APPROACHES TO SOLUTIONS OF MUNICIPAL FISCAL DISTRESS: A DESCRIPTIVE CASE OF MATTESON, ILLINOIS

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The aim of this case study is to provide a detailed picture of causes and consequences of fiscal emergencies and to examine different approaches the Village of Matteson, Illinois, used to improve its financial position between 2009 and 2024. Specifically, we focus on the following research questions: (1) What are the main causes of fiscal stress? (2) How did Matteson address its fiscal challenges? and, (3) What recommendation for improvement of fiscal health conditions in Matteson could extrapolate to other local governments? This case study analysis supports a Theory of Municipal Fiscal Emergency and Bankruptcy by Guzman and Ermasova (2023). We found that Matteson went through three stages of exit from its fiscal stress situation suggested by Guzman and Ermasova (2023): Haphazard, Emergency, and Innovative Responses. Matteson tackled its fiscal problems by "stretching the budget," creating a business district tax and municipal hotel tax, establishing new fines, installing traffic-light cameras on heavy traffic roads, collecting higher service charges and permit fees, improving budgeting practices, achieving Home Rule status, and providing financial incentives to businesses to support economic development.

INTRODUCTION

Public finance scholars have been expressing a growing interest in fiscal health of state and local governments and potential ways to prevent fiscal insolvency (Bowling et al. 2020; Ermasova & Guzman, 2024; Guzman & Ermasova, 2023). In this paper we study a municipality in Illinois, the Village of Matteson, that experienced certain fiscal challenges following the great recession of 2008-2009 but has substantively improved its financial situation since. The Village of Matteson, one of Chicago's suburbs, had a budget deficit of $5,411,630 in 2013 (Village of Matteson, 2014). In comparison, its positive General Fund balance was $21.4 million by the end of fiscal year 2023 (Village of Matteson, 2023).

The intent of this work is to learn about a fiscally strained municipality and its path to a fiscal recovery to advise other struggling local governments in the state. We address the following three research questions in this work:

(1) What are the main causes of fiscal stress? (2) How did Matteson address its fiscal challenges? and, (3) What recommendation for improvement of fiscal health conditions in Matteson could extrapolate to other local governments based on this in-depth case study analysis?

This study offers a framework for addressing municipal fiscal emergencies at different stages of the problem. We provide practical recommendations on how to exit the fiscal distress situation with minimal losses and negative consequences for municipalities. Given the number of fiscally strained municipalities in Illinois and the severity of fiscal despair in some of them, this work should be of particular interest to members of the Illinois General Assembly, mayors and village or town presidents, administrators and managers, and city council members and village or town trustees.

We add to the literature by conducting an in-depth case study analysis and hope that extensive in-depth analysis can provide a more detailed picture of causes and consequences of fiscal emergencies and generate more inclusive recommendations to exit fiscal stress situations. This paper fills the gap in public finance and budgeting literature by identifying common patterns that lead local governments to fiscal stress and by observing, synthesizing, and categorizing steps municipalities take to exit fiscal emergency and bankruptcy.

The paper is organized in the following way. We start by providing the history of the Village of Matteson and relevant background information. We then assess the village's fiscal health and discuss factors that led to its fiscal distress situation. The next section discusses approaches that Matteson used to improve its fiscal health. The final part of the paper provides recommendations, recognizes limitations of this study, and discusses future directions.

