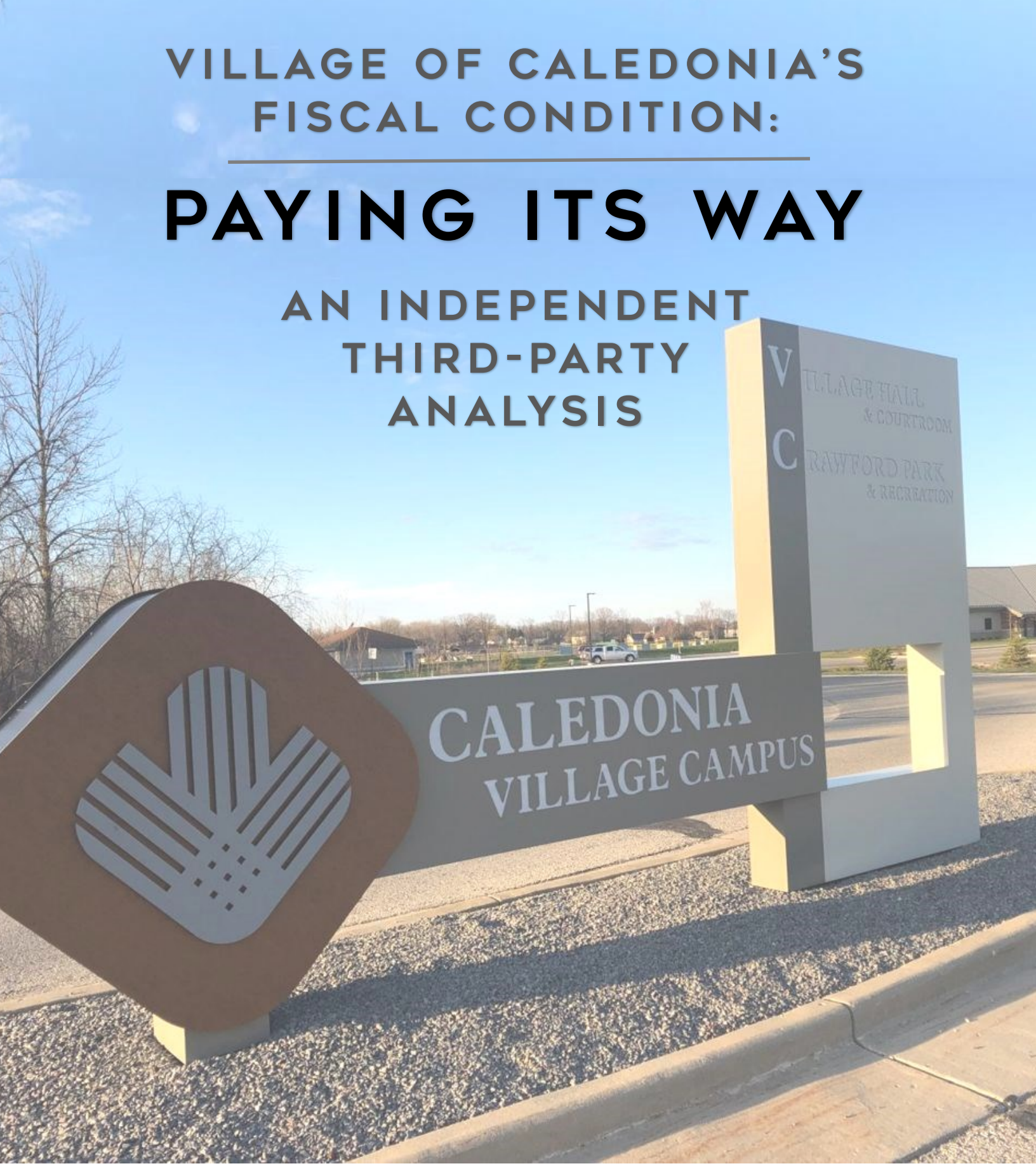
VILLAGE OF CALEDONIA'S FISCAL CONDITION:

PAYING ITS WAY

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 objective analysis of the fiscal condition of Caledonia's village government. It is preceded by a fiscal analysis of the city of Racine and will be followed by a similar analysis of Mount Pleasant'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 responses to the COVID-19 crisis.

Report authors would like to thank Caledonia 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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An independent third-party analysis

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INTRODUCTION

With its location in the growing Chicago-Milwaukee I-94 corridor just a few miles north of the Foxconn development and within an easy commute of sprouting industrial parks in Oak Creek and Kenosha, the Village of Caledonia would appear to be poised for considerable new economic development and fiscal prosperity. Indeed, property values and income levels are on the rise, and the village has recently invested heavily in new tax incremental districts (TIDs), added police and firefighters, and constructed a new village hall.

The COVID-19 Crisis

The research for this report was initiated in the fall of 2019 and completed in late February 2020. A final draft was shared with village fiscal officials and administrators in early March, just before the global pandemic exploded in the United States and wreaked unprecedented havoc on the state and national economies.

It is far too early to assess the crisis' impacts on Caledonia's 2020 budget and longer-term financial outlook, as the severity of those impacts will be influenced by factors such as the tenure of stay-at-home and social distancing restrictions 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 for several weeks to allow time to evaluate how Caledonia might be impacted by the pandemic's ramifications. Instead, we felt the appropriate approach was to release it as we had written it before the crisis hit to provide policymakers and citizens with greater understanding of Caledonia's fiscal condition heading into these chaotic times and its capacity to navigate the new financial challenges it will face.

Consequently, as readers digest this report, they should keep in mind that it gives no consideration to the economic and fiscal impacts produced by the COVID-19 crisis. Rather, it should be viewed as an important barometer of Caledonia's pre-crisis financial trends, strengths, and weaknesses, which will be important to consider as village leaders gauge potential 2020 budgetary responses and as they initiate their 2021 budget preparation.

Yet, at the same time, Caledonia is not without its financial challenges. The sizable TID located alongside I-94 – which was to be highlighted by creation of a major business park – so far has attracted only a few businesses. In the meantime, as property tax levy support for that TID grows, village leaders face challenges in identifying the local resources needed to further fortify public safety staffing and respond to growing local road and recreational needs.

This report explores these apparent contradictions by providing an independent analysis of Caledonia's overall fiscal condition. The analysis employs a series of fiscal metrics suggested by the professional financial evaluation system of the International City/County Management Association (ICMA). The Wisconsin Policy Forum has used this methodology to produce several reports on local governments in Milwaukee County, including the City of Milwaukee, Milwaukee County, and the Milwaukee Public Schools; and, in April 2018, on the City of Racine.

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 Caledonia'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 the Village of Caledonia and how it has 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.

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 the Village of Caledonia's fiscal condition and challenges is a prerequisite to such collaborative action. We hope this report will provide policymakers and civic leaders with baseline information that can serve as the factual underpinning for discussion of strategies to fortify the village's fiscal condition, its economy, and its overall quality of life. Furthermore, with greater understanding of the village's financial strengths and weaknesses, we hope community stakeholders will be better equipped to debate Caledonia's economic development objectives, and to consider whether the fundamental municipal services that are required to accommodate such development can be appropriately provided and sustained.

METHODOLOGY AND DATA

In seeking to provide an objective assessment of the Village of Caledonia'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 a level 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 budget challenges 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 Village of Caledonia 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. While the ICMA indicators are designed for a five-year trend analysis, we cover a six-year spread because actual 2018 financial data became available after we initiated our research. We incorporated 2018 actual spending and revenue figures into the analysis of the 2013-2017 time frame that already had been completed.

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 Caledonia 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.

CALEDONIA'S FISCAL ENVIRONMENT

Analyzing the Environment with the ICMA system

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

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, a village with a shrinking population often must spread the cost of such services among fewer people, which can impact its capacity to maintain service levels and hamper efforts to attract new residents. Population decline also makes it more difficult to undertake and afford new initiatives.

Caledonia's population reached its peak in 2008, at 27,552. The village's population has been on the descent since that time, although between 2010 and 2017 it stabilized, generally landing between 24,600 and 24,700. The population stood at 25,074 in 2018.

Another critical aspect of municipal fiscal health is the vitality of the local economy. Between 2013 and 2017 (which is the most recent five-year American Community Survey dataset available as of this report), Caledonia 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 139 people (-1%).

A particularly relevant economic indicator is property values, which are central to a village's ability to generate property tax revenue. As shown in the table, Caledonia's equalized property value increased by 8.3% over the five-year period. Unemployment in 2017, at 5.3%, was two percentage points lower than in 2013. Median household incomes increased 8.7%.

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

Year	Median Household Income	Mean Household Income	Equalized Value*	Percent in Poverty	Unemployment Rate	Civilian Labor Force
2013	$70,487	$90,013	$1,921,664	6.1%	7.3%	13,313
2014	$68,936	$87,970	$1,953,451	7.0%	7.4%	13,267
2015	$69,045	$88,430	$1,966,559	5.4%	7.4%	13,191
2016	$69,500	$86,493	$2,000,660	4.8%	7.2%	13,175
2017	$77,240	$90,673	$2,096,503	5.4%	5.3%	13,174
5-yr difference	$6,753	$660	$174,839	n/a	n/a	-139
5-yr % change	8.7%	0.7%	8.3%	n/a	n/a	-1%

*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, Caledonia's 2017 median household income of $77,240 was significantly higher than Wisconsin's total of $56,759 and the U.S. figure of $57,652, while its poverty rate of 5.4% was far below the state rate of 12.3% and the U.S. rate of 14.6%. Those indicators of economic well-being should produce positive impacts for the village budget given that high levels of poverty can place greater demands on certain municipal services, such as public safety and public health.[1]

Caledonia enjoys good credit ratings with the Moody's credit ratings agency. Given its growing tax base, healthy financial position, and moderate unfunded pension liabilities, the village was assigned an AA2 rating (the agency's third highest below only AAA and AA1) in late 2018. State-imposed property tax levy limits and a somewhat high debt burden prevented an even higher rating.

Additional perspective can be gained by comparing Caledonia's environment with similarly populated villages and cities in Wisconsin. **Table 2** provides perspective on the government's ability to generate tax revenue and **Table 3** looks at indicators that speak to financial demand for municipal services.

