Shared Racine ($1.2 million) and Solid Waste ($1 million), each of which comprised 4% of 2018 expenditures.[10]

ICMA Fiscal Indicator 4 – Net Expenditures Per Capita

Why it is Important – In a state of 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.

Village of Mount Pleasant Findings – Per capita expenditures increased 8%, slightly exceeding the 7.8% inflation rate. A $4.3 million decrease in spending on debt service between 2016 and 2017 is the primary reason for the drop in per capita costs shown in the chart below. Public safety was the largest area of expenditure growth, though spending that exceeded inflation occurred across nearly all budgetary functions. The relatively modest growth in expenditures that was commensurate with revenue capacity is a **positive** sign of fiscal health, though increased demands for public safety, capital, and regional cultural facility spending **requires monitoring**.

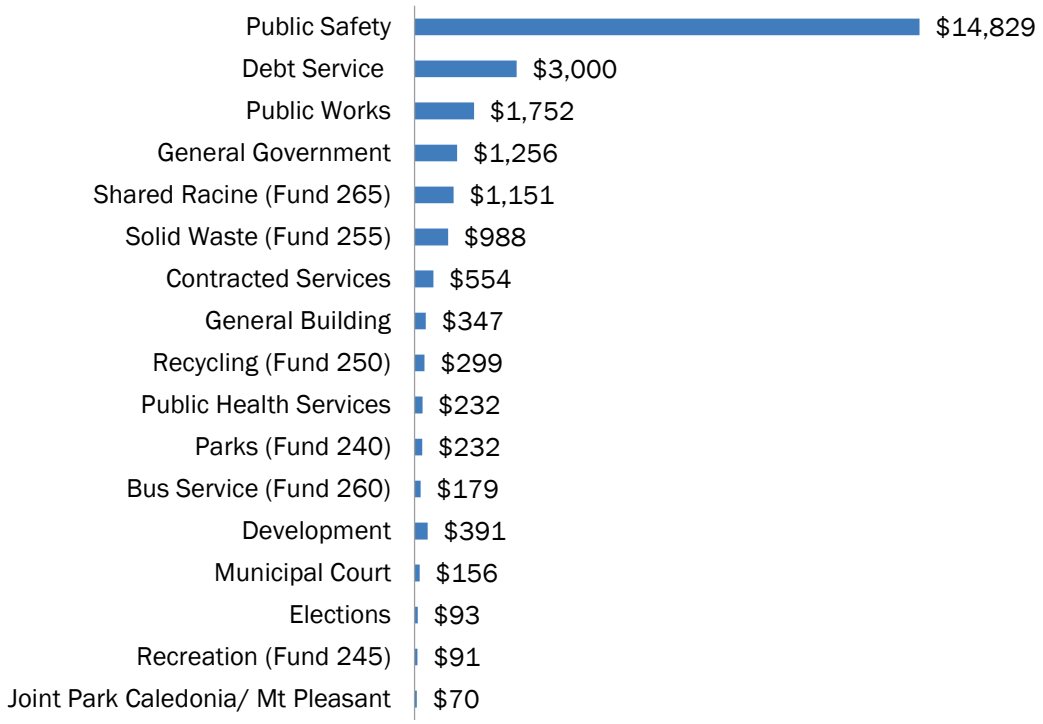


Source: Village of Mount Pleasant financial records; U.S. Census

[9] Police represents 51% of public safety spending, fire 45%, and dispatch 4%.
[10] General government costs grew by 12% ($33,000) and represent 5% of expenditures. This category is the combination of Finance, Information Technology, Clerk/Treasurer, Administrator, Village Board, and Human Resources. Each of these individual departments comprises less than 2% of 2018 spending.

When we examine the six-year trend, we find that the growth in Mount Pleasant's expenditures for these functions slightly exceeded the 7.8% rate of inflation, increasing by 9% from 2013 to 2018 (**Table 6**). On a per capita basis, they grew by 8% from 2013 to 2018, as seen in **ICMA Indicator 4**.

Chart 4: Village of Mount Pleasant operating expenditures, 2018 (in thousands)



Source: Village of Mount Pleasant financial records

There are several reasons why a government entity might increase spending levels, including population growth and implementation of new services. In the case of Mount Pleasant, the largest change occurred in public safety, as shown in **Table 6**. The growth in this area made up roughly 35% ($1.5 million) of total operational spending growth.

Table 6: Change in Mount Pleasant expenditures, property tax-dependent functions (in thousands)

	2013	2018	% Change
Public Safety	$13,274	$14,829	12%
Debt Service [11]	$3,144	$3,000	-5%
Public Works	$1,666	$1,752	5%
General Government[12]	$1,122	$1,256	12%
Shared Racine	$925	$1,151	24%
Solid Waste	$941	$988	5%
Contracted Services	$389	$554	42%
Development	$288	$391	36%
General Building	$276	$347	26%
Recycling	$276	$299	8%
Public Health Services	$206	$232	13%
Parks	$124	$232	87%
Bus Service	$178	$179	1%
Municipal Court	$123	$156	27%
Elections	$31	$93	205%
Recreation	$57	$91	60%
Joint Park Caledonia/Mt Pleasant	$152	$70	-54%
Other[13]	$232	$0	-100%
	$23,402	$25,618	9%

Source: Village of Mount Pleasant financial records

When we isolate only the General Fund departments in **Table 7**, we see that expenditures increased by $1.9 million (11%), again outpacing inflation. By 2018, public safety spending represented 75% of General Fund spending. Notably, while public works expenditures are often a major spending driver for cities and villages, this department's costs grew by only 5% ($86,000). Meanwhile, Contracted Services received an increase of about $165,000 (42%), including a $113,000 (116%) increase for assessment services, $38,000 (21%) for inspections, and $56,000 (47%) for legal services.

Table 7: Change in Mount Pleasant General Fund operating expenditures (in thousands)

	2013	2018	% Change
Public Safety	$13,274	$14,829	12%
Public Works	$1,666	$1,752	5%
General Government	$1,122	$1,256	12%
Contracted Services	$389	$554	42%
Development	$288	$391	36%
General Building	$276	$347	26%
Public Health Services	$206	$232	13%
Municipal Court	$123	$156	27%
Elections	$31	$93	205%
Joint Park Caledonia/ Mt Pleasant	$152	$70	-54%
Other	$232	$00	-100%
	$17,758	$19,679	11%

Source: Village of Mount Pleasant financial records

[11] Debt service *excludes* G.O. debt for TIDs, as repayment does not rely on the general tax levy.
[12] General government includes Finance, IT, Clerk/Treasurer, Administrator, Village Board, and Human Resources.
[13] "Other" includes Parks and Planning Department general fund budgets that existed in 2013 but had been removed or absorbed by other budgets by 2018.

Village workforce

An important fiscal indicator tied to government expenditures is the size of the government workforce and its growth over time. We analyze the 2014-2018 workforce FTE trends in **ICMA Indicator 5**. (Data for 2013 were unavailable.)

