REPORT BRIEF

City of Racine's Fiscal Condition

LIVING WITHIN ITS MEANS

An independent third-party analysis

WISCONSIN POLICY FORUM

Located on the shore of Lake Michigan within a short drive of both Milwaukee and Chicago – and home to major corporations like Modine, CNH America LLC, Twin Disc, and SC Johnson – the City of Racine would appear well-positioned for economic success. Yet, as evidenced by its low household incomes and declining population, that status has yet to be achieved.

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

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

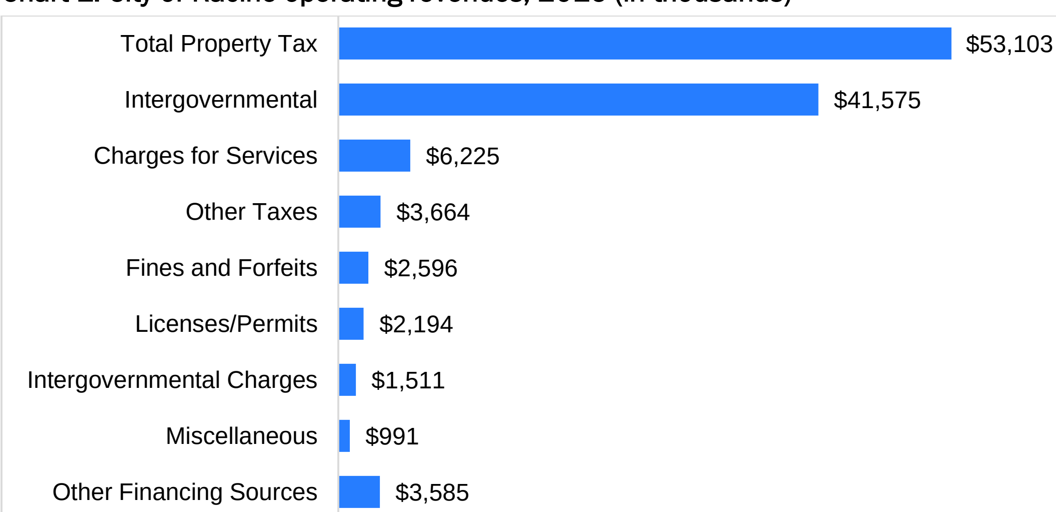
This report seeks to provide clarity on the scope and nature of those challenges. Employing fiscal metrics suggested by the International City/County Management Association (ICMA), we assess Racine's financial strengths and weaknesses, and shed light on the City's capacity to provide the municipal services that will be needed to accommodate its economic development aspirations.

BUDGETARY SOLVENCY: REVENUES

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. Before examining revenue growth trends, however, it is important to have an understanding of Racine's overall revenue picture.

Chart 1 presents Racine's actual operating revenues in 2016 for all property tax-dependent functions. This broad summary reveals a particular challenge for City leaders: **just two revenue sources – the property tax and intergovernmental revenue – comprise 82% of the City's total revenue** for these functions.

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



Source: City of Racine financial records

In general, a lack of revenue diversity can be problematic for local governments. In Racine's case, this problem is even more challenging because the two revenue sources that comprise the bulk of the City's revenue pie are highly restricted:

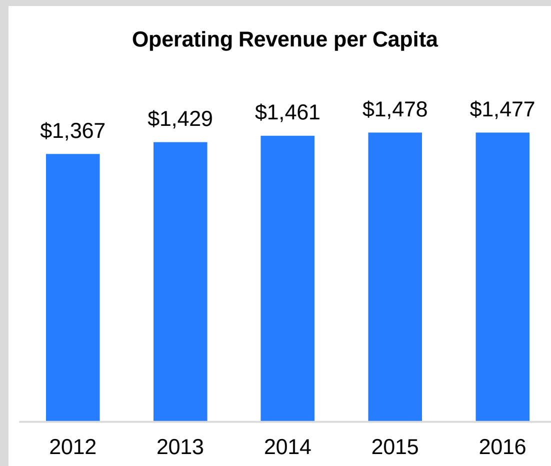
- Racine's largest source of revenue – the **property tax** – is constrained by State of Wisconsin levy limits that restrict annual growth for operating purposes to the percentage increase in property values that result from new construction. Over the 2012-2016 timeframe, that increase never exceeded 0.5% annually, thus affording Racine little capacity to increase property taxes to support its operations.
- The vast majority of Racine's **intergovernmental revenue** – its second-largest revenue source – comes from the State. In fact, the shared revenue/expenditure restraint program comprised 66% of all intergovernmental revenues and 24% of total revenues in 2016. This revenue source has been flat for several successive years, growing only $52,000 in nominal dollars from 2012 to 2016.