Table 2 indicates that when compared to a peer group of 13 Wisconsin municipalities with similarly-sized populations, Caledonia ranks near the top when it comes to median and mean income levels (at 3rd and 5th highest, respectively), and falls to 8th highest in per capita property values. These indicators of wealth can be linked to a municipality's capacity to generate resources required to support municipal services. The somewhat lower per capita property values stand out given that the property tax is the primary source of local taxation afforded to Wisconsin municipalities under state law. Lower per capita values can leader to higher property tax rates.

1 National, state, and Caledonia data obtained from U.S. Census American Community Survey estimates.

Table 2: Environmental indicators related to financial capacity, Caledonia and comparably sized municipalities (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
Caledonia Rank	8	3	4	8

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

Table 3: Environmental indicators related to financial demand, Caledonia and comparable cities (2017)

				Crimes per 10,000		Housing**		
Community	Annual Unemploy-ment Rate	Percent in Poverty	Less than a H.S. Diploma	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%	18.0%	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%	8.0%	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%	2.0%	4%	9	75	4,151	84%	8%
Caledonia's Rank	6	11	7	5	4	8	3	6

* Ranked in ascending order of financial capacity; 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

Caledonia's revenue picture reveals challenges when measured against the ICMA standards. Its operations are heavily dependent on only one revenue source – the property tax – which is severely constrained by external factors. Property tax revenue fell by 3.5% in inflation-adjusted terms over the 2013-18 period.

Growth in smaller revenue streams, such as increased fines and fees and charges for services, helped bolster general fund operations during the period. These revenue enhancements not only helped to offset the lack of levy growth, but also allowed for greater diversion of property tax levy to areas outside of the general fund, particularly debt service payments. Overall, the village's total revenue growth of 3.9% (adjusted for inflation) allowed it to absorb inflationary costs to continue while increasing its workforce in most departments.

Village officials share that Caledonia's constrained General Fund revenue portfolio has provided only limited ability to enhance service capacity in the fire and police departments. Continued slow or negative constant dollar growth of its property tax levy and intergovernmental revenue may make it difficult to achieve these service enhancements. That said, assuming reasonable growth in new construction, the village should be able to generate the annual property tax levy increases required to maintain current service levels, provided that elected officials deem it appropriate to levy taxes at the amounts allowed under state levy limits.

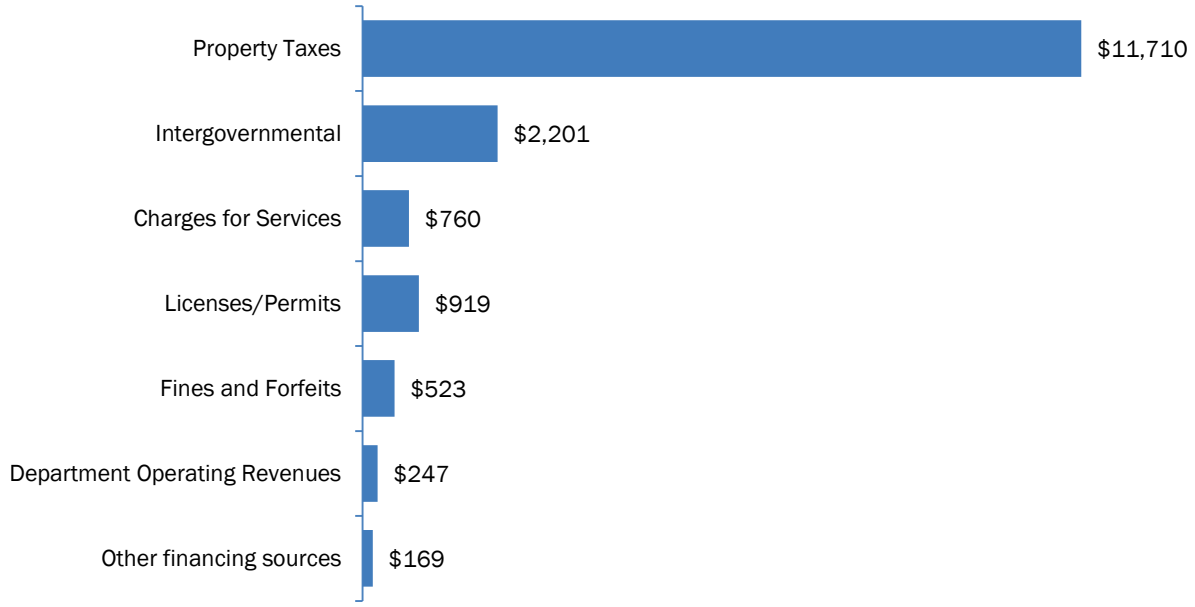
Major Revenue Sources

The Village of Caledonia'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 refuse and recycling, which are supported by user-based fees, but which also may receive property tax support; enterprise funds, such as for sewers and water, which are designed to derive their revenues exclusively (or almost exclusively) from the enterprise in which they are engaged; and funds for capital projects and debt service.

Our analysis of village revenues in this section focuses on the General Fund, debt service, and a limited number of special revenue and enterprise fund departments that receive funding from the property tax. We refer to these as property tax-dependent functions. Not included in our analysis are revenues related to government services that do not use property tax levy, which includes capital projects and certain enterprise funds like utilities.[2]

Chart 1 presents Caledonia'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 was allocated $14.5 million of the $16.5 million total shown in **Chart 1**. There are seven major sources of revenue that support the General Fund and the other functions that receive property tax revenue. We provide brief descriptions of those sources below.

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



Source: Village of Caledonia financial records

[2] The sewer and water utilities have some levy expenditures, but those involve G.O. bond payments that will be retired in 2033. Utility debt has been financed through revenue bonds since 2012.

Property Taxes are designated as the primary source of municipal tax revenue per Wisconsin statutes.[3] Property taxes collected by the village are allocated primarily to the General Fund ($9.7 million in 2018), debt service ($1.7 million), and capital projects ($1.2 million). Smaller – but still significant – amounts are allocated to special revenue funds such as $177,000 for Caledonia's share of the Central Racine County Health Department (CRCHD) budget and $70,000 for the Caledonia/Mount Pleasant Joint Park.

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, over half of the village's intergovernmental revenues came from state and federal highway aids ($1.2 million of the $2.2 million received), while 41% ($893,000) came from the state's shared revenue and expenditure restraint programs.[4]

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). The primary charges for services in Caledonia's budget include ambulance fees, fire department service fees, and park fees.

Intergovernmental Charges are revenues received from other governments for services provided by the village. Examples include payments from adjacent communities that contract the village for fire services and reimbursement for serving as the Central Racine County Health Department fiscal agent.

Licenses and Permits are revenues 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 permit and development fees charged to developers.

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

Other financing sources refers to revenue from activities like investment interest.

The broad overview of Caledonia'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 71% of the village's total revenue** for its General Fund and the other functions addressed in this section.

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 (commonly called a "wheel tax") that may only be used toward transportation purposes. They also are authorized to levy a hotel/motel room tax of up to 8%, though much of that revenue must be earmarked for tourism-related activities. Caledonia does not employ a local wheel tax but does receive a small amount of revenue from a hotel/motel tax.

[4] Per Wisconsin Department of Revenue data, revenues provided thorough the expenditure restraint program represented 29% ($258,000) of total state shared revenue payments in 2018. Expenditure restraint payments increased by $10,400 from 2014 to 2018, which equates to a 1.6% ($3,910) *reduction* when adjusted for inflation. Similarly, the total shared revenue payment increased $16,100 in that time frame, while decreasing by 3% ($27,500) when adjusted for inflation.

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

In the case of Caledonia, however, this problem is even more challenging because both the property tax and its second largest revenue source – intergovernmental revenues – are highly restricted:

- **Property tax**. Caledonia's largest source of revenue is constrained by state levy limits that restrict annual growth in the property tax levy for operating purposes to the percentage increase in property values that result from new construction. Over the 2013-2018 timeframe, the annual percentage increase in new construction ranged from 0.43% to 1.04%, thus affording Caledonia only limited capacity to increase its largest revenue source to support its operations. It is also important to note, however, that in at least two of the years examined, village leaders opted not to levy the full amount allowed under the state limits.

  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 availed itself of this flexibility. We take a more in-depth look at that circumstance later in this report.

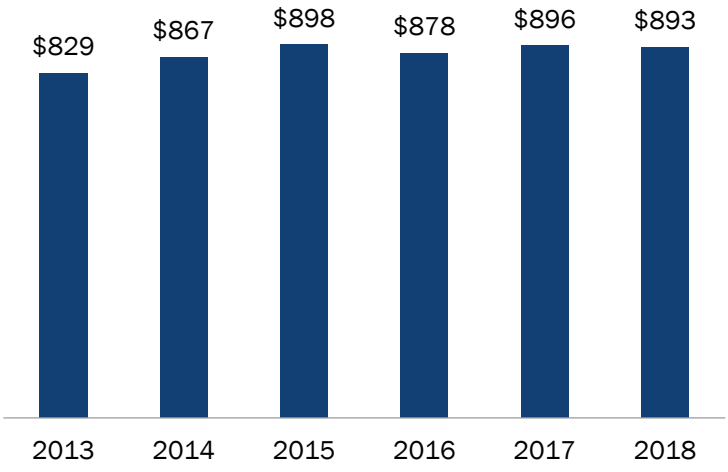
> ***Definition: Property Tax-Dependent Functions***
> General Fund, debt service, and a limited number of special revenue and enterprise fund departments that receive funding from the property tax are the property tax-dependent functions emphasized in this analysis.

- **Intergovernmental revenue**. As noted above, over half of Caledonia'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 together comprised 41% 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 personal property tax revenues that are now exempted from taxation.

  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 (DOR), the program was a response "to criticism that the

Chart 2: Village of Caledonia State shared revenue payments, 2013-2018 (in thousands)



Source: Village of Caledonia financial records

state shared revenue program…encouraged municipalities to increase spending."[5] ERP payments are distributed as a distinct component of the shared revenue program.

Unlike most large cities in Wisconsin (including neighboring Racine), as a suburban village Caledonia is not highly dependent on shared revenue/ERP payments, with only 5.4% ($892,600) of its total operating revenues derived from that source in 2018. Still, this is not an insignificant revenue source for the village, and it showed only a modest increase from 2013 through 2018, as shown in **Chart 2** (the 7.7% increase was slightly below the rate of inflation).