Between 2014 and 2018, Mount Pleasant saw an increase of five full-time equivalent (FTE) positions (growing from 150.5 to 155.5 positions, or 3.3%). One FTE was added to general village services with the creation of a human resource position at 0.75 FTE and an additional 0.25 FTE in the Clerk/Treasurer department.[14] The other four FTEs were in the police department. As shown in **ICMA Indicator 5**, employees per capita increased by 1.8%, from 5.7 to 5.8 FTEs per 1,000 residents. This is on par with the 1.5% population growth experienced in Mount Pleasant over the five years.

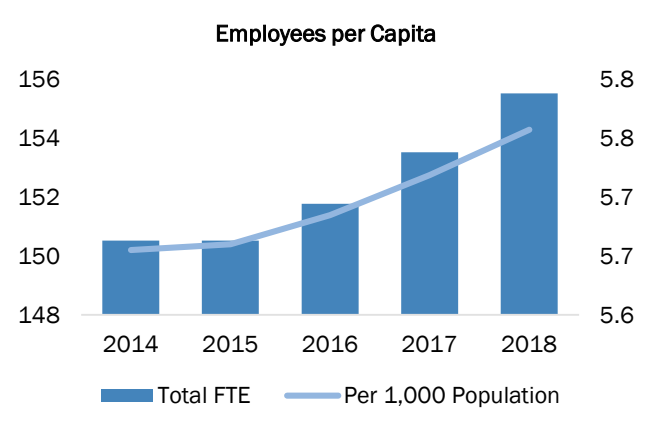
For additional context, **Table 8** shows workforce trends for major village functions. Most experienced no growth.

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 – An increasing number of municipal employees per capita.

Village of Mount Pleasant Finding – The workforce grew by 5 FTEs from 2014-2018, and by 1.8% in terms of per capita employees. This is a **positive indicator** of fiscal health, as the modest increase in employees rose roughly on par with the 1.5% percent change in population growth over that time period.



Source: Village of Mt Pleasant financial records. 2013 data unavailable.

Table 8: Workforce trends for major village functions

Employees by Major Function	2014	2018	Change	% Change
General Admin*	13	14	1	8%
Fire	60.15	60.15	0	0%
Police	52	56	4	8%
Public Works	3	3	0	0%
Highway/Compost	11.78	11.78	0	0%
Parks & Rec	1.6	1.6	0	0%

Source: Village of Mount Pleasant Finance Department

*General Admin includes the Clerk/Treasurer, Municipal Court, Administrative, IT, Finance, and Human Resources departments.

[14] The Clerk/Finance department saw a total increase of 2.25 FTE, but these increases were offset by changes in the Administrative and Finance Departments, which each lost one FTE.

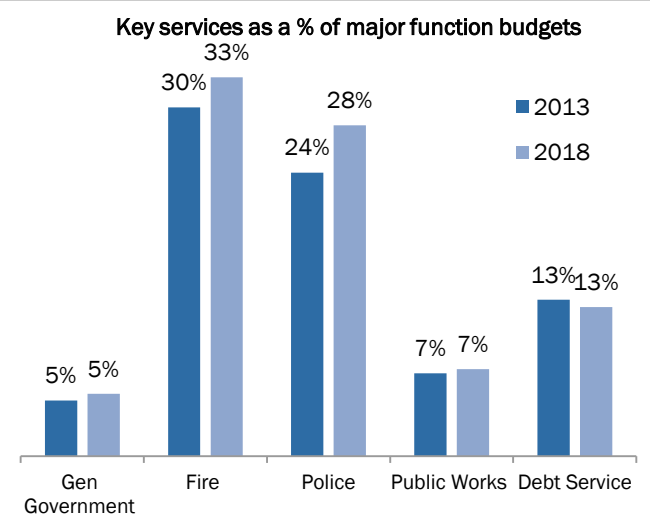
Departmental breakdown

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 operating expenditures by one or two functions.

Village of Mount Pleasant Finding – Of the top five major functional spending areas, only fire and police show an increase in their proportion of operating expenditures. Other functional areas, including general government, public works, and debt, generally experienced flat growth as a percent of operating expenditures. The fact that two functions are taking a larger share of operating expenditures represents a **potential threat** to service solvency and **requires monitoring.**



Source: Village of Mount Pleasant financial records

An increasing proportion of operating expenditures by one or two functions is a negative indicator of fiscal health by ICMA standards. As shown in **Indicator 6**, two major functional areas saw substantial growth 2013-18 as a percentage of total expenditures: fire (three percentage points) and police (four percentage points).

Public safety is often a prioritized budget item for local governments and is typically the largest budget allocation for cities and villages. Mount Pleasant is no different, with the fire department accounting for 39% ($7.6 million) of expenditures in 2018 and police accounting for 34% ($6.7 million). Collectively, these departments house 116 FTEs, which is 75% of the village workforce. With such a significant portion of the workforce, it stands to reason that these departments would hold the highest departmental costs. Another key factor is that public safety salaries and fringe benefits can be more difficult to control in light of the exemption of public safety unions from the provisions of Wisconsin Act 10.

According to information reported to the Wisconsin Department of Revenue, Mount Pleasant spent $239 per capita on police in 2017 (the most recent year with available data). This is on the higher end of per capita spending when measured against the comparable cities shown in **Table 9**. From a crime rate perspective, Mount Pleasant was in the middle of the pack at 257 total property and violent crimes per 10,000 people.

Table 9: Police Expenditures and Crime Rates, Mount Pleasant vs. Comparable Wisconsin Cities, 2017

Community	Population	Police Exp/Capita	Violent Crime/10,000	Property Crime/ 10,000
Superior, WI	26,473	$275	111.4	554.2
Mount Pleasant, WI	**26,300**	**$239**	**52.5**	**204.6**
Neenah, WI	25,821	$236	72.2	200.4
Muskego, WI	24,731	$218	7.6	62.9
Stevens Point, WI	26,526	$193	75.4	244.3
De Pere, WI	24,695	$180	42.1	83.3
Caledonia, WI	24,803	$163	41.1	76.5

Sources: Wisconsin Department of Justice, U.S. Census, and the Wisconsin Department of Revenue

On the fire/EMS side, the South Shore Fire Department's per capita expenditures are the highest in the group of comparable communities, at $214 per capita (**Table 10**). The department's expenditures are housed in Mount Pleasant's budget, as the village serves as fiscal agent. The department serves Mount Pleasant, Sturtevant, and Elmwood Park, and the $214 per capita cost includes the combined populations of the three municipalities (34,045).

Table 10: Fire/EMS per capita expenditures, 2017

Community	Population	Fire Exp/Capita
South Shore*	**34,045**	**$214**
Neenah	25,821	$189
Caledonia	24,803	$178
Superior	26,473	$174
De Pere	24,695	$139
Stevens Point	26,526	$125
Muskego	24,731	$32

*Mount Pleasant is the fiscal agent for the South Shore Fire Department, which is a consolidated department resulting from the merger of departments in Mount Pleasant and Sturtevant that also serves Elmwood Park.

