VILLAGE OF MT. PLEASANT'S FISCAL CONDITION:

A CALCULATED RISK

AN INDEPENDENT THIRD-PARTY ANALYSIS

EXECUTIVE SUMMARY

WISCONSIN POLICY FORUM

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 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.

Today, Mount Pleasant and its village government still are poised to enjoy the benefits of vastly increased economic development and population growth, but it remains to be seen whether Foxconn's reduced plans for the first phase of its project and impacts from the COVID-19 pandemic may ratchet down that promise.

This report provides an independent analysis of Mount Pleasant's fiscal condition for much of the decade leading up to the pandemic. While the village was not without its challenges – including growing fringe benefit and public safety costs and shrinking revenues devoted to general village services – its fiscal outlook was mostly encouraging. Among the bright spots were rising property values, increasing net new construction rates, relatively steady G.O. debt payments, and a growing General Fund balance.

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 release of this report 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 those impacts 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.

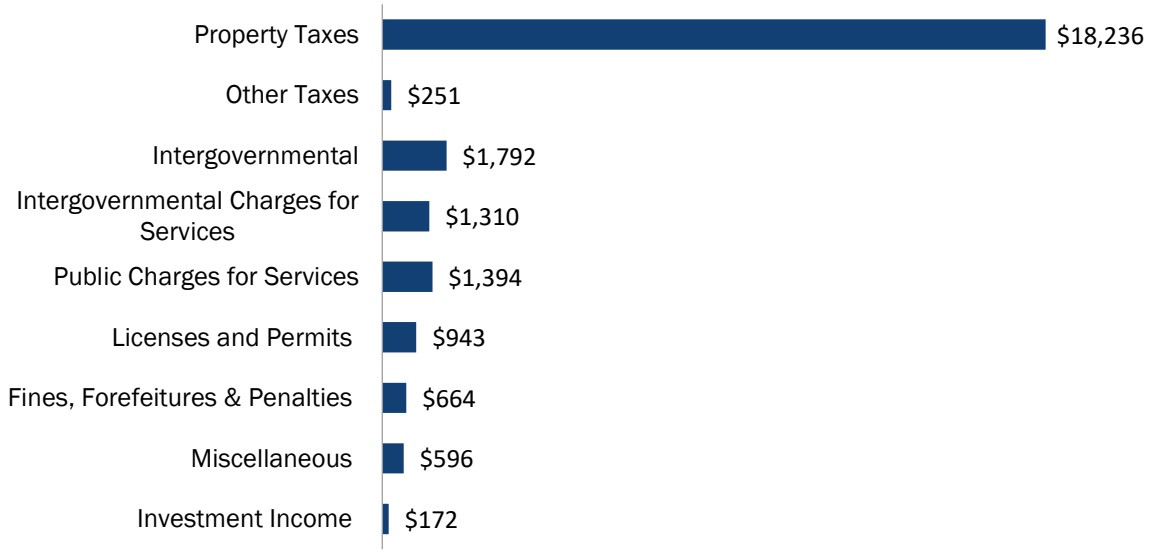
It is certainly good news that Mount Pleasant confronted the onset of the pandemic with healthy reserves and a strong tax base, but it also does so with more than $200 million in revenue bond debt incurred to support development at the Foxconn site. Consequently, the village's future outlook will be impacted by the length and severity of the recession as well as Foxconn's financial health and the continuation of its commitment to the region and state.

This report considers Mount Pleasant's fiscal condition by using fiscal metrics suggested by the International City/County Management Association (ICMA). We assess the village's financial strengths and weaknesses and shed light on its capacity to provide the fundamental municipal services that are central to fostering economic growth and meeting the expectations of its citizens.

MOUNT PLEASANT BUDGET BASICS

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. **Chart 1** presents Mount Pleasant's actual operating revenues in 2018 for major governmental functions and shows that like almost all municipal governments in Wisconsin, the village is highly dependent on a single source of revenue – the property tax – to finance its day-to-day operations.

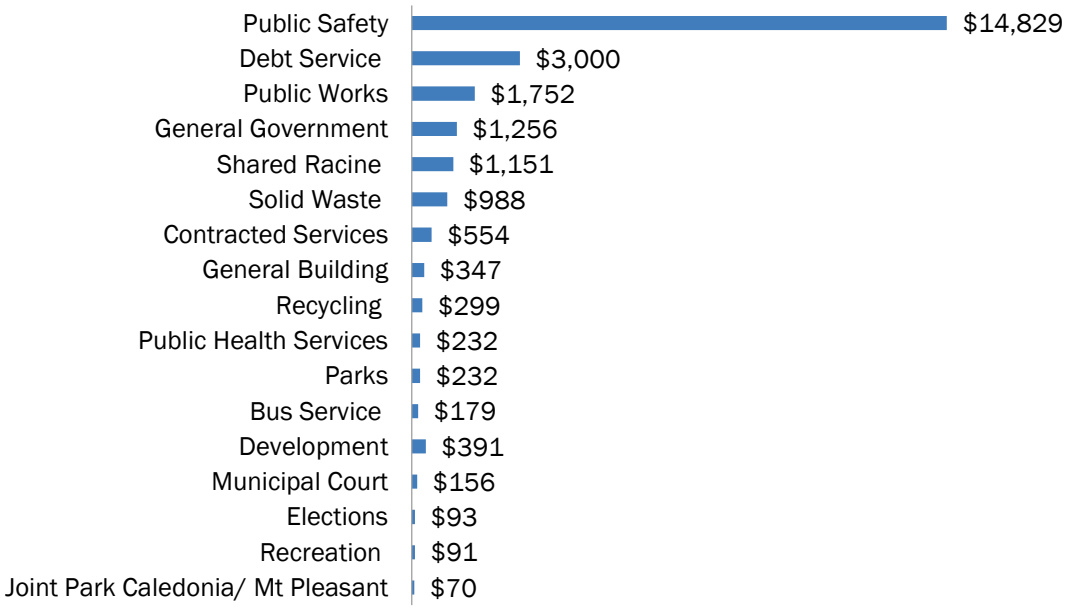
Chart 1: Village of Mount Pleasant operating revenues, 2018 (in thousands)



Source: Village of Mount Pleasant financial records
*Other taxes include proceeds from an 8% hotel/motel tax.