Revenue trends

The ICMA system relies on trend analysis over a five-year period to provide a more complete perspective than can be obtained from a single year's slice of data, 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. To analyze the Village of Caledonia's revenue picture, we use a six-year time frame, from 2013-2018, as 2018 actual revenue figures became available after the study was well underway. 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.

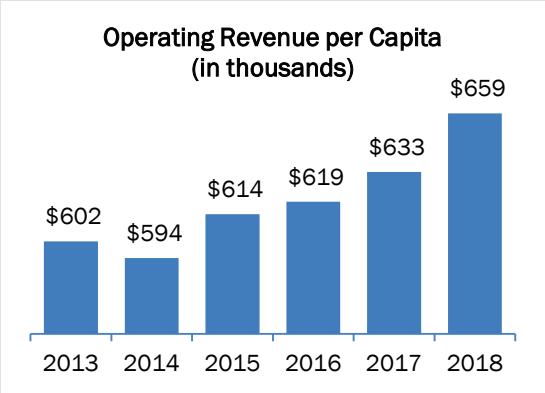
Table 4 offers an overview of Caledonia's actual operating revenues for property tax-dependent budgets from 2013 to 2018. **Table 5** provides a similar overview but only for the General Fund. While the ICMA system refrains from citing revenues that are related to debt service, we show them in **Table 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.

ICMA Fiscal Indicator 1 – Net Revenues Per Capita

Why it is Important – Steady revenue generally is associated with stable operations and levels 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 Caledonia Finding – the village saw per capita revenue growth of 9.6% from 2013-2018, and 1.5% growth when adjusted for inflation. This would generally be considered an acceptable level of growth and is a **positive indicator** of fiscal health, though it must be considered in the context of increasing expenditure needs and service demands (which will be discussed later in this report).



Source: U.S. Census and Village of Caledonia financial records

As shown in **Table 4**, Caledonia's total operating revenues for property tax-dependent budgets increased 11.2% from 2013 to 2018. When adjusted for inflation, these operating revenues

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

increased by 3.9%. That trend of revenue growth that modestly exceeds the rate of inflation also is reflected in per capita operating revenues, as seen in **ICMA Indicator 1**.[6]

Table 4: Village of Caledonia revenues, property tax-dependent functions, 2013 to 2018 (in thousands)[7]

2018 Actuals	2013	2018	% Change
Property Taxes	$10,933	$11,710	7.1%
Intergovernmental	$1,796	$2,201	22.5%
Charges for Services	$541	$760	40.6%
Licenses/Permits	$944	$919	-2.7%
Fines and Forfeits	$305	$523	71.4%
Department Operating Revenues	$299	$247	-17.3%
Other financing sources	$41	$169	312.2%
Total Revenues	$14,858	$16,529	11.2%

Source: Village of Caledonia financial records

When we consider the General Fund, a similar picture emerges. As shown in **Table 5**, General Fund revenues increased by 8.9% over the 2013-2018 timeframe, or 1.1% when adjusted for inflation. Notably, while the property tax allocation to the General Fund increased only marginally (by 3.1%, or $296,000), the village was more than able to compensate through increased collections from charges for services, fines and forfeitures, and other financing sources, which collectively grew by $566,000. Two major contributors were a $212,000 increase in ambulance service charges due largely to increased call volume and a $216,000 increase from enhanced citation issuance and collection practices. The increase in these revenues provided greater flexibility for village officials to allocate property levy revenue to other activities like debt payments and capital projects.

Table 5: Village of Caledonia revenues, General Fund, 2013 to 2018

	2013	2018	% Change
Property Taxes	$9,406	$9,702	3.1%
Intergovernmental	$1,796	$2,201	22.5%
Charges for Services	$541	$760	40.6%
Licenses/Permits	$944	$919	-2.7%
Fines/Forfeitures	$305	$523	71.4%
Operating Department Revenues	$299	$247	-17.3%
Other financing sources	$41	$169	312.2%
Total	$13,331	$14,521	8.9%

Source: Village of Caledonia financial records

Finally, it should be mentioned that much of the 22.5% growth in intergovernmental revenue was related to funds earmarked for specific uses, such as a $351,000 increase in highway aids. State shared revenue, which has no such restrictions, increased by only $63,000 over the time period studied.

[6] 2013 saw higher per capita revenues ($602/capita) than subsequent years due to a higher-than-usual amount of construction permits that year.

[7] For purposes of trend analysis, in both **Table 4** and **Table 5** it is important to note that changes in certain revenue categories may reflect accounting decisions, as opposed to actual revenue increases or decreases.

The village's intergovernmental revenue showed annual variation over the six-year period. As shown in **ICMA Indicator 2**, it comprised 13.3% of the village's total operating revenue in 2018, up from 12.1% in 2013. The peak of 14.1% shown for 2015 was largely due to a federal Staffing for Adequate Fire and Emergency Response (SAFER) grant secured by the village.

Given that most of the growth in intergovernmental revenue was for highway aid, the village is not heavily reliant on state and federal aids for general village spending. This can be seen as a sign of fiscal health, particularly since state shared aid was largely stagnant during the 2013-18 time frame, decreasing from 6% to 5% of operating budget revenues and failing to keep pace with inflation.

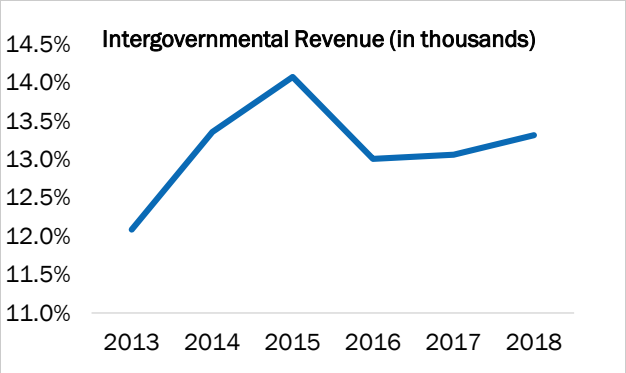
The relatively modest growth in intergovernmental revenue also must be viewed in the context of Caledonia's increased debt service, which grew 33% from 2013-2018 and necessitated the allocation of more than half of new property tax revenues to this function. Village officials express concern that this leaves little capacity for compensation increases for general employees and new investment, though the village has managed to increase departmental staffing in a number of service areas, as we will discuss in greater detail in the next section of this report.

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

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

ICMA Warning Sign – An increasing percent of intergovernmental revenue as a share of operating revenues.

Village of Caledonia Finding – As a percentage of the village's overall revenue for property tax-dependent budgets, intergovernmental revenue increased from 12.1% in 2013 to 13.3% in 2018. This limited growth does not indicate an alarming increase in reliance on this revenue source. However, because the village's largest source of intergovernmental revenue – highway aids – is greatly dependent on state and federal fiscal circumstances, and because village leaders lack alternative major revenue options outside of the property tax, this a trend that **requires monitoring**.



Source: Village of Caledonia budget documents

When we hone in on property tax revenue trends, we find (as shown in **ICMA Indicator 3**) that this resource grew by 4% from 2013 to 2018 but *fell* by 3.5% when adjusted for inflation. Levy devoted to General Fund operations increased by only $296,000 (3.1%) over the period, while the amount dedicated to debt service grew by $424,000 (34%). When adjusted for inflation, this represents a *decrease* of 4% to the General Fund and a 24% increase to debt service. Levy devoted to capital projects in 2018 was $1.2 million, significantly higher than the $10,000 allocated in 2013.[8]

The flat growth in the property tax levy – which was linked both to the state-imposed operating levy limits and a deliberate decision in two of the years we considered to levy less than the amount allowed by the limits – had a positive impact on the village's property owners. Over the 2013-2018 timeframe, the village's property tax levy grew by 4% while its equalized property value grew by 12.4%. Consequently, the property tax *rate* for village government declined. Available data on the DOR website shows a decline in the tax rate from $6.79 per thousand dollars of assessed value in 2014 to $6.61 in 2018.

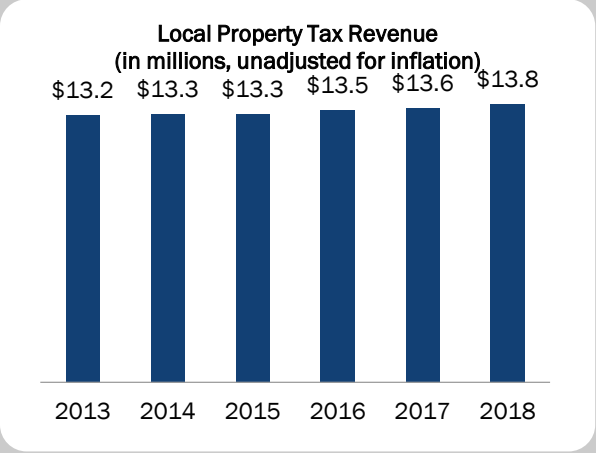
However, while Caledonia has benefited recently from the ability to fund its growing staff and operational costs with less-than-inflationary increases in property tax revenue, this may not be possible in the future given the limited nature of the village's other revenue streams. If the village's expenditure pressures do demand strong growth in property tax revenues and levy limits remain linked to new construction, then challenges could emerge. As shown in **Chart 4**, the rate of new construction was quite subdued over the 2013-2018 time frame, although there is hope that the pace will pick up with the nearby Foxconn development and other planned development activities.

ICMA Fiscal Indicator 3 –Growth in Property Tax Revenue

Why it is Important – Property tax revenue is Caledonia's largest single revenue source. 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 Caledonia Finding – The village experienced a 4% increase in property tax revenues from 2013 to 2018, which equates to a 3.5% *decrease* when adjusted for inflation. This modest lag behind the rate of inflation is not overly alarming but does **require monitoring**, particularly in light of the fact that future levy growth for operations will be linked to uncertain growth in new construction assuming no change in state levy limits.