Looking forward, public safety will continue to be a priority as economic development and population expansion continues. For instance, the village has plans to construct or expand fire stations to accommodate growth related to Foxconn and associated development, though it is important to note that added expenditures for both fire and police capital and operational costs in that area can be covered with revenues generated by TID 5 through 2049.

Fringe benefits

Fringe benefit expenditures are a substantial driver of budgetary solvency for local governments. Our analysis of Mount Pleasant's fringe benefit expenditures begins by looking at the combined total for pensions and health care – the largest sources of fringe benefit spending – for both active employees and retirees. We use the 2014-18 time period, as 2013 health care spending data are unavailable. In 2018, combined spending for pensions and health care was $3.3 million, or 13% of total spending on property tax-dependent functions.

ICMA Fiscal Indicator 7 shows that the village successfully controlled spending in these areas from 2014-17. In 2018, however, costs increased 12% ($355,000) over 2017 amounts. This was due to a combination of factors, including the added cost of health benefits for five new retirees, the addition of two new FTEs to the village workforce, and creation of a new health reimbursement arrangement. At $2.2 million in 2018, health care represented roughly two thirds of fringe benefit spending, though expenditures only increased by 7% ($140,000) over the five-year period. Pensions accounted for $1.1 million of the total but saw a larger increase over the period at 24% ($215,000).

Mount Pleasant is part of the Wisconsin Retirement System (WRS) like most other local governments in Wisconsin. The village makes a required employer contribution each year that is determined by WRS based on an annual actuarial valuation. Employees also contribute, with both general and public safety employees contributing 6.75% of their salaries in 2020.

With regard to health care, the village purchases a plan through a private insurance carrier. The benefit is offered both to active employees and certain eligible retirees. Retirees and their beneficiaries pay the full premium, though they are able to use accrued unused sick leave at the time of their retirement to cover those costs. The funding stops when they run out of their calculated amount or reach age 65, whichever comes first. Public safety staff can use their accrued amount until they pass away.

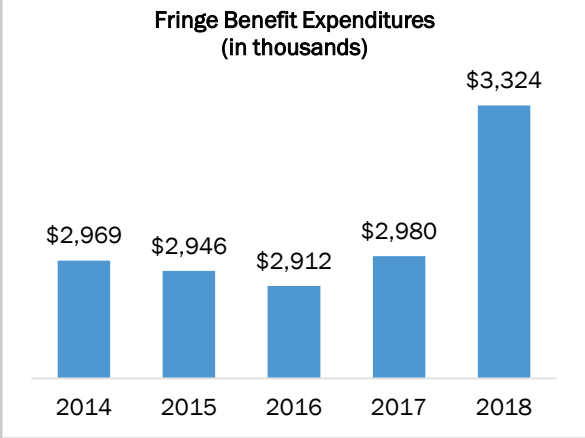
Mount Pleasant's fringe benefits have not caused undue stress in the years covered by this study. It is worth noting, however, that the village projects a 4% annual increase in health care costs going

ICMA Fiscal Indicator 7 – Fringe Benefits

Why it is Important – The two primary forms of fringe benefit spending are health care and pensions, and these 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.

Village of Mount Pleasant Finding – Mount Pleasant successfully controlled health care and pension spending from 2014-17. However, combined pension and health care spending grew 12% ($344,000) from 2017 to 2018, though that resulted in part from new retirements and positions. The village anticipates future health care growth of 4% annually, which is above the rate of inflation and the rate of typical revenue growth, thus **requiring monitoring** going forward.



Source: Village of Mount Pleasant financial records

forward, which would represent an annual increase of roughly $100,000 that would compete with other budgetary needs. On the pension side, a healthy and growing economy during the study's 2013-18 timeframe kept pension contributions to the WRS system similarly modest. However, the stock market plunge that accompanied the COVID-19 outbreak – if not reversed – could cause the WRS to increase employer contributions over time to ensure fund assets are sufficient to meet projected liabilities.[15]

Summary

Mount Pleasant experienced reasonable overall expenditure growth from 2013 to 2018, at 9% for property-tax dependent functions. This growth slightly beat the 7.8% rate of inflation over that time while accommodating the addition of five new FTEs and a 12% increase in fringe benefit costs.

A closer look under the hood, however, reveals that a few trouble spots are beginning to emerge. Capital and public safety spending needs are growing and threaten to crowd out other functional areas in light of the village's constrained revenue streams. Also, inflationary growth in health care expenditures and potential added pressure from the COVID-19 pandemic could present a growing financial challenge for village leaders. Similarly, the pandemic-induced recession will likely impede the growth of village revenues and thus may force decisions that lower spending in the near future.

[15] WRS bases its employer contribution on a five-year rolling average of investment performance so a decline in fund assets caused by a pandemic-related stock market plunge in 2020 likely would not lead to a sharp increase in Mount Pleasant's required contribution in 2021.

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; long-term borrowing; and maintenance of capital assets.

Summary of long-term solvency findings

Mount Pleasant's long-term fiscal challenges will be largely influenced by the health of the economy and the pace of new development, particularly within TID 5. Prior to the onset of the current economic downturn, there were several bright spots, including growth in property tax capacity aided by increases in net new construction, which appeared to equip village leaders with the resources needed to keep pace with rising fringe benefits costs and capital needs.

Looming over the village's long-term prognosis, of course, is the success of TID 5, which was created to accommodate the Foxconn project. Even before the pandemic hit, the amount of debt issued to support the TID carried an uncertain degree of risk, although the project itself also conveyed great promise. Now, the length and depth of an expected economic recession paired with how well Foxconn and other developers weather it will determine whether risk levels have greatly intensified.

Overall, Mount Pleasant's long-term budget outlook is highly dependent on a growing economy to support its TID-related investments (both for TID 5 and its other four TIDs) and provide new construction that will allow for sufficient property tax levy growth. While there may be some fiscally challenging budget years in the near future, the wheels arguably had been in motion to create development that would fuel a rise in property values and population and that would generate the fiscal capacity needed to meet the village's escalating service expectations and needs. Whether and how the COVID-19 economic impacts influence that prognosis remains to be seen.