REVENUE TRENDS

As shown in **Indicator 1**, Racine's growth in per capita operating revenues from 2012-2016 exceeded the rate of inflation. That trend is considered an indicator of fiscal health as long as it is within reason.

<u>Indicator 1 – Net Revenues Per Capita</u>

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



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

Table 1: City of Racine General Fund revenues, 2012-2016

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

Source: City of Racine financial records

Most of that growth was attributed to property taxes levied for debt service, however. As shown in **Table 1**, when we examine only the General Fund – which accounts for the City's core services -- revenues increased by 3.3% over the 2012-2016 timeframe, which was below the 4.5% growth in inflation.

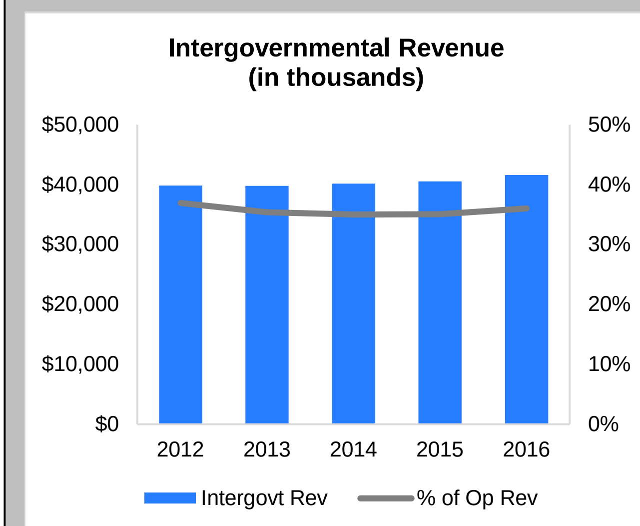
Examining the City's revenue trends in greater detail, we see it was able to realize sizable increases in relatively minor sources of revenue like fines/forfeitures and payments in lieu of taxes (shown in the "Other Taxes" line in the table). However, a disconcerting bottom line is that Racine's two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

As shown in **Indicator 2**, the City's intergovernmental revenue was flat during the 2012-2016 period. The increased pressure on local taxpayers and service users to offset this lack of growth has negative ramifications given the City's limited taxpayer capacity and low household incomes.

Indicator 3 (on the following page) indicates that property tax revenues grew by 12.5% from 2012 to 2016 (and by 9.0% when adjusted for inflation). As mentioned above, however, virtually all of that growth was directed toward debt service. In fact, the amount of levy devoted to General Fund operations increased by only $553,000 (1.7%), while the amount dedicated to debt service grew by $5.9 million (55%). This reflects both the impacts of property tax levy limits – which essentially *only* allowed for growth in the debt service levy – and a deliberate decision by City leaders to act more aggressively in paying down long-term debt.