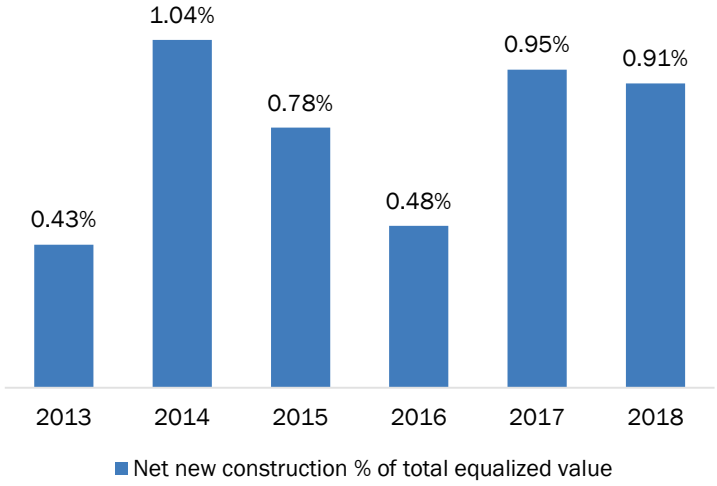
Source: Village of Caledonia financial records

[8] The amount of levy devoted to capital projects is dependent on the type of projects or purchases slated for that year. Generally, the village strives to pay for capital projects without making use of borrowing, although major capital projects are typically financed through G.O. bonding.

Summary

Taken as a whole, we see that Caledonia's revenue structure provided capacity for inflationary growth over the 2013-2018 time frame, and has even allowed the village to allocate increasing shares of property tax levy to capital infrastructure and long-term debt while increasing the workforce. This has been largely accomplished through smaller revenue sources like fees and charges for service, as the majority of tax levy growth was spent on non-General Fund activities. Overall, tax levy growth lagged inflation while intergovernmental revenue growth barely exceeded it.

Chart 4: New construction as a percent of total equalized value (2013-18)



As we will discuss in the following sections, the village may face challenges in continuing to meet its service-level needs without stronger growth in property taxes and intergovernmental revenues. The fact that it has little control over those two revenue sources raises important questions for the future.

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 Caledonia expenditures reveals 15.6% growth from 2013-2018, which was significantly higher than the 7.8% growth in inflation during that time. Unsurprisingly, pension, health care, public safety, and debt service were significant budget drivers over the time period studied. In addition, the village added positions in nearly all departments. Overall, the workforce grew by 10.7 full-time equivalent positions (FTEs), excluding the 14 FTEs created when Caledonia became the fiscal administrator for the county health department.

Future budget deliberations should consider the long-term impacts of these trends against anticipated future revenue growth, as the addition of FTEs, growing capital needs, and increasing debt service will increase the probability of budget difficulties in the absence of matching revenue growth.

Operating expenditures

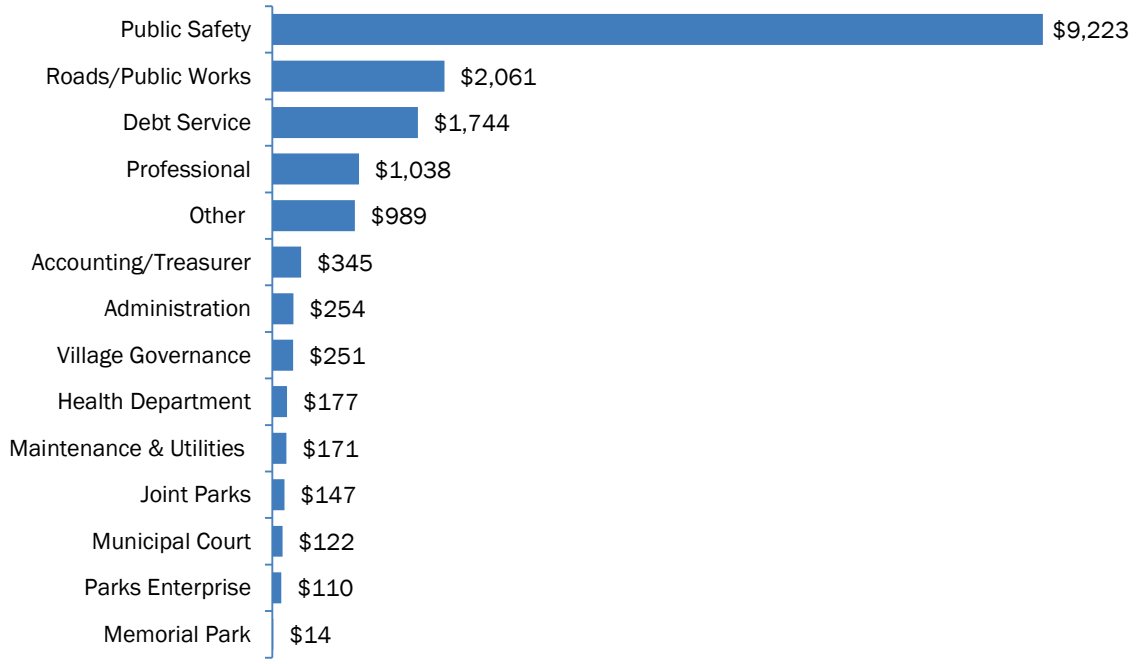
Our analysis of Village of Caledonia expenditures encompasses the village's operating budget per our earlier definition of property tax-dependent functions (i.e. General Fund departments, debt service, and other funds that are at least partially supported by the property tax). As additional context, we also isolate the General Fund.

It is important to note that analysis of functional expenditures by local governments can be impacted by accounting procedures. For example, some governments allocate fringe benefit expenditures

directly to departments so they are folded into departmental budgets, while others account for them separately so they appear in a non-departmental account. Within that decision-making, there also can be differences in the treatment of fringe benefit costs for active vs. retired employees. In the case of Caledonia, fringe benefit costs for active employees and benefit costs for retirees are allocated to departments and included in departmental budgets. We isolate fringe benefits for separate analysis later in this section.

Chart 5 shows the functional breakdown of Caledonia's operating expenditures for property tax-dependent functions in 2018. We see that public safety is the single largest expenditure category at $9.2 million, comprising 55% of the total. Roads and public works are next, at a combined $2.1 million (12.4%). These are closely followed by debt service, at $1.7 million, which is 11% of the budget. Other major areas of departmental spending include professional services,[9] accounting, administration, and village governance.[10]

Chart 5: Village of Caledonia operating expenditures, 2018 (in thousands)



Source: Village of Caledonia financial records[11]

[9] Professional services include activities like attorney fees, property and liability insurance, and worker's compensation. Of these, worker's compensation represented 32% of professional services spending in the 2018 budget.
[10] Village Governance is the combination of the Village Board and Village Clerk budgets. These were $60,200 and $192,700 in 2018, respectively.
[11] "Other" includes the Assessor, Building Department, Elections, and Other Services budgets. The other services budget includes a variety of accounts such as the bus contract with the Bell Urban System and street light costs.

When we examine six-year trends (**Table 6**), we find that the 15.6% growth in Caledonia's expenditures for these functions exceeded the 7.8% rate of inflation. On a per capita basis, they grew by 13.8%, as seen in **ICMA Indicator 4**. The vast majority of the growth occurred during the last two years for which actual expenditure totals were available (2017 and 2018).

Table 6: Village of Caledonia operating expenditures, 2013-2018

	2013	2018	% Change
Municipal Court	$35	$122	253.9%
Administration	$227	$254	11.7%
Accounting/Treasurer	$238	$345	45.1%
Village Governance	$145	$251	72.9%
Professional	$723	$1,038	43.6%
Other	$882	$989	12.2%
Roads/Public Works	$2,035	$2,061	1.2%
Public Safety	$8,315	$9,223	10.9%
Maintenance & Utilities	$129	$171	32.4%
Debt Service	$1,311	$1,744	33.0%
Health Department	$175	$177	1.1%
Joint Parks	$124	$147	18.2%
Memorial Park	$10	$14	39.5%
Parks Enterprise	$54	$110	104.7%
Total	$14,403	$16,646	15.6%

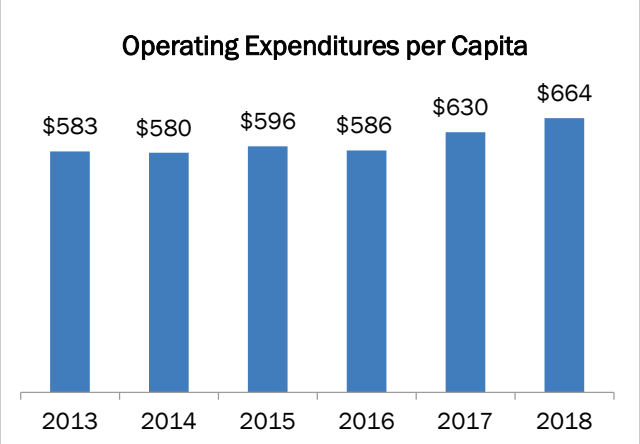
Source: Village of Caledonia financial records

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 Caledonia Findings – Per capita expenditures increased 13.8% over the six-year period, which while not excessive was higher than the 7.8% rate of inflation. This growth was driven mainly by increases in public safety and debt service. The situation **requires monitoring** given that the village's capacity to increase its revenue streams in the future is limited by external forces such as state levy limits and the availability of intergovernmental revenues.



Source: Village of Milwaukee financial records; U.S. Census

Each of the property-tax dependent functions saw expenditure growth during the period, although the size of police and fire departments budgets means that the 11% growth in public safety consumed 38% of total spending growth. Debt service grew at a higher percentage (33%) and represented 18% of 2013-18 expenditure growth for these functional areas.

A number of changes contributed to the substantial cost growth in the areas of village governance and professional services. Village governance (which includes the village board and village clerk) saw increased hours for two clerk positions, totaling a 0.8 FTE increase. The professional services budget saw spending increases in many areas, including the addition of professional service costs that were not present in 2013. This includes a 19% ($54,000) increase in worker's compensation costs, a 48% ($33,000) increase to computers/supplies, and a 38% ($59,000) increase to property and liability insurance costs. The village also saw the creation of a Community Development Authority which cost $20,000 in 2018, and also contracted for planning services that year in the amount of $66,500.

With a 33% increase ($433,000) over the 2013-2018 period, debt service has become a significant and growing source of property tax levy spending. Some of this growth was caused by an increase in G.O. debt to support some larger capital projects (including a new village hall and renovating the highway building). However, the largest contributor to the growth in debt service was the village's decision to create a new tax incremental district (TID #4) in 2014 and accompany that creation with the commitment of a sizable annual property tax allocation to help service the TID's infrastructure-related debt. That allocation totaled $250,000 in 2017 and grew to $1 million in the 2020 budget. The growth in debt service and its impact on long-term budget solvency will be discussed later in this report.