Retiree Health Care

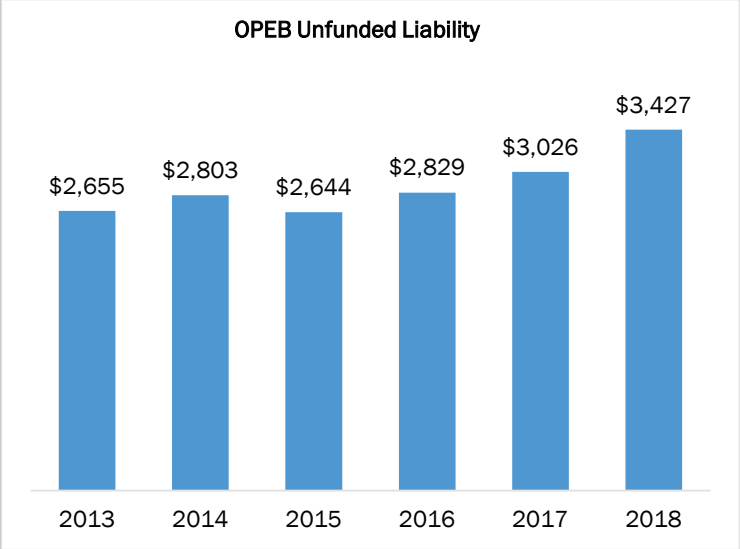
As discussed in the previous section, Mount Pleasant's long-term obligations with regard to pensions are relatively stable given its participation in the Wisconsin Retirement System. WRS is one of the country's healthiest public pension systems in light of its healthy funding status prior to the recent stock market plunge (96.5% funded ratio of assets to liabilities as of the end of 2018). Moreover, the sharing of risk between participants and employers limits volatility for local government contributions, which is an important protection in light of recent events.

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 the value of liabilities, and the costs involved, local governments often do not pre-fund long-term labilities, thus creating bigger challenges for future budgets.

ICMA Warning Sign – Severe underfunding of a government's annual required contribution and growing long-term unfunded liability.

Village of Mount Pleasant Finding – The village's unfunded OPEB liability grew 29% from 2013-18. While the annual outlays to support this liability are not prohibitive, continued growth of this magnitude would have an impact on other budgetary needs and is a potential **negative indicator** of fiscal health that **requires careful monitoring.**



Source: Mount Pleasant Finance Office

** This indicator was modified for use in this report from an ICMA indicator based on pension funding and liabilities.*

Retiree health care is a larger concern, however. As mentioned earlier, the retirement health care benefit offered by Mount Pleasant to retirees is linked to unused accrued sick leave at retirement, which is converted to a monetary value based on a pre-determined formula. The benefit is provided until a retiree runs out of his or her calculated amount or reaches age 65, whichever comes first.[16] Public safety staff can use their accrued amount until they pass away. The village keeps a running total of the sick leave accrued by employees – and factors it into the health care benefit formula – to determine its annual retiree health care liability (also referred to as an Other Post-Employment Benefit, or OPEB liability).

Similar to the trend analysis for health care fringe benefits, **ICMA Indicator 8** shows that the unfunded OPEB liability was held relatively steady from 2013-2016, after which it began climbing upward. All told, the OPEB liability grew 29% ($771,300) to about $3.4 million. This is a costly future obligation for the village, as general employees are eligible to retire upon reaching the age of 55 if

[16] For those with a spouse who is also a beneficiary, the benefit ends when both the retired employee and the spouse reach age 65.

they have accumulated 10 years of service. Police and fire employees may retire at age 50 after reaching 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. Mount Pleasant, like many other local and state governments, pays health care costs incurred by eligible retirees in a given year and does not pay down future liabilities.

Long-term borrowing

The village issues debt for multiple purposes, including the purchase of vehicles and equipment to support its services; 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).

At the end of 2018, the village had total outstanding general government debt (backed by General Obligation, or G.O. bonds) of $54.9 million. This figure – which does not include revenue bond debt issued in relation to TID 5 (see separate Foxconn analysis below) – was a $29.8 million increase from its $25.1 million of general government debt in 2013 and the highest debt level reached in the 2013-18 time frame.[17] Notably, much of that increase was due to a $20 million, short-term State Trust Fund loan that provided interim financing for TID 5 projects. The loan was refinanced in 2019 with

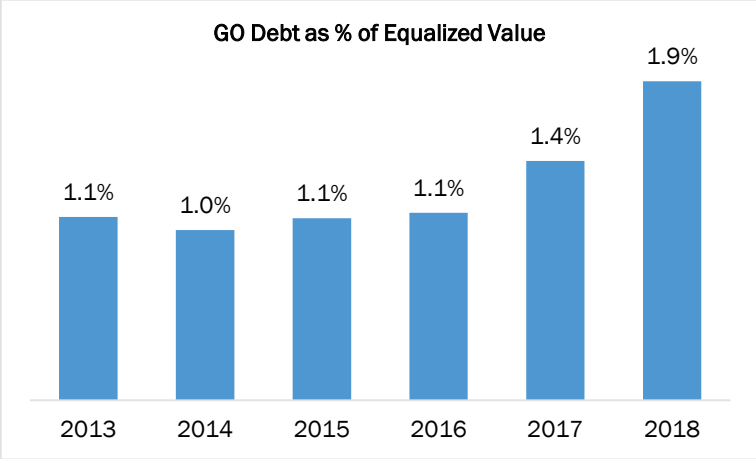
ICMA Fiscal Indicator 9 – Long-term G.O. Debt

Why it is Important – General Obligation (G.O.) debt is bonded debt for which the local government has pledged its good 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.

Village of Mount Pleasant Finding –The village's G.O. debt increased from 1.1% to 1.9% of equalized value from 2013-18, largely in support of TIDs. This growth bears **monitoring** and must also be considered in the context of the huge amount of revenue bond debt the village possesses in association with the Foxconn TID. On the **positive** side, the 2018 amount falls well within the ICMA standard and the village has reduced its G.O. debt since that time.



[17] General government debt is debt issued for general government purposes that is backed by General Obligation (G.O.) bonds, which are municipal bonds commonly used by local governments that are secured by the government's pledge to

proceeds from the $120 million TID 5 revenue bonds.

Total financing for G.O. TID debt unrelated to TID 5 (the village has four other open TIDs) from 2013-2018 was $22.3 million. As of January 1, 2020, the village had $14.25 million in outstanding G.O. debt for those TIDs. The four TIDs have performed per expectations, with revenues earned through the tax increments sufficient to service TID debt without outside support from general village revenues.

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 challenge for Mount Pleasant – as for many other Wisconsin cities and villages – is balancing the pros and cons of borrowing versus cash financing for capital projects. On the one hand, it is important to avoid the fiscal dangers of accruing too much debt, as just outlined. On the other, use of property tax resources to cash finance capital needs – as Mount Pleasant has done recently – may place additional pressure on the operating budget as policymakers seek to limit overall levy growth. The fact that the village's G.O. debt level falls well within the ICMA standards while it has largely met its capital needs is an indicator that it is striking an appropriate balance.

A common measure of long-term debt is its relationship to equalized property value. Under state statutes, Mount Pleasant's general purpose debt cannot exceed 5% of its equalized value. At 1.9% in 2018, the village's total G.O. debt was well within the state limit, as shown in **ICMA Indicator 9**.