On the expenditure side, as shown in **Chart 2**, public safety is the single largest expenditure category at $14.8 million, comprising 53% of the total. Debt service is next, at $3 million (12%), followed by public works, at $1.8 million (7%). Notably, debt service for G.O. bonds held by the village was fairly stable over the 2013-18 period, and had even fallen $144,000 by 2018.

Chart 2: Village of Mount Pleasant operating expenditures, 2018 (in thousands)



Source: Village of Mount Pleasant financial records

Foxconn TID (Tax Incremental District No. 5)

Not shown in the debt service line in **Chart 2** are annual payments on $203 million in village-issued revenue bonds used to finance infrastructure projects and related activities in TID 5, the tax incremental district created to support the Foxconn development. Those payments will be made over a 30-year period from increased property taxes realized through the immense value of new development within the TID.

The Mount Pleasant portion of 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. Much progress has been made to date, and Foxconn anticipates beginning production in its one million square foot facility in 2020.

Of course, there is risk associated with this vast amount of revenue bond debt. Paying it off will require enough development within the TID to realize sufficient valuation to generate the property tax resources needed to cover principal and interest, as well as other expenditures identified in the TID plan. A number of important protections are in place, however, with the most notable an agreement by Foxconn to pay property taxes *as if* the property in the area designated for the first phase of development reaches a $1.4 billion valuation even if the valuations fall short of the mark.

Other backstops include acreage that would revert back to the village if Foxconn fails to use the land, which the village could then sell for development; the State of Wisconsin's moral obligation pledge to cover 40% of village and Racine County debt in the event that TID revenues are insufficient; and the existence of privately-owned property within the TID that is anticipated to attract other development that would further boost the district's property values. These protections significantly reduce the village's risk and – combined with the project's progress to date – should provide at least some reasonable reassurance to taxpayers.

The onset of the COVID-19 economic crisis now creates an additional layer of complexity for the village given the pandemic's uncertain impacts on property values and new development, as well as the impact it may have on the profitability and future plans of Foxconn. However, depending on how quickly the national and global economies rebound, it is certainly plausible that the protections in place will never need to be exercised.

ANALYSIS USING THE ICMA SYSTEM

The ICMA system is an excellent tool for examining revenue and expenditure trends as well as broader policy concerns like long-term solvency and service-level impacts. The heart of the ICMA system is a group of indicators critical to these types of local fiscal circumstances.

This analysis tracks trend results for 12 selected indicators over the 2013-2018 period, focusing on areas of the budget that draw upon property tax levy. On the following page, we summarize the results. Together, they reveal that the village was financially secure and at little risk of short-term instability heading into 2020. Yet, while it has enjoyed healthy growth in its levy and smaller sources of revenue, the heavy reliance on property tax levy creates warning signs for the future. Similarly, while expenditure levels have been largely controlled, rising public safety and health care costs and the need to avoid accruing additional debt for road financing pose concerns going forward.

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Budgetary Solvency: Revenues

Net Revenues per Capita		Mount Pleasant's per capita revenues declined by 0.4% from 2013-2018. Continued decline or failure to grow with inflation could eventually impact services.
Intergovernmental Revenue as a % of Operating Revenue		Intergovernmental revenue declined from 7.7% to 7.1% of operating revenue, which is of some concern given the importance of this revenue source.
Growth in Property Tax Revenue		Property taxes increased 11%, allowing the village to meet operating needs while increasing resources for capital projects and other special funds like parks and recycling.

Budgetary Solvency: Expenditures

Net Expenditures per Capita		Per capita expenditures grew on pace with inflation, though rising demands for public safety, capital, and regional cultural facilities require monitoring.
Employees per Capita		The village added 5 FTEs, which reflected a 1.8% growth in employees per capita. This was on par with population growth and signals an ability to meet service demands.
Expenditures by Major Function		Two functions – police and fire – took a larger share of the operating budget by 2018. This is a potential threat to service solvency and requires monitoring.
Fringe Benefits		After holding health care and pension spending steady from 2014-2017, the village saw fringe benefits increase at a higher rate in 2018 and the following two years.

Long-Term Budgetary Solvency

Retiree Health Care Funding		The unfunded OPEB liability grew 29% from 2013-18. Annual outlays to support the liability are manageable but continued steep growth could be problematic.
Long-term G.O. Debt		Growth in G.O. debt is manageable but must be carefully monitored given the vast amount of revenue bond debt accrued in support of the Foxconn TID.
Capital Improvements and Repair and Maintenance		From 2013-18, Mount Pleasant was able to increase spending on infrastructure and roads as needs grew.

Cash Solvency

Liquidity		At 0.4 to 1 in 2018, the village's ratio of cash and short-term investments to current liabilities is within the ICMA standard of 1:1.
Fund Balance		Mount Pleasant's unassigned General Fund balance grew over the 2013-2018 period and stood at 39% of general government expenditures by 2018.

CONCLUSION

Overall, as we completed our research prior to the COVID-19 pandemic, we viewed the village's financial condition with cautious 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 state and region, though to what extent is too early to tell. It is certainly good news that Mount Pleasant confronts the pandemic's impacts 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 timing of an economic rebound and the extent to which the pandemic 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 analysis 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.

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