When we isolate only the General Fund departments in **Table 7**, we see that expenditures increased by $1.7 million (13.6%) over the 2013-2018 timeframe. The 11% increase in public safety spending accounted for 53% of total General Fund spending growth. The next largest area of functional expenditures – roads and public works – saw only a minimal increase over the period, as inflationary increases in personnel expenditures were largely offset by decreases in areas like fuel and commodities.

Table 7: Village of Caledonia General Fund operating expenditures, 2013-2018

	2013	2018	% Change
Public Safety	$8,315	$9,223	10.9%
Roads/Public Works	$2,035	$2,061	1.2%
Professional	$723	$1,038	43.6%
Other	$882	$989	12.2%
Accounting/Treasurer	$238	$345	45.1%
Administration	$227	$254	11.7%
Village Governance	$145	$251	72.9%
Maintenance & Utilities	$129	$171	32.4%
Municipal Court	$35	$122	253.9%
Total	$12,729	$14,454	13.6%

Source: Village of Caledonia financial records

There are several reasons why a government entity might increase spending levels, including population growth and implementation of new services or service capacity. In the case of Caledonia, the population has experienced minimal growth but spending has increased on the service side to meet inflationary increases in costs associated with current service levels as well as to cover the cost of added positions. Village officials note, however, that some new positions resulted from decisions to move previously contracted FTEs in-house, which means that the costs were offset to some extent by professional services savings. Another cost driver – as noted above – was the need to service higher levels of long-term debt.

Village workforce

The size of the workforce is another important fiscal indicator tied to government expenditures. Caledonia's workforce increased between 2013 and 2018 by 25 full-time equivalent (FTE) positions (from 126 to 151, or 20%). About 14 of these FTEs resulted from Caledonia becoming the fiscal agent for the Central Racine County Health Department (CRCHD), an entity that is sustained through grants and contributions from 14 municipalities within Racine County. Thus, we remove the health department FTEs so as not to skew our analysis of the operating costs that are fully supported by Caledonia's budget. With this adjustment, Caledonia's workforce increased by 10.7 FTEs from 2013-2018 (from 111.3 to 122, or 10%).

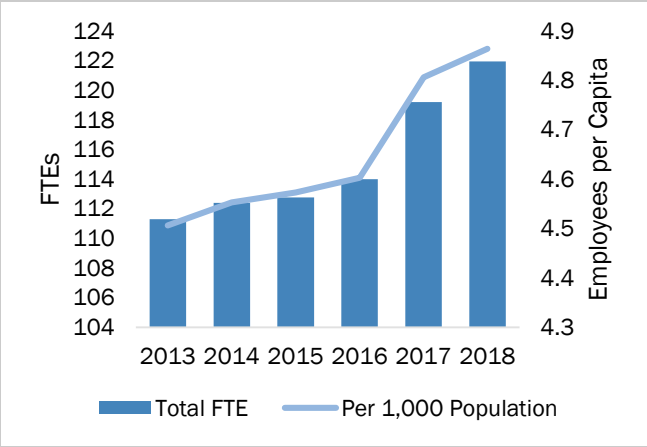
Shown another way, employees per capita increased by 8%, to 4.9 FTEs per 1,000 residents, as shown in **ICMA Indicator 5**. **Table 8** shows workforce trends for major village functions, revealing that each saw an increase of one to four FTEs except the fire department, which had no increase (although the 2020 budget did add six fire department positions that are temporarily financed with support of a federal grant). As previously mentioned, much of the growth is due to the decision to move previously contracted FTEs in-house.

ICMA Fiscal Indicator 5 – Employees per Capita

Why it is Important – Personnel costs have a significant impact 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 Caledonia Finding – The workforce grew by 10.7 FTEs from 2013-2018, and by 8% in terms of employees per capita (not including growth due to creation of the CRCHD). While some of the increase was attributed to the movement of formerly contracted services in-house, this is a situation that **requires monitoring**. The addition of public safety positions, in particular, may increase budget pressures, as salary and fringe benefit costs are more difficult to control for these workers given their exclusion from several of the provisions of Wisconsin Act 10.



Source: Village of Caledonia, U.S. Census

Table 8: Workforce trends for major village functions

Employees by Major Function	2013	2018	Change	% Change
General Admin	17.25	21.55	4.3	25%
Fire	40	40	0	0%
Police	30	33	3	10%
Public Works	24.04	25	0.96	4%
Parks/Rec	0	2.4	2.4	n/a
Health	15	29.3	14.3	95%

Note: The Engineering Department became the Department of Public Works in 2018.
Source: Village of Caledonia financial records and departments

Departmental breakdown

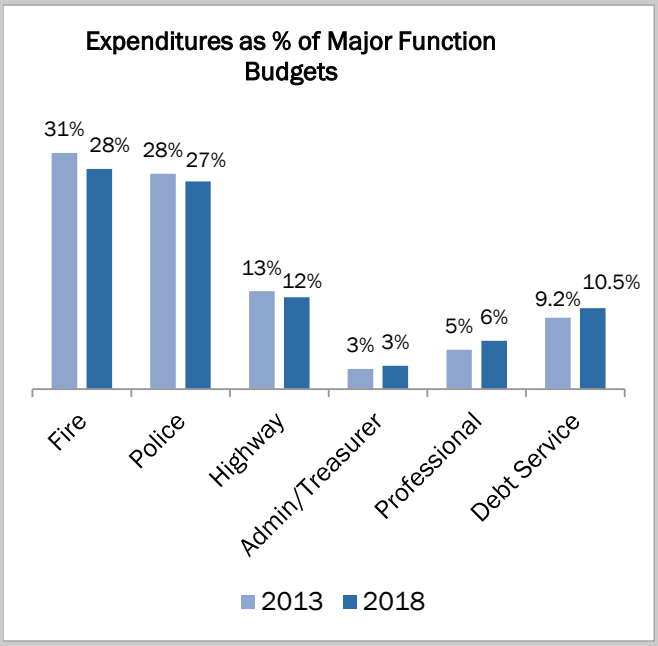
As previously noted, between 2013-18, operational expenditures grew from $14.4 million to $16.6 million (15.6%). However, some of the largest functions (such as police and fire) actually decreased as a percentage of total operational spending over that time period, as displayed in **ICMA Indicator 6.** Indeed, fire department spending as a percent of total expenditures decreased by 2.1 percentage points, while police decreased by one percentage point. At the same time, debt service increased 1.3 percentage points, professional services by 1.2 percentage points, and administrative/treasurer services by 0.4 percentage points.

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 Caledonia Finding – The village has not seen a small number of functions consume most of its expenditure growth, though the increase in debt service may be deemed problematic, particularly if it is acting as a barrier to additional needed investment in public safety functions. This potential threat **requires monitoring.**



Source: Village of Caledonia financial records

The increased share of expenditures for non-public safety administrative departments may bear watching given the typical prioritization of public safety in most municipalities and the fact that expenditure pressures tend to be more fierce for that function. Moreover, while growth in property tax levy-supported debt service costs falls outside of state-imposed levy limits (which only apply to operations), they still may impact the willingness of policymakers to increase property taxes for operating budget priorities.

Public safety departments in Wisconsin municipalities often require larger annual budget increases because many collective bargaining restrictions imposed by Wisconsin Act 10 do not apply to represented employees in those areas. Also, public safety employees typically and understandably are allowed to retire at earlier ages than general employees, which can drive up retiree health care costs. Those factors – as well as the large size of the public safety workforce in most municipalities – often means that the annual cost increases needed to maintain existing staffing levels can consume large portions of a municipal government's annual revenue growth.

Caledonia sustained a 12.9% expenditure increase in the police department from 2013-18 that included the addition of three sworn police officers, which increased police staffing from 30 to 33 FTEs. The fire department maintained 40 FTEs during the same time period and expenditures increased by 9.1%. Costs have been controlled in both areas because of negotiated agreements that require police and fire employees to contribute to their pensions at rates equal to general employees. The village also has successfully negotiated changes to the workers' compensation benefit structure and no longer provides post-retirement health benefits for new police hires as of 2018.[12] All public safety staff have the same health plan and premium shares as general employees.

According to information reported to the Wisconsin Department of Revenue, Caledonia spent $163 per capita on police in 2017 (the most recently available data) and employed 1.4 officers per 1,000 residents. These are the lowest of a peer group of Wisconsin municipalities we examined with comparable population sizes **(Table 9)**. Notably, Caledonia is also among the lowest in violent and property crime rates per 10,000 people among the peer group.

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

Community	Population	Police Exp/Capita	Police Officers per 1,000 residents	Violent Crime per 10,000 residents	Property Crime per 10,000 residents
Superior, WI	26,473	$275	2.1	111.4	554.2
Stevens Point, WI	26,526	$193	1.7	75.4	244.3
Neenah, WI	25,821	$236	1.6	72.2	200.4
Mount Pleasant, WI	26,300	$239	1.8	52.5	204.6
De Pere, WI	24,695	$180	1.5	42.1	83.3
Caledonia, WI	**24,803**	**$163**	**1.4**	**41.1**	**76.5**
Muskego, WI	24,731	$218	1.5	7.6	62.9

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

On the fire/EMS side, Caledonia's per capita expenditures are on the higher end of the group of comparable communities, at $178 per capita **(Table 10)**, although its per capita spending is well below that of neighboring Mount Pleasant. Also, the village is challenged by a 25% increase in call volume from 2015-18. In 2018, 85% of the calls were related to EMS.

Table 10: Fire/EMS per capita expenditures, 2017

Community	Fire Exp/ Capita*
Mount Pleasant	$230
Neenah	$189
Caledonia	$178
Superior	$174
De Pere	$139
Stevens Point	$125

Source: Wisconsin Department of Revenue

*Intergovernmental payments for fire/EMS services are not included in the calculation, in order to isolate for the per capita cost to only the municipality in question.

[12] Firefighters still receive post-retirement health benefits due to an unsettled contract from 2017.

Fire department overtime costs are a significant annual expenditure and exceeded the budget in five of the six years from 2013-18. Village officials share that illness and injury are a large factor in overtime use. These costs have been as high as $79,000 and $162,000 in recent years. Looking forward, the village hopes to reduce these overtime costs through the addition of six new firefighters that will be partially funded through a new three-year federal SAFER grant (which covers 80% of costs for the first two years, and 20% in the third year). Maintaining the positions after the grant expires then will require the village to assume the full cost.