Notably, much of the increase in debt supports new TIDs that were created before the Foxconn project materialized and that reflect Mount Pleasant's advantageous location in the Milwaukee-Chicago corridor for economic development purposes. TID debt is expected to be paid from levy generated within the individual districts and not from the general property tax levy that supports most village services. Debt service payments not associated with TIDs generally held steady from 2013-18 at about $3 million annually, or 12% of total spending. Also, as shown in **Table 11**, in 2017 the amount of property tax levy the village was dedicating to debt service fell squarely within the range seen in other comparable municipal governments.

Table 11: Debt service levy as a percentage of overall levy, Mount Pleasant vs. comparable municipalities (2017).

	2017 Property Tax Levy	Levy for Debt Service	Debt Service as % of Levy
Caledonia	$13,595	$1,577,458	12%
Mount Pleasant	$18,423	$2,593,195	14%
Neenah	$16,582	$3,210,000	19%
Stevens Point	$14,399	$3,535,680	25%
Muskego	$12,411	$3,141,645	25%
Superior	$12,845	$3,525,034	27%

use its taxing power to repay bond holders. These differ from "revenue bonds" – which the village issues for its enterprise fund departments and is the form of financing used for TID 5 – in that they are not secured with a specific form of revenue (such as fees from users of the capital project).

Despite this generally favorable picture, Mount Pleasant's 2018 issuance of $120 million in revenue bonds and $83 million in revenue bond anticipation notes to support TID 5 activities contributed to a credit rating downgrade from Moody's in August 2019. The village was downgraded from an Aa2 to Aa3 and was given a negative outlook. The agency cited the increased debt burden for economic development projects, uncertainty regarding Foxconn's plans for TID 5, and the village's lack of revenue flexibility caused by state-imposed levy limits as reasons for the downgrade.

The village's long-term borrowing picture is mixed. The good news is that it has been able to modestly increase annual G.O. borrowing to support economic development outside of Foxconn, and G.O. debt payments are projected to taper off fairly quickly after 2023, which could allow room to take on additional G.O. debt for capital projects. On the bad news side, overall debt levels jumped significantly from the Foxconn project, which casts some degree of risk over all village operations, though that investment also holds vast development potential for the village and the region.

Foxconn TID

Tax Incremental District No. 5 is a 3,921-acre industrial district that was created by Mount Pleasant in 2017 to pay for public infrastructure, land acquisition, and other expenses needed to facilitate the construction and operation of the Foxconn development. That development originally was envisioned as an approximately 20-million-square-foot manufacturing space for production of liquid crystal display panels. Foxconn's plans have since been modified, with jobs estimates at the Mount Pleasant location lowered and a shift from large-panel liquid crystal panels (LCD) to a wider, more flexible spectrum of smaller-panel LCD products as well as networking and server equipment.

All told, TID-related project costs were anticipated to total $763 million and be financed through a mix of debt issued by Mount Pleasant and Racine County, special assessments, revenues generated within the TID, and up-front cash financing from Foxconn.[18] Village officials say about $809 million of costs are now expected to be incurred over the 30-year life of the TID – a total that exceeds the original estimate but one that is actually $103 million lower than was anticipated after development agreements were signed and further planning occurred subsequent to the original TID plan.

The project thus far has included land acquisition plus major investments in water, wastewater, and road upgrades, which will benefit not only the Foxconn site but also the broader region. In fact, the Village of Caledonia is contributing for some of the wastewater upgrades. The company's investment was originally expected to total $10 billion through 2022.

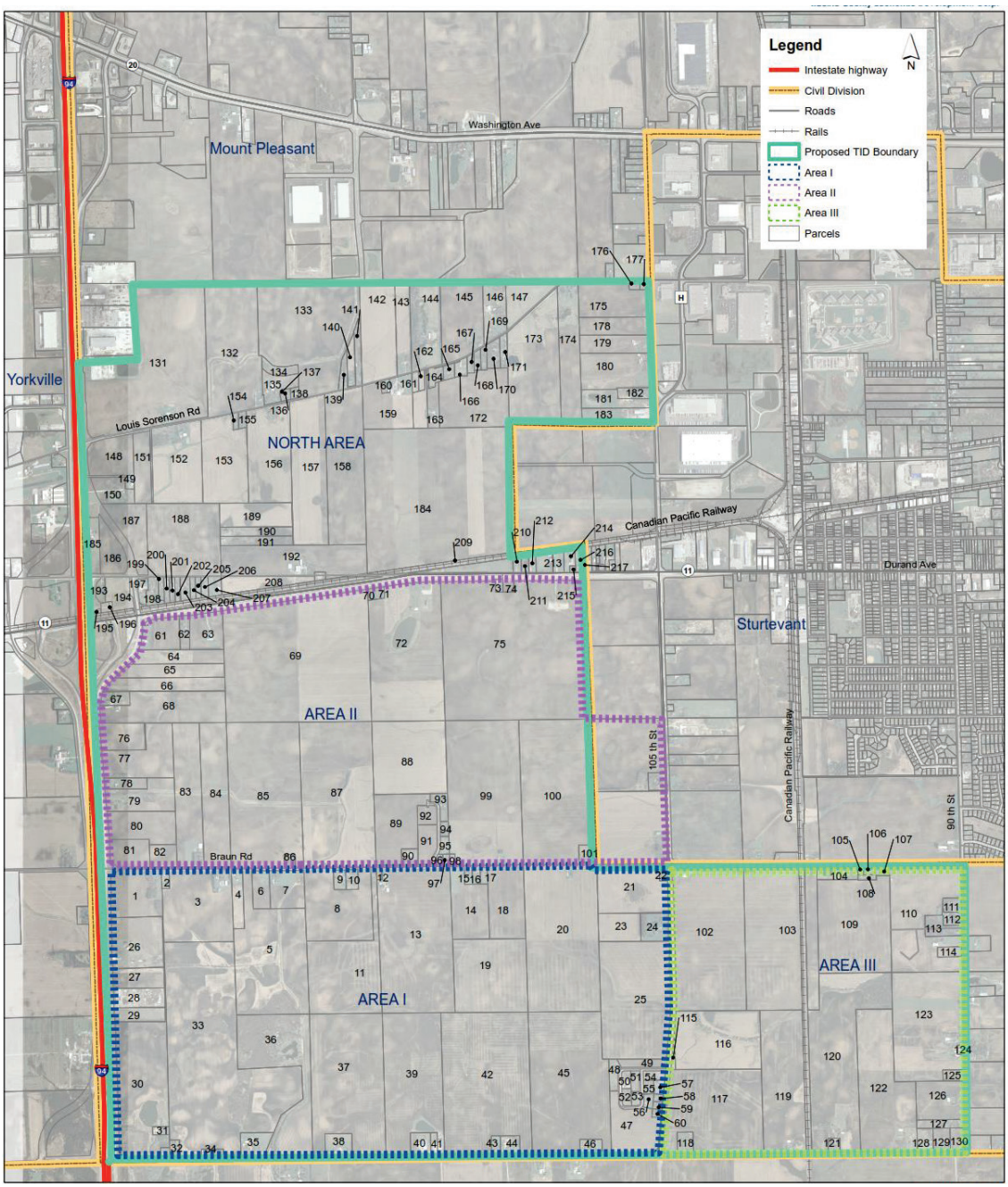
According to the TID plan, development in the district was projected to generate $31.1 million in incremental tax revenue annually beginning in 2023, when the assessed valuation in the area designated for the first phase of development was projected to reach $1.4 billion. As shown in **Figure 1** on the following page, that area (Area 1) is one of four areas within the TID that is expected to be developed over time. Over its 30-year term, the TID was anticipated to generate approximately $885.7 million in property tax revenue.