Indicator 2 – Intergovernmental Revenue as a Percentage of Operating Revenue

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



Source: City of Racine financial records

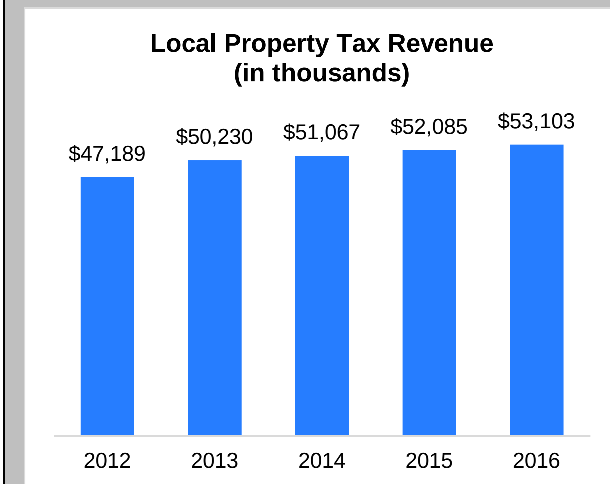
SUMMARY

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

At the same time, its decision to increase property taxes to pay off debt has left it with an exceedingly high property tax rate when compared to surrounding communities. That may limit its future willingness to increase property tax collections even if it has the capacity under State levy limits to do so. Furthermore, to the extent that revenue challenges continue, Racine's ability to provide services that *benefit* the surrounding communities (e.g. libraries, cultural assets, and transit) may be threatened.

Indicator 3 – Growth in Property Tax Revenue

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



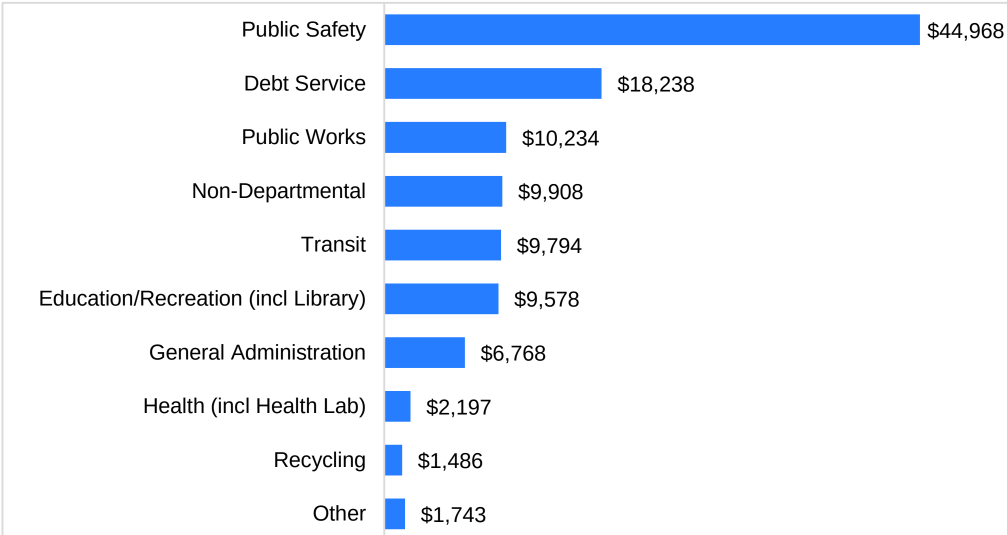
Source: City of Racine financial records

BUDGETARY SOLVENCY: EXPENDITURES

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 track those metrics and that also demonstrate a municipality's ability to manage resources over time.

Chart 2 (on the following page) shows the functional breakdown of Racine's actual operating expenditures for property tax-dependent functions in 2016. Public safety is the single largest expenditure category at $45 million, comprising 39% of the total. Debt service is next at $18.2 million (16%). Other major areas of departmental spending include public works, transit, and education/recreation.