BACKGROUND

Matteson is located approximately 30 miles southwest of the City of Chicago in Cook County. The village currently has a land area of 9.3 square miles (Village of Matteson, 2022). Matteson is close to interstate highway I-57. The 1970s brought about a decade of incredible growth and development to the village. Matteson has been well-known for being the retail hub of the south suburbs. It became a regional retail center in 1973 when the Lincoln Mall opened. The Lincoln Mall and the Matteson Auto Mall, the largest group of car dealerships in Illinois, are both located in the village. Matteson was one of the most thriving

TABLE 1

DEMOGRAPHIC, ECONOMIC, AND SOCIAL SITUATIONS IN MATTESON, IL IN 2019 AND 2023

POPULATION	2019	2023
Population estimates	19,448	18,439*
Population, Census, April 1, 2010	19,009	
Race and Hispanic Origin		
White	14.6%	11.9%
Black or African American	80.9%	80.4%
Asian	1.5%	3.1%
Hispanic or Latino	2.3%	1.7%
Housing		
Owner-occupied housing unit rate	80.8%	76.2%
Median value of owner-occupied housing units	$165,100	$226,000
Median gross rent, 2015-2019	$1,227	$1,420
Education		
High school graduate or higher, percent of persons age 25+, 2015-2019	94.2%	94.2%
Bachelor's degree or higher, percent of persons age 25+, 2015-2019	36.2%	40.5%
Income & Poverty		
Median household income	$83,729	$88,591
Per capita income	$36,497	42,795
Persons in poverty	10.5%	10.9%

**Population estimates, July 1, 2022*
Source: U.S. Census Bureau (2024)

communities in the south suburbs in the 1990s. Table 1 provides demographic and economic background information about the village.

Matteson was a non-home rule municipality until June 2022.[1] Currently, the village operates under a mayor/village president-council format in which the mayor/village president presides over a six-member board of trustees (Village of Matteson, 2023).

THE FISCAL DISTRESS SITUATION

One of the major sources of Matteson's revenue was Lincoln Mall, a 700,000-square-foot shopping center with capacity for four anchor stores and 100 smaller shops. Lincoln Mall opened in 1973 housing such major anchors as Carson Pirie Scott & Co., Montgomery Ward, Wieboldt's, and JCPenney. In the 1990s, Sears moved in to the former Wieboldt's space. Walmart, Sam's Club, and Best Buy opened stores across the street. The 2000s, however, were much less successful for Lincoln Mall: Montgomery Ward and JCPenney closed its Lincoln Mall locations. During the Great Recession, many smaller stores closed in Lincoln Mall. Sears' closed its Lincoln Mall location on May 11, 2012.

Kohan Retail Investment Group bought Lincoln Mall at a tax auction in summer of 2012 for $150,000 and assumed $9 million in accumulated fines and unpaid taxes. A court-ordered receiver, Collateral Trustee, was appointed in August 2013 to collect unpaid taxes and fees, of which only a total of $150,000 was paid since 2013 (Elejalde-Ruiz, 2015). In August 2013, representatives of Matteson sued the mall and ordered it to be closed due to building code violations and safety concerns. Cook County Judge Thomas Condon ordered that Lincoln Mall be closed perpetually on January 7, 2015. By then Lincoln Mall owed more than $10 million in unpaid fines and taxes that the Village of Matteson lost.

Such substantial revenue loss from a major employer and taxpayer was the primary contributor to the fiscal decline of the small Village of Matteson. On April 30, 2013, the village reported $28,805,396 in expenditures and $23,393,766 in revenues, resulting in $5,411,630 budget deficit (Village of Matteson, 2013, p.5-8). The main expenditures were for public safety services ($11,791,679) and general operations ($3,922,725).

LITERATURE REVIEW

Brown (1993), Gorina et al.(2018), Maher et al. (2020), McDonald (2019), Stone et al. (2015), and others have discussed numerous approaches to assess fiscal health and fiscal stress. Fiscal health literature usually focuses on the measurements of municipal fiscal health (Brown, 1993; Ermasova & Guzman, 2023; Levine et al., 2013; Maher et al., 2020; McDonald, 2019).

Municipalities are considered fiscally healthy when they meet their ongoing financial and service obligations (McDonald, 2019, Ladd et al., 1991). Fiscally stressed municipalities are unable to service their debt obligations, pay bills, or provide a required quality of public services.