Substantial progress has been made on implementation of the revised project since the TID plan was developed. A one-million-square-foot advanced manufacturing facility is nearing completion, with

[18] Foxconn provided $60 million for the acquisition of land within the TID.

production at the facility set to begin this summer. Three more buildings – including a 260,000-square-foot smart manufacturing facility – will be up and running by the end of 2020. Foxconn already is the largest property taxpayer in Mount Pleasant after paying $1.1 million in property taxes and $7.3 million in special assessments in the 2019 tax year. The company says it is already employing more than 500 workers at its sites across Wisconsin.[19]

Figure 1: Village of Mount Pleasant TID Boundary Map



Source: Racine County Economic Development Corp

[19] Torres, Ricardo, "Foxconn says it hired enough people for 2019 tax credits, but the numbers still need to be reviewed," *Milwaukee Journal Sentinel*, April 9, 2020.

Despite this progress, a major risk to Mount Pleasant is that development in TID 5 does not produce sufficient valuation to generate the property tax resources needed to pay off the debt issued for the TID, as well as other expenditures identified in the project plan. Those include revenues to be extracted from the TID to offset the village's added public safety expenditures that will be needed to serve the Foxconn complex and other TID 5 development, as well as a payment of up to $100 million to Foxconn that only will be made if the TID generates sufficient revenues and Foxconn reaches certain incentives related to job creation at the site.

If the property taxes generated by the TID do not cover its debt service payments and other obligations, then the village could be required to use its general revenue streams to make up any difference, which obviously would have a negative impact on other village services and property taxpayers. To date, about $120 million in 30-year revenue bonds and $83 million in short-term debt have been issued by the village (it is expected that the $83 million in short-term debt will be converted to a longer-term debt vehicle prior to coming due in June 2022). According to village officials, it is possible that another $36 million of village and Racine County borrowing will be required during the course of the project.

The 2020 real estate assessment of TID 5 was roughly $262 million, up $222 million from the $40 million assessed in the prior year. While there are still more than two years to go, that is obviously a far cry from the $1.4 billion valuation anticipated for Area 1 by the end of 2022 per the original TID plan.

Fortunately, there are several elements that substantially reduce the financial risk for Mount Pleasant should that valuation not be reached or should the eventual valuation not be sufficient to generate the property tax revenues required to pay off debt and address other elements of the plan.

- Perhaps most important, the contract with Foxconn requires the company to make property tax payments to the village after 2022 *as if* the property within Area 1 of the TID was valued at $1.4 billion, even if the actual assessed value does not hit that mark. If that contractual obligation is fulfilled by Foxconn, then there is only minimal risk to the village that the dollars generated by the TID will not satisfy its obligations.

- Also, there is substantial additional property within the TID that is owned by Mount Pleasant that still may be developed by Foxconn. Foxconn controls the property until 2028 and is paying a special assessment for that privilege. However, if the land is not developed by that time, then control reverts back to Mount Pleasant and it can market it to other developers. There is also considerable land still owned by private entities within the TID that has been prepared for development and may be quite attractive in light of its location in the I-94 corridor (in fact, village officials say there have already been multiple inquiries about the parcels). Consequently, even if current development at the site will not be sufficient to achieve the needed valuation level, future development may enable it to do so.

- Another backstop exists in that the legislation that authorized the unique aspects of TID 5 specifies that the state has a moral obligation to cover up to 40% of debt payments in the event that the village and Racine County are unable to meet them. The village has applied that moral obligation to the $120 million in 30-year revenue bonds noted above.

- Finally, it is important to note that the $1.4 billion valuation amount for Area 1 was only an estimate of the figure needed to generate sufficient property tax revenues to offset TID

expenditures. The valuation amount was based on a series of 2017 assumptions regarding future property values and property tax rates, the amount of debt that Mount Pleasant would need to issue, and the interest rates on its various forms of debt. Consequently, it is quite possible that a valuation of a lesser amount still could support the debt payments over time.

We are not prophets or attorneys, so we cannot comment on the likelihood that the property within TID 5 will reach the valuation necessary to satisfy the TID's spending requirements, or opine on the legal enforceability of Foxconn's contractual obligation to pay property taxes based on a $1.4 billion valuation should that not occur. However, the protections summarized above do significantly reduce the village's substantial risk from its issuance of more than $200 million in debt for TID 5 and – combined with the project's progress to date – should provide at least some reasonable reassurance to taxpayers.

Unfortunately, the COVID-19 pandemic and its economic impacts now create an additional layer of complexity for the village given that those impacts could affect growth in property values and dampen demand for new development, and that a global recession may affect the profitability and future plans of Foxconn. Again, the village would appear to be protected by the provisions discussed above. Depending on how quickly the national and global economies rebound, it is certainly also still plausible that those protections will never need to be exercised.

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."[20] 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."

Mount Pleasant maintains a comprehensive capital budgeting process that entails the development of an updated 5-year capital plan every year. 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.

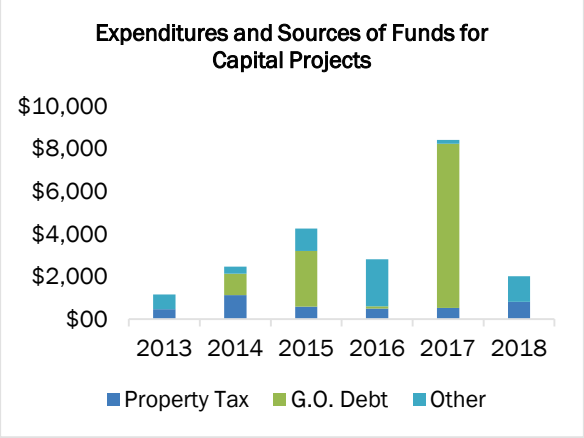
Village officials shared that the village ideally should be spending about $3 million annually to keep up with road improvement needs. From 2013-18, debt financing comprised the lion's share of funding for village roads, with state grants and occasional transfers from available balances in other funds also providing support.

ICMA Fiscal Indicator 10 – Capital Improvements and Repair and Maintenance

Why it is 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.

Village of Mount Pleasant Finding – Capital expenditures varied dramatically from year to year from 2013-18, with the largest increases occurring in 2015 and 2017 to support roads. Funding came from a mix of revenues, including G.O. debt (generally used to support road projects) and property tax levy (typically for non-road capital projects). The village's willingness and ability to significantly increase spending according to capital needs is a **positive sign of fiscal health**.