Chart 2: City of Racine operating expenditures, 2016 (in thousands)



Source: City of Racine financial records

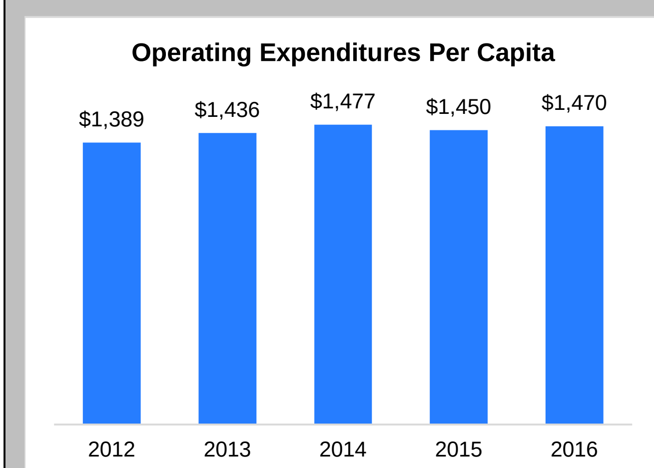
EXPENDITURE TRENDS

When we examine five-year trends per the ICMA methodology, we find Racine's expenditure growth modestly outpaced the rate of inflation from 2012 to 2016, as seen in **Indicator 4.**

There are several reasons why a government entity might increase expenditure levels, including population growth and implementation of new services. In Racine's case, we again see growing debt service payments were the primary culprit. In fact, when we isolate only the General Fund departments in **Table 2**, we see expenditures *declined* by $1.4 million (1.7%) over the 2012-2016 timeframe.

Indicator 4 – Net Expenditures Per Capita

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



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

Table 2: City of Racine operating expenditures, General Fund, 2012-2016

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

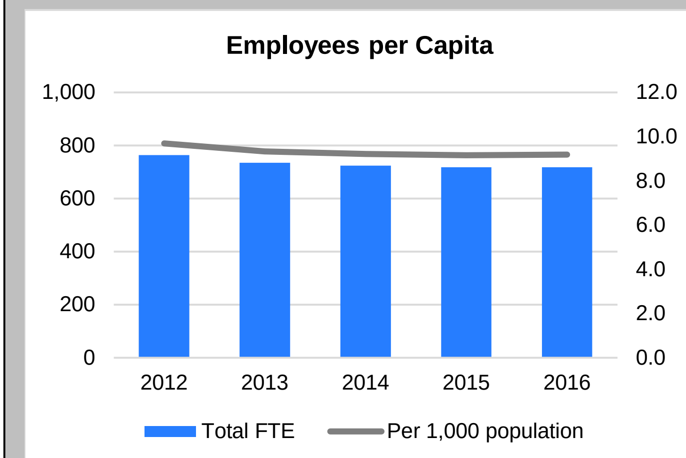
Source: City of Racine financial records

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

The ability of City leaders to trim workforce during a time of population and tax base loss is a sign of fiscal health. However, service-level impacts associated with reductions in individual departments also need to be considered. **Table 3** reveals that public works experienced the largest reduction in positions (12.85 FTEs) in the 2012-2016 timeframe among major City functions, while police and fire were spared.

Indicator 5 – Employees Per Capita

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



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

Table 3: Workforce trends for major City functions

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

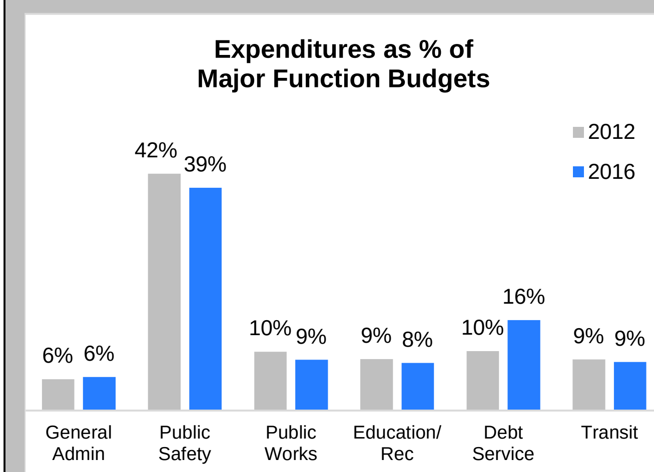
Note: Building Inspection functions moved from Public Works to General Administration during the period but are shown in General Administration in both 2012 and 2016 for comparative purposes.
Source: City of Racine financial records and data obtained from departments

Having analyzed overall expenditure trends and impacts on positions, we now turn to analysis by expenditure function. As previously noted, most of the City's expenditure growth from 2012 to 2016 was attributed to increasing debt service payments, which grew from $11.3 million to $18.2 million (60%). While debt service's share of spending in the major functional areas increased from 10.4% to 15.9%, the proportional shares decreased for public safety (2.5 percentage points), public works (1.4 points) and education/recreation (0.7 points), as displayed in **Indicator 6**.

