



WISCONSIN POLICY FORUM

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City of Racine's finances stable for now, but long-term outlook is "worrisome"

A new Wisconsin Policy Forum report finds that as the Greater Racine region prepares for the arrival of Foxconn, its largest city faces a set of serious financial challenges that could impact its ability to meet increased service demands and realize the project's economic benefit potential.

"The City of Racine's finances are well-managed and its short-term financial outlook is relatively stable," says the report, titled *Living Within its Means*. "Yet, our analysis also shows that several successive years of mounting fiscal challenges are taking their toll, and that the City's long-term fiscal outlook is worrisome."

The report uses a set of local government financial evaluation metrics developed by the International City/County Management Association (ICMA) to assess the City's recent financial trends and what they hold for the future. The Forum has undertaken similar analyses of Greater Milwaukee governments, including the City of Milwaukee, Milwaukee County, and the Milwaukee Public Schools.

The ICMA methodology focuses on four categories of solvency:

- **Cash solvency** is an area of strength for Racine, as the City maintains a healthy and growing General Fund balance and enjoys strong liquidity. Those strengths provide some flexibility to address weaknesses in other solvency categories and reflect the City's conservative budget practices.

- **Budget solvency** has been a longstanding challenge for Racine and remains difficult. General Fund revenue growth has been anemic (3.3% from 2012 to 2016), which contributed to the loss of 46 full-time positions during that period and placed significant pressure on departmental operations. The one area that did see substantial growth was debt service, which has improved the City's capital outlook but provided little relief for departments and created a heavy property tax burden for residents.
- **Long-term solvency** is an area of great concern. Racine has an enormous retiree health care liability and substantial capital debt, which will continue to consume large portions of its expenditure budget. Those factors – combined with stagnant revenues – provide City leaders with little capacity to address operating cost pressures in City departments. Unless those circumstances change, departmental cuts may need to occur across city government at the very time the Foxconn project and related development are likely to vastly increase service demands.
- **Service solvency**, particularly in the areas of public works and parks/recreation, has declined over the five-year period and even more when 10-year trends are considered. While the impacts have not been severe nor fully visible to residents, City officials warn of invisible costs, such as the need for expensive street repairs caused by reduction of routine maintenance.

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

The full report can be downloaded at www.publicpolicyforum.org.

The Wisconsin Policy Forum was created on January 1, 2018 by the merger of the Madison-based Wisconsin Taxpayers Alliance and the Milwaukee-based Public Policy Forum. 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 same spirit of nonpartisanship.