Source: Mount Pleasant Capital Budgets

The village would prefer to use alternative revenue sources combined with debt issuance for road improvements moving forward; a combined approach would recognize the village's limited tax levy resources while also ensuring that future users absorb some of the cost of improvements from which they will benefit. Also, exclusive use of debt issuance could pose a problem given the recent downgrade and concerns raised by bond rating agencies.[21] Notably, levy spent on non-road capital projects increased 72% ($337,000) over the 2013-18 time frame. As mentioned previously, this was a factor that led to an 11% decrease in levy budgeted for general operating activities by 2018.

The village tracks the capital budget for roads in a capital budget fund that is separate from general activities (such as law enforcement, fire, and IT costs). In **ICMA Indicator 10,** we show the total annual sources of funds used for both roads and general capital projects for 2013-18. Annual

[20] GFOA, "Best Practice: Asset Maintenance and Replacement," 2010. Accessed at: http://www.gfoa.org/asset-maintenance-and-replacement

[21] Village officials shared that the state trust fund loan program through the Board of Commissioners of Public Lands is one possibility that could finance roads.

spending ranged from $1.2 million to $7.9 million during the six-year period in nominal terms.

As noted above, G.O. debt mostly supported road projects, though that source also supported non-road capital projects in 2016 and 2017 (at $102,000 and $962,000, respectively). Property tax expenditures averaged $608,000 from 2013-18. Other revenue sources averaged $1 million annually and included grants, impact fees, donations, and transfers from other funds.

Given the Foxconn debt burden and recent downgrade by one credit ratings agency – as well as ramifications of the COVID-19 pandemic – village leaders may find it difficult to support sizable increases in annual borrowing for capital needs, should such increases be required in future years. However, up until now, the village appears to have been able to appropriately manage its capital needs with reasonable increases in G.O. borrowing and levy expenditures.

Long-term budget prospects

Mount Pleasant enjoyed a period of relative fiscal comfort from 2013-18, with healthy levy growth at 11%, increasing rates of net new construction, relatively steady health care and pension costs, and the addition of five FTEs. It also successfully competed for one of the world's largest and most ambitious economic development projects, which holds both great potential for future fiscal comfort but also carries risk.

In the two years following our trend analysis time frame, largely positive fiscal trends continued to emerge. Aided by continued growth from net new construction (up from 2.9% in 2018 to 4.4% in 2019), the village was able to increase its levy by 2% ($291,000) in 2019 and 6% ($1.1 million) in 2020. These revenue increases helped allow for a 3% ($357,000) increase in levy allocated to the General Fund in 2019 and a 7% ($1 million) increase in 2020.[22] Meanwhile, G.O. debt payments increased 24% ($706,000) in 2019 but dropped 16% ($610,000) in 2020, putting the debt payment that year at just under the $3.1 million paid in 2013.

On the capital side, spending in 2019 was budgeted at around $11 million, significantly higher than the $5.6 million spent on capital projects and roads in 2018. The cost was largely due to projects related to land purchase and development of a new EMS-only station for the South Shore Fire Department, as well as increased investment in certain road projects. The 2020 budget for roads and capital projects dropped to a more typical level of $3.6 million.

The only fiscal trend of some concern was a 16% increase in health care spending in 2019. However, this increase was largely caused by the addition of six fire department FTEs to service the new EMS station as well as nine police FTEs related to TID 5. Fortunately, revenues generated by the TID may be used for public safety-related expenditures within the district, which will help offset the higher health costs resulting from the new police FTEs. Outside of the new staff, the village's health care expenditures rose about 4%, a figure which village officials anticipate will remain the same moving forward.

[22] The departments that received the largest budget increases were Fire ($688,000 for wages, health, and retirement costs), Public Works ($218,000 largely in support of increased health, workers' compensation, and road salt costs), and Police ($80,000 largely in support of increased wages and anticipated overtime costs).

At the time this report was first being drafted, these trends all pointed toward a healthy financial picture for the village. Now, as the COVID-19 pandemic creates severe economic upheaval, that picture grows murkier, as it does for virtually all local governments in Wisconsin.

Fortunately, the property tax levy tends to be a stable source of income during a recession. However, a rise in unpaid property tax bills could cause near-term cash flow challenges, and the possible unwillingness of village leaders to increase property tax levies in light of the economic hardship facing many residents could impact future levy growth. Other smaller sources of revenue – like roughly $250,000 in annual hotel tax revenues and certain service charges and licensing fees – are likely to see declines, but those are minor slices of the village's revenue pie.

Village officials share that even though room tax revenues likely will take a significant hit and the volume of property sales has decreased somewhat, listed properties are selling quickly and at rates above market values. As they look toward the remainder of 2020 and the 2021 budget, officials also express optimism that they will be able to address new pandemic-related challenges without unduly dipping into reserves.

Meanwhile, perhaps the most pressing question is the length of the current economic downturn and its long-term impact on development, as well as how it will affect the village's ability to generate the incremental growth in property taxes within its TIDs that is required to pay off its heavy burden of TID-related debt.

Summary

Our analysis of Mount Pleasant's long-term budget challenges and prospects conveys a somewhat contradictory set of circumstances. On the one hand, prior to the onset of the pandemic, Mount Pleasant appeared poised to ring in a period of prolonged and explosive economic growth that held promise to deliver substantial long-term fiscal and budgetary dividends. Furthermore, the village's previous ability to address its capital needs and manage the growth of G.O. debt and retiree health payments set it up well for the future.

Yet, the sudden onset of an economic crisis now may cause development rates to slow, as well as shrink some revenue sources that support general village services. There may be some difficult budget choices in the years ahead, and contractual backstops designed to protect the village in case the TID 5 valuations do not increase as anticipated may be put to the test.

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.

Summary of cash solvency findings

As of the end of 2018, Mount Pleasant maintained strong liquidity levels and a healthy, growing General Fund balance. In fact, the village exceeded its policy goal of a year-end General Fund balance at 25-30% of operating expenditures, with the balance growing by 65% ($3 million) over the 2013-18 time frame. These factors conveyed strong short-term fiscal health heading into the COVID-19 economic crisis that included a revenue flow sufficient to meet immediate and short-term obligations and sufficient fund balance to maintain cash solvency and meet unanticipated emergencies.

ICMA Fiscal Indicator 11 – Liquidity

Why it is Important – A key measure of a village'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.

Village of Mount Pleasant Finding – The village's liquidity ratio is well within the ICMA standard. While cash and investments generally increased on par with liabilities until 2018, however, a higher level of borrowing had a negative impact on the ratio in that year. Nevertheless, for the period analyzed, liquidity ratios were a **positive indicator** of fiscal health for the village.