A scenario in which one function is obtaining the vast majority of the limited additional dollars available to support City services can be problematic. Indeed, ICMA suggests that such a situation bears watching in light of potential consequences to the level and quality of services in other departmental budgets (also referred to as service solvency).

Indicator 6 – Expenditures by Major Functions

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



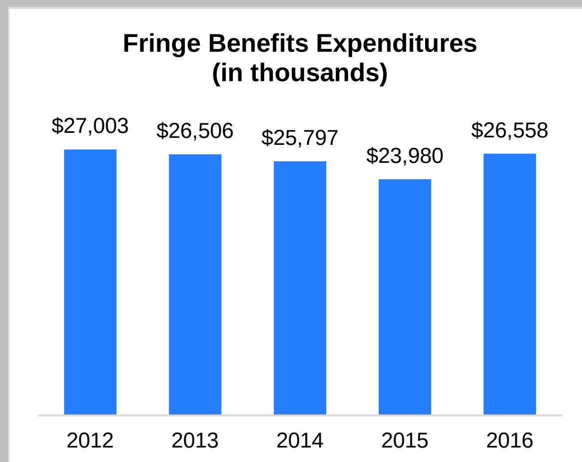
Source: City of Racine financial records

When we drill down into departmental expenditures even further, we see the Department of Public Works (DPW) is an area that raises concerns with regard to service solvency. That function saw an expenditure reduction of $1.1 million (9.7%) as well as the decrease of 12.85 FTEs (equivalent to 13.0% of its workforce) referenced above.

Racine officials acknowledge these reductions have produced service impacts, particularly with regard to City streets. For example, DPW eliminated six positions from street maintenance during the period and was forced to end its practice of routine pothole filling (potholes now are addressed only when reported).

Indicator 7 – Fringe Benefits

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



Source: City of Racine financial records

Our final area of expenditure analysis is fringe benefits, which are a substantial driver of budgetary solvency for local governments. In terms of total spending, that is certainly the case for Racine. Yet, notably, this is an area of the budget that has been stable in recent years, as shown in **Indicator 7.**

With regard to pensions, Racine is part of the Wisconsin Retirement System (WRS). The City makes a required employer contribution each year as determined by WRS based on an annual actuarial valuation.

Racine was able to experience a sharp decrease in its WRS employer contribution in 2015 after it reached agreement with its public safety unions for members to contribute 6.8% of their salaries toward the cost of their pensions. The agreement – combined with a dip in the overall WRS contribution rate – reduced the City's pension cost by about $1.9 million that year, alleviating other budgetary pressures.

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

SUMMARY

Our analysis of City expenditure trends reveals that Racine experienced modest overall expenditure growth from 2012 to 2016, but all of the growth was dedicated to increased debt service payments. With spending in other areas slightly declining in nominal terms, City leaders were forced to trim positions. That was a sign of fiscal responsibility, but it also has produced service-level challenges.

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

LONG-TERM BUDGETARY SOLVENCY

The ICMA system encourages analysis of whether a government is "currently paying the full cost of operating, or is it postponing costs to a future period when revenues may not be available to pay these costs." To address this question, ICMA emphasizes exploring three areas that can have a major effect on future spending levels: retirement obligations; long-term borrowing; and maintenance of capital assets.

Retiree health care

Racine has offered an extremely generous retirement health care benefit to its employees, paying 100% of premium costs for life for eligible employees who retired before 2007. Action by City leaders reduced the percentage to 90 to 95% for most employees who retired after that date (or will retire in the future), and the lifetime benefit was cut off for most employees hired after 2007. Still, employees who work the requisite number of years and retire before age 65 continue to be promised coverage until they enroll in Medicare, with most of the premium costs paid by the City.