Fringe benefits

Fringe benefit expenditures are such a substantial driver of budgetary solvency for local governments that they merit separate consideration from other portions of the expenditure budget. In terms of the amount spent, that is certainly the case for Caledonia.

Our analysis of Caledonia's fringe benefit expenditures begins by looking at the combined total for pensions and health care for both active employees and retirees (these two areas comprise the vast majority of the village's fringe benefit spending). In 2018, actual spending for pensions and health care totaled $3.6 million, or 9% of total spending.

ICMA Fiscal Indicator 7 shows that the village has struggled to control spending in this area in recent years. While spending was held relatively steady early in the 2013-18 time frame (even decreasing in some years), total annual expenditures for pensions and health care increased 12% ($358,000) in 2017 and by another 13% ($412,000) in 2018.

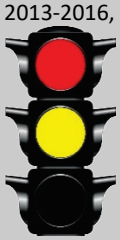
With regard to pensions, like most cities and villages, Caledonia is part of the Wisconsin Retirement System (WRS). The village makes a required employer contribution each year that is determined by the WRS based on an annual actuarial valuation. Overall, the village's pension expenditures grew by 19% ($135,000) in 2017 and 28% ($241,000) in 2018.[13]

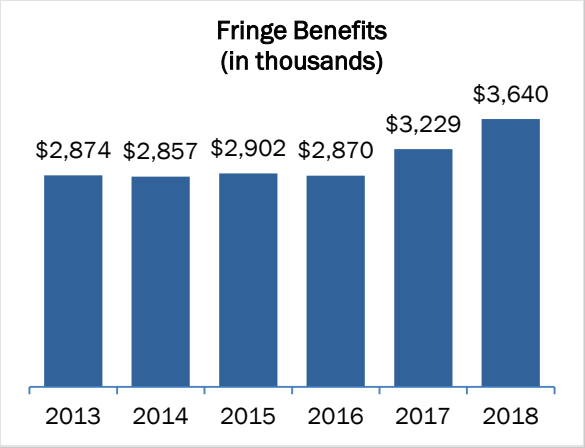
ICMA Fiscal Indicator 7 – Fringe Benefits

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 Caledonia Finding – Caledonia was able to hold pension and health care spending steady from 2013-2016, though 2017 and 2018 both saw combined increases of more than $350,000, due to pension and health care cost increases. With health care expenditures beginning to rise once again, this is an area that **requires careful monitoring** going forward.





Source: Village of Caledonia financial records

[13] The biggest driver of the change in pension contributions was an increase in the disability duty contribution, which climbed from 0.96% of covered payroll to 3.68%.

With regard to health care, the village purchases a plan through a private insurance carrier. The benefit is offered both to active employees and retirees, as well as covered family members. Overall, the village saw a 10% ($223,000) increase in health care spending in 2017 and a 7% ($171,000) increase in 2018. Should they continue, increases of this magnitude for both pensions and health care obviously could pose significant challenges given the village's constrained revenue streams.

As of December 2018, 15 retired employees or their covered family members and 105 active employees were covered by the village's health insurance plan. Retirees and covered family members pay 50% or 100% of the premium until age 65, when they become Medicare-eligible. Despite elimination of the retiree health care benefit for new police hires in 2018 (following the earlier elimination of the benefit for newly hired general employees in 2012), the village's Other Post Employment Benefit (OPEB) liability for retirees (which is linked primarily to health care) grew by 22% ($1 million) from 2013 to 2018.[14]

While Caledonia's overall fringe benefits picture has not caused undue financial stress in recent years, long-term obligations with regard to health care spending could grow more onerous. We discuss this issue in greater detail in the following section.

Summary

Our analysis of village expenditure trends and application of ICMA indicators reveals that Caledonia experienced overall expenditure growth from 2013 to 2018 that exceeded the rate of inflation. This is not a significant concern given that revenues also grew during the period and the increased spending allowed the village to add positions in an effort to address service demands. Growing health care spending and liabilities are an ongoing concern, however, as is the challenge of assuming the full cost of six firefighter positions once SAFER grant funding tapers off and expires. Continued annual increases to debt service from TID #4 and an existing backlog of capital projects also may exacerbate spending pressures in the future. The next section will elaborate on these ongoing concerns as they relate to long-term budget solvency.

[14] Village officials share that the plan for reducing the OPEB liability is through continued steps to adjust the employee benefit structure.

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

Caledonia's leaders have taken and are continuing to consider steps to address their most pressing long-term budget challenges, such as developing strategies to reduce retiree health care liabilities and considering avenues that might reduce current health care costs. Nevertheless, these pose an ongoing fiscal challenge, as the village has a growing unfunded health care liability that stood at $5.3 million in 2018.

Meanwhile, debt service payments are taking a growing proportion of property tax levy each year and road repair and rehabilitation needs are growing. While debt service costs are not subject to state-imposed property tax levy limits, the need to increase the levy to service debt may have an impact on the willingness of elected officials to levy up to allowable amounts for operating purposes.

While Caledonia enjoys a stable fiscal position today, the confluence of its fringe benefits, capital, and debt service pressures – combined with the village's desire to enhance public safety service levels – does create concerns for the future. The village's limited revenue growth may mean that a greater proportion of its budget will be consumed by its long-term obligations. In turn, this could jeopardize existing service capacity and preclude investment to meet new service demands or promote economic development.

Retiree Health Care

Caledonia's unfunded liability for retiree health care costs has grown at a faster rate than its revenue in recent years. While the village eliminated retiree health benefits for new general employees in 2012 and new police hires in 2018, the liability is likely to continue to grow for several years in light of the number of retirees and active employees who are still eligible to receive it.

The village's most recent actuarial report cited a $5.3 million total OPEB liability at the end of 2018.[15] As shown in **ICMA Fiscal Indicator 8**, that is an increase of almost $1 million (22%) from 2013. On a per capita basis, that current OPEB liability equates to $210 for every village resident. While a far cry from the per capita OPEB liabilities facing large cities like Racine (approximately $5,000) and Milwaukee (approximately $2,250), this liability still poses a challenge given the village's revenue constraints. For additional context, Mount Pleasant's net OPEB liability was $526,000 ($19 per capita) and the City of De Pere's liability was $375,000 ($15 per capita) in 2018.

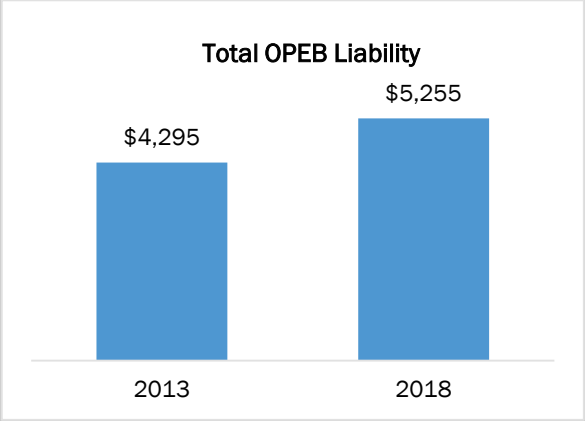
The most recent OPEB actuarial valuation did not contain an unfunded liability projection for future years. However, it did project expected annual benefit payments to retirees would grow from approximately $128,000 in 2017 to nearly $346,000 by 2025.

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 Caledonia Finding – The total unfunded OPEB liability grew by $1 million (22%) from 2013-18 and this growth is a concern that **requires monitoring**. However, the village's recent moves to eliminate retirement health care benefits for most new employees are a **positive indicator** of fiscal health and its annual retiree health care payments are relatively low.



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

The liability and general growth in health care costs have been an area of concern for some time. In response, a series of employee benefit changes have been adopted over the past decade, including plan redesigns and the cessation of retiree health insurance for employees hired after certain dates. Looking forward, the village has limited options that would further reduce OPEB payments in the near term, though the long-term picture will fare better as new employees without retirement health care benefits begins to comprise a larger percentage of the village's active and retired employees.

[15] The unfunded liability calculation is based on a series of estimates and assumptions regarding factors such as future mortality rates, employee turnover, medical claims, and the rate of medical inflation.

Long-term borrowing

Caledonia issues debt for multiple purposes, including the purchase of vehicles and equipment; repairing or replacing major assets like buildings, streets, and bridges; addressing the capital costs of its business enterprises (e.g. water and sewer); supporting capital improvement costs incurred by tax incremental districts (TIDs); and short-term borrowing to address cash flow fluctuations. The most common type of debt for government activities is General Obligation (G.O.) bonds. The bonds are secured by the government's pledge to use its taxing power to repay bond holders. These differ from "revenue bonds" – which the village also issues for its enterprise fund departments -- in that they are not secured with a specific form of revenue such as user fees.[16]

At the end of 2018, the village had total outstanding general government debt of $54.3 million. This was a $35.4 million increase, or nearly three times the $18.9 million of debt held in 2013.[17]

Changes to the amount of G.O. debt the village possesses from year to year result both from the amount of debt retired in that year and the amount of new debt it issues. As mentioned earlier, a couple of significant capital building projects (including a new village hall) played a part in the vast increase in debt, though the lion's share of the growth was attributed to debt issued in conjunction with the creation of TID #4, located in the western part of the village adjacent to I-94 and just north of the Mount Pleasant border.

As of the end of 2018, $32.6 million of debt had been issued for the TID and, as noted above, property tax levy payments to support that debt grew to $1 million in the 2020 budget. This represents a somewhat unusual arrangement, as typically the debt associated with a TID is serviced entirely with new property taxes created by the increased value of property within the district. In this case, Caledonia officials recognized that such "increment" would not be sufficient to pay off the debt and incorporated an expectation of general tax levy support into the TID plan. Village officials hope that the growth in tax levy support will plateau at about $1.2 million within the next few years, but it could rise higher (to perhaps $1.5 million) if the pace of development does not occur as originally projected.

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."

With an additional $34.5 million in debt accrued from 2013-2018 and a 33% ($433,000) increase in annual property tax levy-supported debt service payments, Caledonia's debt is beginning to threaten operating budget needs, although it is likely too early to deem this an "excessive burden." From 2013-2018, 19% of the village's spending growth was attributed to debt service. Moreover,

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[16] General government debt is debt issued for general government purposes that is backed by General Obligation (G.O.) bonds.