Year	Ratio
2013	0.2 to 1
2014	0.2 to 1
2015	0.2 to 1
2016	0.2 to 1
2017	0.2 to 1
2018	0.4 to 1

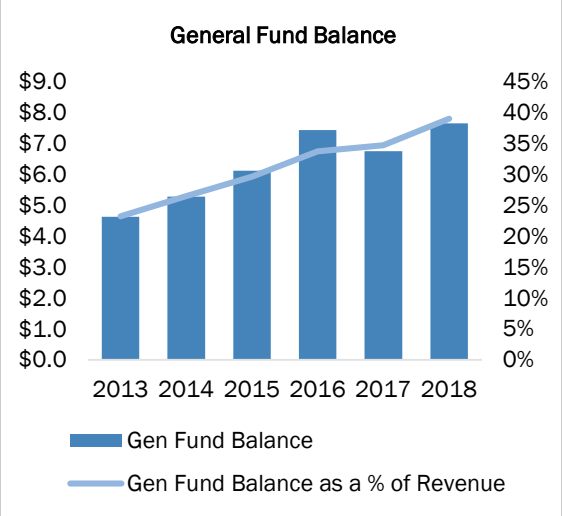
Source: Village of Mount Pleasant CAFRs

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.

Village of Mount Pleasant Finding – The village experienced a growing fund balance from 2013-18. It also exceeded its minimum fund balance policy in three of the six years. This is a **positive indicator** of fiscal health.



Source: Village of Mount Pleasant CAFRs

Analysis

We consider Mount Pleasant's cash solvency by examining its cash liquidity, General Fund balance, and reserve funds. A liquidity score above a 1 to 1 ratio of cash/short-term investments to liabilities is considered by ICMA to be problematic[23] and three or more years of a ratio greater than 1 to 1 is a warning sign regarding cash solvency. As shown in **ICMA Indicator 11**, in the time period studied Mount Pleasant had a liquidity ratio well within ICMA standards. From 2013-2018, the liquidity ratio was 0.2 to 1. The 2018 liquidity ratio was somewhat higher, at 0.4 to 1, due to debt financing that occurred in support of TID 5. Financial statements show that overall growth in cash and investments

[23] The formula for the liquidity score is liabilities ÷ cash & cash equivalents.

($228.6 million) is smaller than growth in total liabilities ($85.3 million).

The village maintains a minimum fund balance policy goal of 25-30% of General Fund operating expenditures. That goal was met in 2013 and 2014 and exceeded from 2015-18. In those years, the fund balance ranged from 35% to 41% of operating expenditures, peaking at 41% in 2016 and falling slightly to 39% in 2018. This sets up the village well to address immediate fiscal challenges produced by the COVID-19 pandemic and its impacts on the economy.

The scores are similarly high when calculating the year-end unassigned general fund balance against general fund revenues, as shown in **ICMA Indicator 12**. In this framework, the unassigned general fund balance grew each year from 2013-18, starting at 23% of revenues in 2013 and reaching 39% of revenues by 2018. The unassigned general fund balance grew by $3 million (65%) over the time period studied.

CONCLUSION

Our analysis of 2013-2018 financial data using the Fiscal Trend Monitoring System of the International City/County Management Association (ICMA) finds that Mount Pleasant was faring relatively well prior to the unexpected onset of a steep economic downturn. Putting aside both the risk and potential benefits of the more than $200 million in borrowing associated with the Foxconn TID, the village was realizing reasonably strong revenue growth and only modest expenditure pressures. Yet, some modest fiscal challenges were beginning to emerge, and the pairing of those challenges with the pandemic's yet-to-be-determined impacts on property values and new development now casts some uncertainty over the village's previous positive outlook.

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 Mount Pleasant are as follows:

- **Cash solvency** is an area of strength for Mount Pleasant. The village has strong liquidity and has maintained a General Fund balance well beyond its policy goal of 25-30% of expenditures. Those advantages provide flexibility to address weaknesses in other solvency categories and should offer reassurance to residents that the village has solid reserves to draw upon, if needed, as the impacts of the COVID-19 pandemic unfold.

- **Budget solvency** also has been quite manageable for the village, as its revenues grew at a pace that generally allowed it to address its expenditure needs. However, some areas of concern have arisen. Revenues devoted to the General Fund declined by 2% from 2013-18 as a greater share was devoted to capital needs, while fire and police costs required an increasingly large share of the available budget and fringe benefit costs grew faster than the rate of inflation. These spending demands will cause greater challenges in the future as they also must compete with growing road maintenance and repair needs.

- The village's **long-term solvency** is difficult to assess. Mount Pleasant faces growing unfunded retiree health costs plus an escalating need for road improvements. These challenges appear manageable, but they must also be weighed within the context of the $203 million of debt the village has issued to support the Foxconn TID. Strong backstops are in place to financially protect the village, including a moral obligation pledge from the state to back a portion of the debt. Also, based on progress to date, there is reasonable hope that the vast return on investment envisioned by village leaders will materialize. Meanwhile, its four other TIDs have performed as expected. Nevertheless, the sheer magnitude of the TID 5 debt amount and the added layer of concern created by the COVID-19 economic downturn make it difficult to view the future without some trepidation.

- **Service solvency** is largely a positive element for Mount Pleasant, as the village was able to meet service demands in the years preceding Foxconn, even growing its workforce by five positions against a backdrop of shrinking revenues devoted to general government activities. The ability to extract revenues from TID 5 to help offset the district's added public safety costs will help in the future, though general public safety needs outside of the TID also appear to be growing, and the ability to address them may conflict with the need to spend more on roads. If the impending recession leads to significant revenue shortfalls, then leaders may face difficult decisions regarding workforce or service reductions in the near future.

Overall, as we were collecting and analyzing data prior to the pandemic, we viewed the village's financial condition with optimism. While not without its challenges, Mount Pleasant's opportunity to generate property tax growth from a growing rate of net new construction played in its favor. Located in the explosive I-94 corridor with the Foxconn development within its borders (albeit with a first phase that is smaller in scale than originally envisioned), future economic growth for the village seemed inevitable – and with it the enhanced ability to meet emerging budget needs.

Looking forward, the economic consequences related to the COVID-19 pandemic will cause financial challenges to intensify for all local governments in the region, though to what extent is too early to tell. It is certainly good news that Mount Pleasant has confronted the onset of the pandemic with healthy reserves and a strong tax base, but it also does so with a vast amount of TID 5 debt. Consequently, its future outlook will be linked to the length and severity of the recession and how it impacts the village's ambitious economic development aspirations, as well as Foxconn's financial health and the continuation of its commitment to the region and state.

This report is the third in a series of local government fiscal analyses that aim to promote greater understanding among policymakers, civic leaders, and citizens who are working to improve the resiliency of the Greater Racine region. It was preceded by an April 2018 analysis of the City of Racine and an April 2020 analysis of the Village of Caledonia. We hope these studies will be used in the spirit for which they are intended: to drive informed fiscal decision-making at the local and state level and collaborative action among those seeking to address regional policy challenges.