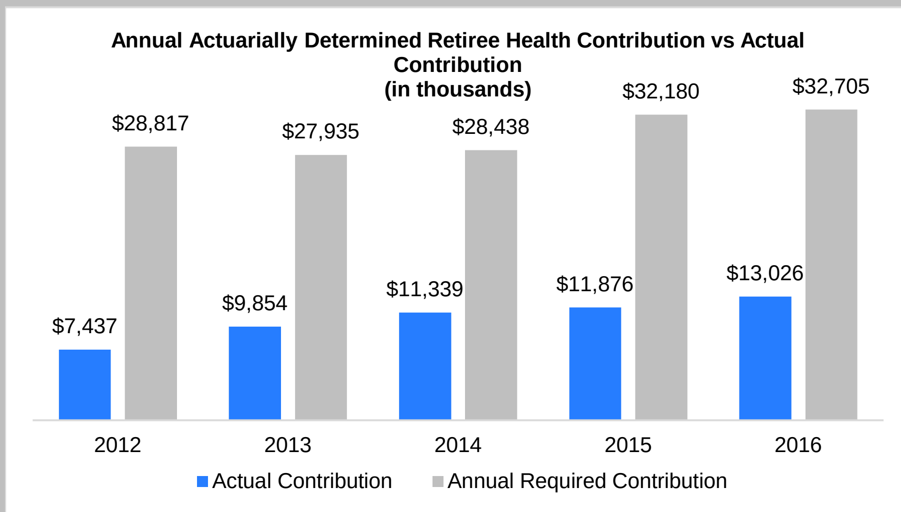
Government entities are not required to pre-fund their existing retiree health care liabilities as they must do for pension liabilities, though retiree health liabilities must be reported as part of the government's financial statements. The City of Racine, like many other local and state governments,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

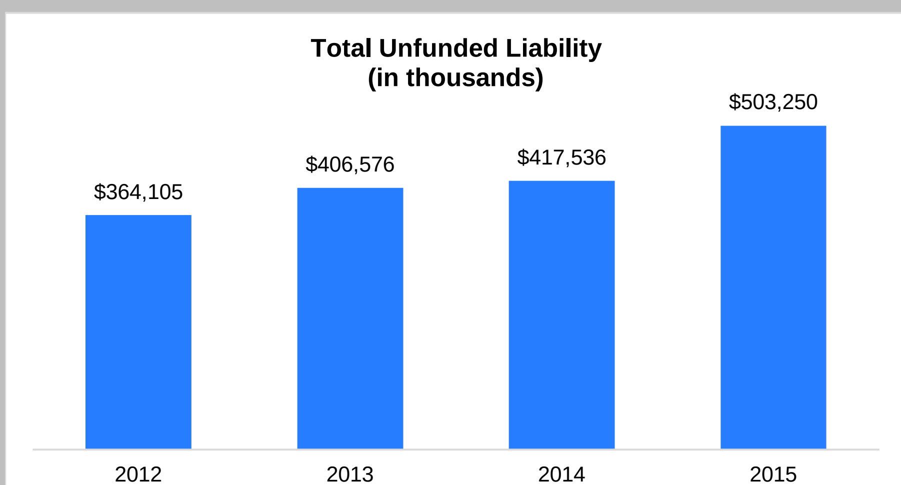
According to Racine's most recent comprehensive annual financial report (CAFR), the City would have needed to contribute an estimated $32.7 million in 2016 to address both the annual cost of providing health insurance to retirees and the actuarially determined payment needed to fund its long-term liability.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