[17] This analysis excludes G.O. bonding for sewer and water utilities. The village switched from G.O bonds to revenue bonds in support of utility capital projects beginning in 2012; consequently, G.O. bond debt payments for these functions has been decreasing since that time and will be retired in 2033. The 2018 outstanding G.O. bond amount for business type activities was $7.9 million. The village is considering refinancing portions of utility G.O. debt with revenue bonds sooner than the scheduled retirement date.

where in 2013, 88.4% of property-tax dependent spending occurred in the General Fund, that number dropped to 86.8% in 2018. At the same time, debt service moved from 9.1% of the property-tax dependent spending to 10.5% by 2018.

Fortunately, General Fund revenue growth from non-property tax sources was sufficient to allow the village to absorb costs-to-continue and add FTEs during this period. Further, the village's AA2 credit rating from Moody's remained stable. Nevertheless, village officials indicate they have not been able to achieve service improvements to the extent they would like in areas such as public safety. Also, the village anticipates continued increases in the property tax allocation to TID #4 for at least a few more years, which suggests that the impact of growing debt service payments will intensify.

A common measure of long-term debt is its relationship to equalized property value. Under State statutes, Caledonia's general purpose debt cannot exceed 5% of its equalized value. At 2.5% in 2018, the village's total G.O. debt for government activities was well within the state limit, as shown in **ICMA Indicator 9**.[18] However, the growth in that metric during the 2013-2018 period (from 1.0% to 2.5%) should be cautionary.

Another useful metric for assessing debt levels is debt service as a percentage of "own source" or local revenues. In **Table 11**, we compare Caledonia's 2017 budgeted property tax levy payment as a percentage of its overall levy with five similar-sized Wisconsin cities. At 12%, Caledonia spends the least amount of property tax levy on debt.

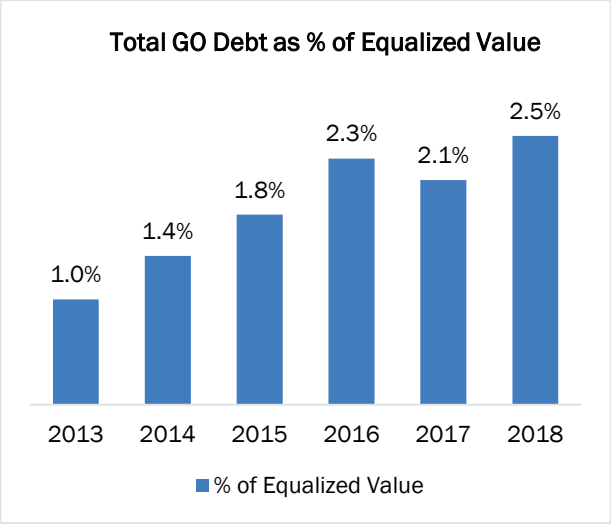
ICMA Fiscal Indicator 9 – Long-term Debt

Why it is Important – General Obligation (G.O.) debt is bonded debt for which the local government has pledged its 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 Caledonia Finding – The village's ability to grow its debt from 1.0% of equalized value to 2.5% without negatively impacting service levels is evidence of its sound fiscal health as it headed into the time frame covered by this study. Also, while the debt load has grown substantially, it still falls well within the range deemed acceptable by ICMA. Nevertheless, the growth in debt should be viewed with caution and **requires monitoring** given the pressure it places on the village's property tax and the possibility that it could impact local resources available to meet operating needs.



Source: Village of Caledonia financial documents and Wisconsin Dept. of Revenue

[18] If the G.O. debt incurred for sewer and water utilities is included, then the total G.O. debt was 2.9% of equalized value.

Table 11: Debt service levy as a percentage of overall levy, Caledonia vs. comparable cities, 2017.

	2017 Property Tax Levy	Levy for Debt Service	Debt Service as % of Levy
Caledonia	$13,595	$1,577,458	12%
Mount Pleasant	$18,448	$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%

Sources: Wisconsin Department of Revenue CMRE (2017) and municipal budget documents

The village clearly has an acceptable debt load when considered in this context and measured against the state's debt limit. However, it is important to keep in mind that a local government's appropriate level of debt is linked to its specific fiscal circumstances. For example, governments that enjoy healthy annual revenue growth and that do not face substantial long-term capital improvement needs may be able to shoulder higher levels of debt (and higher annual debt service payments) than governments that do not possess such advantages. In light of Caledonia's growing capital budget challenges (as discussed below) and restrictions on its revenue growth, striking the right balance between an acceptable level of debt and an appropriate level of capital financing will continue to be a challenge for village leaders.

Maintenance of capital assets

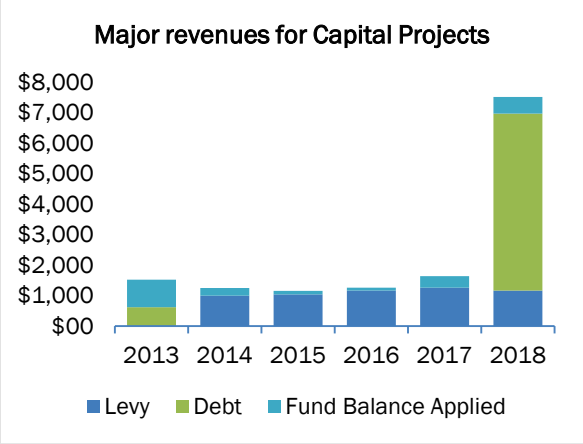
According to the Government Finance Officers Association, "the performance of capital assets is essential to the health, safety, economic development, and quality of life of those receiving services."[19] Appropriately maintaining these assets requires a continuous long-term commitment. Yet, as ICMA has observed, many governments have used underfunding of capital assets as "a relatively painless way to temporarily reduce expenditures and ease financial strain."

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 Caledonia Finding – Capital expenditures maintained relatively steady levels from 2013-17 and increased significantly in 2018. This is a **positive indicator** that suggests capital needs are being satisfactorily addressed by ICMA standards, though village officials indicate a backlog is emerging, which also suggests the situation **requires monitoring**. Capital funding is generally provided through property levy and fund balance revenue, though 2013 and 2018 included G.O. bonding.



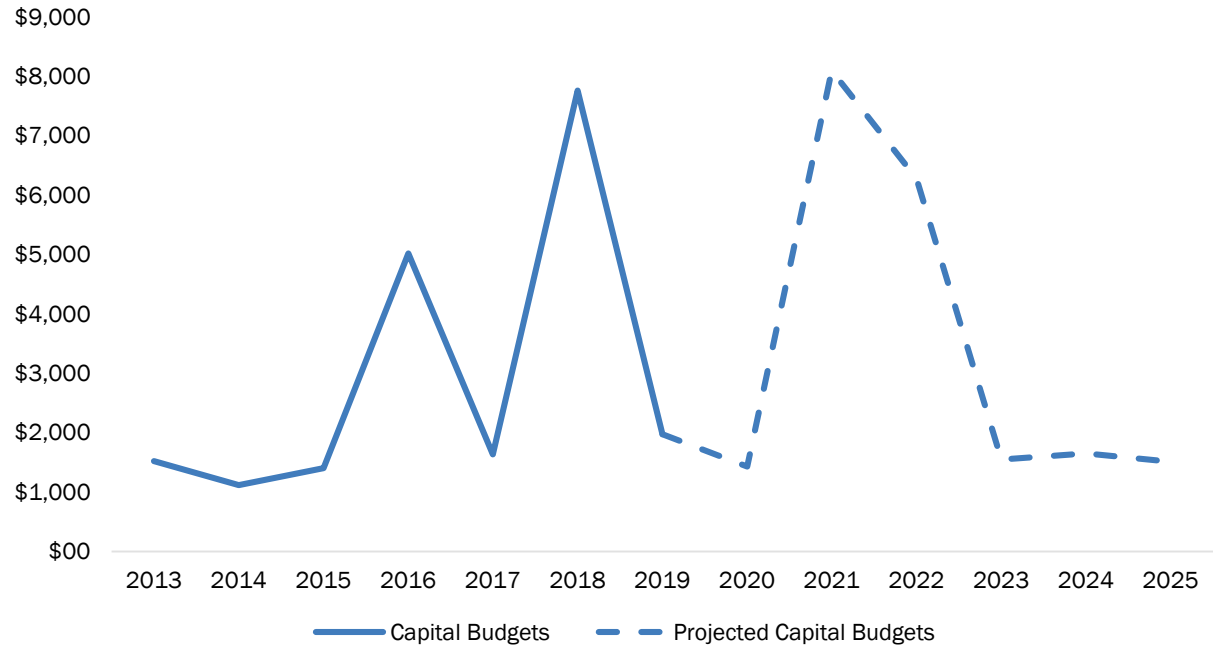
Source: Caledonia Department of Public Works

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

As a proxy for assessing Caledonia's commitment to ongoing investment in local infrastructure assets, we examined local tax levy and borrowing support for capital assets during the 2013-2018 timeframe. As shown in **ICMA Indicator 10**, annual local support ranged from $1 million to $1.6 million in each year before rising sharply in 2018. During most of those years, a sufficient fund balance from the sale of fixed assets kept in a separate capital account was available to supplement the budget and no debt was required. More recently, the $7.8 million in the 2018 capital budget was supported by $5.8 million in G.O. bond financing ($3.3 million debt financing for a highway building renovation project and another $2.5 million for other building improvements). Similarly, the village hall project was supported by $3.5 million in G.O. bonds issued in 2016.

As shown in **Chart 6,** the jump to $7.8 million in the 2018 budget was followed by two years of appropriations in the more familiar $1 million to $2 million range. However, village officials indicate that increased capital spending will be required in future years to address growing infrastructure needs. Looking forward, the 6-year capital infrastructure plan indicates an overall increase in capital spending from 2020-2025, with the capital budget averaging $3.4 million in those years.[20]

Chart 6: Village of Caledonia past and projected capital budgets, 2013-2025 (in millions)



Two significant contributors to the projections are a $5 million police station cited for 2021 and a $4.5 million fire station cited for 2022, which stem in part from anticipated regional population growth and development along the I-94 corridor. While both projects are listed in the long-range capital plan, however, their actual construction in the near term are far from certain and will be influenced by actual growth in development and population. Nevertheless, the impact to the property tax levy if the projects occur could be significant. The combined CIP projects would require an annual average of $1.8 million in property tax levy revenue in addition to any new levy-supported borrowing (which is the primary financing mechanism for the proposed fire and police stations). This is roughly

[20] Capital Infrastructure Plans are created and maintained by the Department of Public Works. They are used to publicly identify anticipated capital projects such as road maintenance or reconstruction and major facility projects.

double the $937,000 annual average in levy that financed capital projects from 2013-18.