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

Indicator 8 – Retiree Health Care Funding*

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





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

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

Source: City Racine actuarial reports and financial records

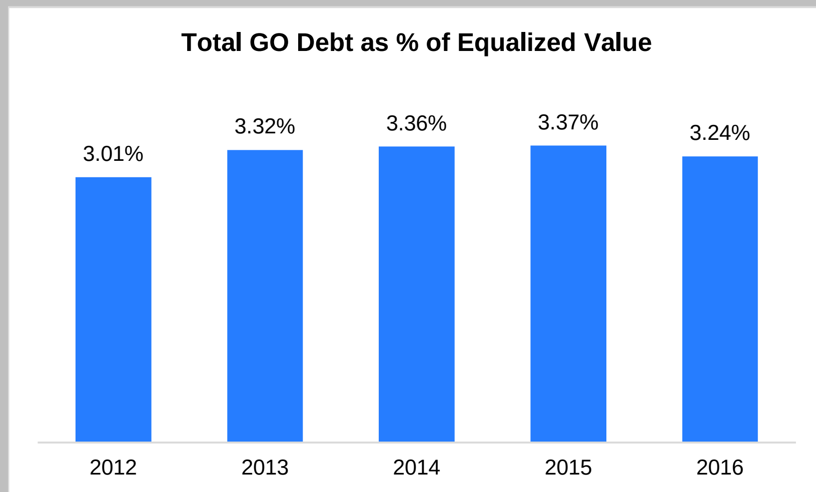
Long-term borrowing

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

At the beginning of 2016, the City had total outstanding general government debt of $104.2 million, which was a reduction of $3.7 million from its $107.9 million in 2012.

Indicator 9 – Long-term Debt

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



Source: City Racine financial records

A common measure of long-term debt is its relationship to equalized property value. Under State statutes, Racine's general purpose debt cannot exceed 5% of its equalized value. In 2016, the City's total general obligation debt was well within the state limit at 3.24%, as shown in **Indicator 9**.

While the City clearly has a manageable debt load when measured against the State's debt limit and while it has made progress in reducing its debt in recent years, its debt burden – as characterized both by its amount of general debt and its annual debt service payments – remains quite high.

A common metric used by local governments to assess their debt capacity is debt service as a percentage of "own source" or local revenues. In **Table 4**, we show Racine's 2016 property tax levy payment as a percentage of its overall levy and compare that percentage to those of five similar-sized Wisconsin cities. Racine's is the highest of the five.

Table 4: Debts service levy as a percentage of overall levy, Racine vs. comparable cities, 2016

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

Source: Municipal government financial records

Maintenance of capital assets

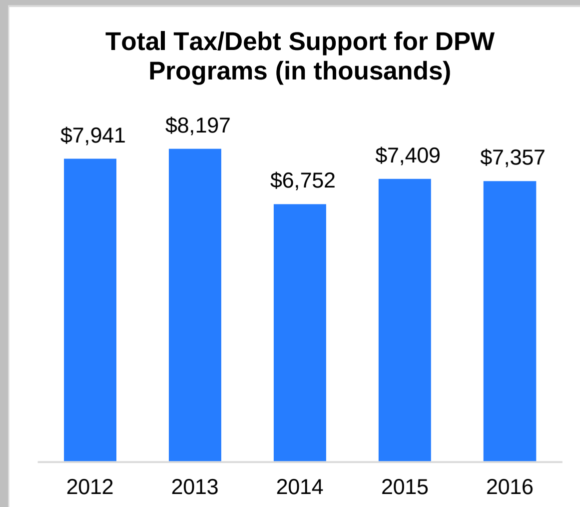
Appropriately maintaining capital assets requires a continuous long-term commitment. Yet, as ICMA has observed, many governments have seen underfunding of capital assets as “a relatively painless way to temporarily reduce expenditures and ease financial strain.”

As a proxy for assessing Racine’s commitment to ongoing investment in local infrastructure assets, we examined local financial support for DPW assets during the 2012-2016 timeframe. As shown in **Indicator 10**, support ranged from $6.8 million to $8.2 million from 2012-2016, but was lower in each of the last three years than either of the first two years.

While this downward trend should not convey that the City has failed to appropriately address infrastructure needs, it is cause for concern when considered in the context of the City’s struggles to control its long-term debt. To the extent capital spending for basic infrastructure (e.g. roads, buildings) has been constrained in recent years because of an imperative to limit borrowing – or because other capital projects have received higher priority – a backlog of needs could develop and place even greater strain on future budgets.

Indicator 10 – Capital Spending on Key Assets

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



Source: Racine Department of Public Works

SUMMARY

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

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

With revenue growth constrained, there is little or no room to respond to these cost pressures while also addressing the inflationary needs of departments. That, in turn, creates the need to gradually cut positions and/or to reduce service levels, as we have seen in the areas of public works and parks/recreation over the past decade. Meanwhile, any potential investment in economic development initiatives or new positions to meet growing service demands is precluded.

CASH SOLVENCY

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

Racine's General Fund balance also has been deemed healthy by S&P, which cites the City's "very strong" budgetary flexibility. Racine's unassigned fund balance of $24.7 million in 2016 represented about 32% of its General Fund revenues. That is an increase of $3.2 million from 2012, when its $21.5 million fund balance comprised 29% of its operating revenues, as shown in **Indicator 12**.

Strong liquidity and a growing General Fund balance have enabled City fiscal officials to maintain well-funded reserves, which it has used to varying degrees to address operating budget challenges in annual budgets.

Indicator 11 – Liquidity

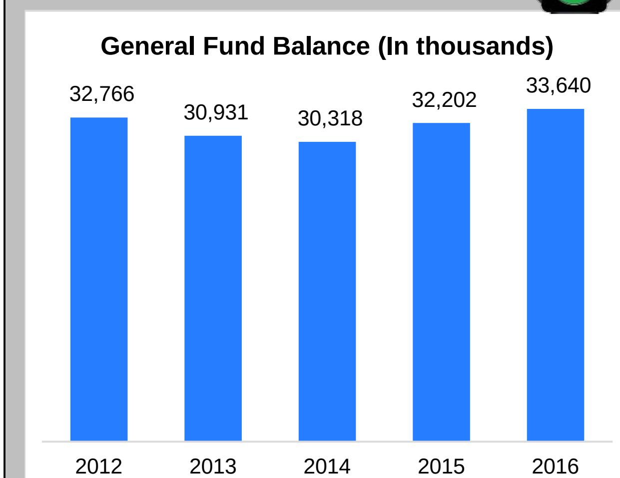
City of Racine Finding – The City's liquidity ratio is well within the ICMA standard of a 1:1 ratio between cash/short-term investments and current liabilities; in fact, it has typically exceeded that standard by a factor of three. In addition, liquidity has improved over the past five years. This is a **positive indicator** of fiscal health.

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

Source: City of Racine CAFRs

Indicator 12 – Fund Balance

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



Source: City of Racine CAFRs

CONCLUSION

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

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

- **Cash solvency** is an area of strength for Racine, as the City maintains a healthy and growing General Fund balance and enjoys strong liquidity. Those strengths provide some flexibility to address weaknesses in other solvency categories and should reassure residents that their city government currently is financially secure and at little risk of short-term crisis.

- **Budget solvency** has been a longstanding challenge for the City and remains difficult. Growth in the City's General Fund revenues has been anemic (3.3% from 2012 to 2016), which contributed to the loss of 46 FTEs and placed significant pressure on departmental operations. The one area that did see substantial growth was debt service, which has improved the City's capital outlook but provided little relief for General Fund departments.

- **Long-term solvency** is an area of great concern. Racine faces growing retiree health costs (stemming from an estimated $503 million unfunded liability) and its $18 million in annual debt service costs will be difficult to reduce in light of its capital needs. Those factors – combined with stagnant revenue growth – provide City leaders with little capacity in the future to address other inflationary cost pressures. Unless those circumstances change, departmental cuts may need to occur across city government – including to police and fire budgets – 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. Should long-term issues intensify and annual budgets fail to meet departmental cost-to-continue needs, service-level concerns will grow deeper.

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

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