Our sense from village officials is that, despite growing repair and replacement needs, the condition of the village's buildings, roads, and other assets is relatively sound. Still, there are long-term financial ramifications at stake if growing capital challenges are not met.

Long-term budget prospects

The retiree health care, long-term debt, and capital asset challenges outlined in this section suggest that Caledonia's long-term budget picture could be stressful. While each of these individual challenges is manageable, their combination portends the possibility of difficult budget decisions going forward.

Caledonia enjoyed relative fiscal comfort during the 2013-18 period, as evidenced by its growth in positions and limited property tax levy increases. While actual 2019 spending and revenue figures are not yet available, more recent budgets in 2019 and 2020 suggest that some of the concerning factors noted in our analysis are beginning to emerge. Overall, budgeted levy grew by $329,000 (2.4%) from 2018 to 2019, and $948,500 (6.7%) from 2019-2020. Most of the 2019-20 levy growth was budgeted for the general fund ($495,000 - 5% increase) and debt service ($408,000 - 20% increase). Levy in support of capital spending grew by $41,000, or 3%.

The increase in the general fund budget was largely attributed to increased spending in administration ($124,00, 49%),[21] elections ($60,000, 159%), the police department ($99,000, 3%), and the professional services budget ($184,000, 18%).[22] Meanwhile, increased levy budgeted for debt service included the planned $250,000 increase in levy to support debt incurred by TID #4 as well as a $158,300 increase to support other G.O. debt. Health care rates remained in the $2.5 million range in 2019 and 2020, though they are expected to increase in 2021.

Overall, Caledonia leaders will need to continue to grapple with how to address growing infrastructure and public safety needs within both state-imposed and self-imposed restraints on the growth of its property tax levy. A lot will hinge on new development; if it occurs as expected, then officials will have both increased capacity under state caps to raise the levy and it will be easier for them to justify doing so since rates would be held down for existing property owners. Of course, economic growth may come with increased service demands, which means the balancing act is likely to remain difficult.

Summary

Our analysis of Caledonia's long-term budget solvency offers a mixed picture. Regional growth will likely draw in new revenue and the village has shown foresight in planning for fiscal challenges. For instance, the levy support for TID #4 debt payments – while diverting revenue that could have been used to support operating or road repair costs – was planned and may yield benefits over the long term as development within the TID occurs. In addition, the village engages in a comprehensive capital planning process and hopes to maintain its debt at current levels. Steps have been taken to

[21] A Community Development Director position was added to the Administration department.
[22] Much of the growth in professional services costs is attributed to a $47,000 increase in software storage/renewal and a $128,000 increase in property and liability insurance.

address health care increases through changes in benefit plans and village leaders continue to explore options that might mitigate this growing challenge.

Yet, even with these efforts, the village's long-term outlook is clouded by some concerns. Retiree health care liabilities, capital asset maintenance, and debt pressures are growing simultaneously – as is the village's desire to enhance public safety service levels. These have converged against a backdrop of strict state limitations on property tax levy growth. Indeed, it is not implausible that village government that could see its future revenue growth consumed by these obligations, which may necessitate reductions in the workforce or service levels and forgoing new investment. Fortunately, because its growing debt service is a fairly recent part of the equation – and because of revenue possibilities linked to regional growth - the village has time to plan and adjust.

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

Caledonia maintains strong liquidity levels and a healthy year-end general fund balance, which grew substantially (by $1 million, or 45%) from 2013-18. These factors convey strong short-term fiscal health that includes a revenue flow sufficient to meet immediate and short-term obligations and sufficient fund balance to maintain cash solvency and meet unanticipated emergencies.

Analysis

We consider the Village of Caledonia's cash solvency by examining its cash liquidity and General Fund balance. As shown in **ICMA Indicator 11**, a liquidity score above a 1 to 1 ratio of cash/short-term investments to liabilities is undesirable.[23] Three or more years of a ratio of greater than 1 to 1 is a warning sign regarding cash solvency.

Caledonia had liquidity ratios well within ICMA standards for each of the years in the time frame studied with the exception of 2013, when it was just outside the ideal 1 to 1 ratio. Overall, the ratio ranged between 0.2 to 1 and 0.4 to one during 2014-2017. In 2018, the ratio saw an increase (at 0.8 to 1) that bears watching. The increase was caused by the simultaneous arrival of higher liabilities for TID #4 (which now stand at $2.9 million), liabilities for capital costs related to the new Highway Garage Building (now at $2 million), and an increase in reported general fund liabilities (now at $4.9 million). Overall, general government liabilities grew 110% from 2013-18, while cash and investments grew 208%.

The village also is maintaining a healthy General Fund balance. Village leaders adopted an ambitious policy goal in 2017 that strives to maintain an unassigned year-end fund balance that is above 30% of current year General Fund expenditures. The goal was met in 2017 and barely missed in 2018, at

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

29%. Prior to the adoption of the policy, the unassigned General Fund bal

ance ranged from 20% in 2014 to a peak of 35% in 2016, as shown in **ICMA Indicator 12**. The $4.2 million year-end unassigned fund balance in 2018 is an increase of about $1.3 million (45%) over 2013.

Healthy liquidity over time paired with a generally increasing year-end general fund balance paints a positive picture of Caledonia's cash solvency. The village has revenue sufficient to meet immediate and short-term obligations as well the cash flow necessary to 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 Caledonia Finding – The village's liquidity ratio is within the ICMA standard, though the 2018 ratio marks a fairly significant shift over the prior year. Generally, cash and investments have increased at a faster rate than liabilities. This is a **positive indicator** of fiscal health.

Year	Ratio
2013	1.1 to 1
2014	0.2 to 1
2015	0.3 to 1
2016	0.3 to 2
2017	0.4 to 1
2018	0.8 to 1

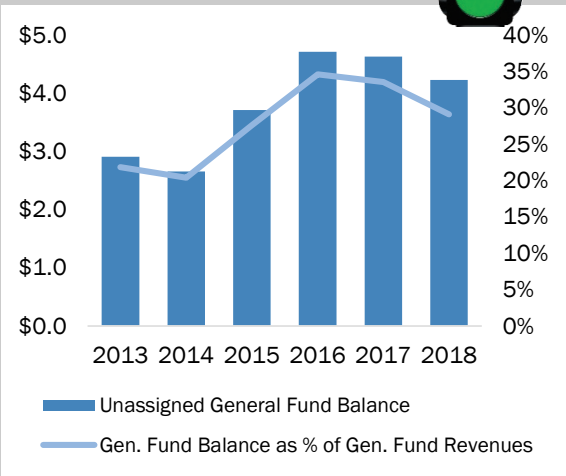
Source: Village of Caledonia CAFRs, Governmental Funds balance sheets

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 Caledonia Finding – Overall, the village has experienced a growing unassigned General Fund balance over the past six years, 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 slight decline in recent years may require monitoring if the trend continues.



Source: Village of Caledonia CAFRs

CONCLUSION

This fiscal analysis of the Village of Caledonia used the Fiscal Trend Monitoring System developed by the International City/County Management Association. Our study covered the 2013-2018 time frame to reflect the most recent years for which actual expenditure and revenue data were available, but it was also informed by more recent developments in the 2019 and 2020 adopted budgets.

Overall, we find that Caledonia's fiscal outlook is stable and its near-term challenges are quite manageable. Nevertheless, village leaders should be prepared for some turbulence as they seek to capitalize on their economic development opportunities within the confines of state-imposed revenue constraints, which are likely to hamper their efforts to invest in the infrastructure and public safety enhancements that may be required to encourage such development.

Our analysis also reveals a series of emerging challenges for the village, which include a rising but still controllable OPEB liability, growing capital needs, and increasing debt service payments. Helping to balance those challenges, however, are excellent liquidity and fund balance levels and the potential for increased tax base through regional growth.

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 Caledonia are as follows:

- **Cash solvency** is an area of strength for Caledonia, as the village maintains a healthy and growing General Fund balance and enjoys strong liquidity. In other words, the government is financially secure and at little risk of short-term crisis.

- **Budget solvency** was another area of fiscal strength for the village during the time period studied, though there may be challenges ahead. Revenues for property-tax dependent functions grew 11.2% from 2013 to 2018, which supported creation of new positions and increased economic development investment. However, much of that revenue growth was derived from smaller sources like fees and service charges while the village's predominant source of revenue – the property tax – lagged inflation. If that trend continues, then it may be difficult for the village to sustain its larger workforce and address its infrastructure needs.

- The village's **long-term solvency** prospects are quite stable but its fiscal challenges may intensify. Caledonia faces growing retiree health care and debt service costs, which will fiercely compete with its desire to increase public safety service levels. Yet, the long-term outlook is not entirely cloudy. For instance, levy support for TID #4 may yield benefits over the long term as development occurs. Also, village leaders have taken steps to mitigate health care increases through benefit plan changes, and while there is a desire to do more work on the capital side, the village's infrastructure is largely in sound condition.

- **Service solvency** increased over the study's time frame across nearly all levels of general government activities as the village grew its workforce by 10.7 FTEs. More recently, the fire department increased its staffing levels by six FTEs upon receipt of a federal SAFER grant. Looking forward, the question is whether these desired staffing and service levels can be maintained and enhanced as new development creates new service demands.

While it is clear that Caledonia's financial challenges are not severe, they still justify prudent planning and long-term decision-making. This is particularly important because many of the factors influencing the village's financial fortunes are largely beyond its control.

Healthy revenue growth is dependent on upward momentum in property tax levy (which in turn is dependent on new development). On the expenditure side, debt service payments cannot be lowered in the near future without increased development in TID #4, while retiree health care costs will continue to grow for some time despite the recent elimination of that benefit for most new employees. These factors suggest the need for continued willingness to explore service sharing opportunities and other potential cost-saving collaboration with neighboring municipalities, and to be open-minded to new revenue opportunities should they emerge.

This analysis is the second 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 will be followed by a similar analysis of the Village of Mount Pleasant to be released later in 2020. 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.