To address fiscal stress, municipalities resort to expenditure cuts among other strategies (Levine et al., 1981, 2013; Rubin & Willoughby, 2009; Van der Voet, 2019). Van der Voet (2019) found that proportional cuts are probable if a decline is perceived temporary (say, temporary reduction in tax revenue) and targeted cuts are more likely with permanent declines.

Several researchers studied not simply government responses to fiscal emergency, but if such responses followed any specific pattern. Levine (1978), Levine et al. (1981) and Wolman (1980) argued that there is a pattern and developed stages of exit from fiscal emergency. Justice and Yang (2018), on the other hand, argue that generally there has not been "the precise sequence of strategies" (p.117). Based on in-depth case study analysis, Guzman and Ermasova (2023) also found a pattern in government responses to fiscal stress and suggested a *Theory of Municipal Fiscal Emergency and Bankruptcy* that includes three stages called Haphazard Responses, Emergency Responses, and Innovative Responses.

ANALYTICAL APPROACH

We chose a case study approach to analyze fiscal health of the Village of Matteson. We used pattern matching in our qualitative in-depth analysis of the case. If the pattern coincides with the predicted theory, the results strengthen the internal validity (Yin, 1994, cited by Srithongrung, 2010, p.411). Pettigrew (2001), Sinkovics (2018), Yin (1994) argue that pattern matching can be tremendously helpful in case study analysis.

The Matteson case study tests propositions proposed by a *Theory of Municipal Fiscal Emergency and Bankruptcy* by Guzman and Ermasova (2023) and offer recommendations to fiscally struggling municipalities in Illinois on how to exit fiscal stress quickly and efficiently.

The data used in the analysis comes from the budget documents, Annual Comprehensive Financial Reports (ACFR), Moody's and Standard & Poor Credit Rating Reports, news outlets, and other sources. We chose the case study approach for the analysis to be able to understand and explain more in-depth what was happening in Matteson and to provide relevant recommendations to the mayors and city council members of other fiscally strained municipalities in Illinois.

CASE ANALYSIS

Guzman and Ermasova (2023) in their *Theory of Municipal Fiscal Emergency and Bankruptcy* discuss common causes of fiscal declines among municipalities and a path that local governments follow to exit fiscal emergencies. The authors recognize the three stages in responses to fiscal stress situations, the first stage - “Haphazard Responses”; the second stage - “Emergency Responses”; and the third stage - “Innovative Responses” (Guzman & Ermasova, 2023). While the trajectory of phases is the same, the actions within every stage are quite unique following the preexisting conditions, availability of resources, and the vision of every local government unit.

HAPHAZARD STRATEGY

The first substantive changes in administrative and budgeting practices in struggling municipalities can be seen even prior to bankruptcy or fiscal emergency. As fiscal wellbeing deteriorates, municipalities attempt to take certain measures to save the situation (Guzman & Ermasova, 2023). In this stage municipalities try, often unsuccessfully, to raise new revenues and employ cost-saving strategies: when these do not work, they issue short-term debt to balance their operating budgets.

At the first signs of decline, Matteson too used the cutback management techniques. In the effort to decrease expenditures, the village reduced some of its core public functions. Twenty-six employees were laid off in 2009. The spending on infrastructure projects was essentially eliminated. In all other areas Matteson attempted to “stretch the budget” to get through the fiscal year.

As it is often the case in the Haphazard Stage, many additional cost cutting attempts were much less successful. Matteson had the proposal to cut 13 police officers (40% of the police force) and eight firefighters (30% of the fire department). After long discussions and meetings in the village hall with community members and employees, this proposal was canceled.

In the earlier years of fiscal decline, Matteson issued new debt to refinance old contractual obligations and to pay for current expenses: General Obligation Capital Appreciation Debt Certificates (Limited Tax), Series 2010; General

Obligation Bonds (Waterworks System Alternate Revenue Source), Series 2011A; and, General Obligation Refunding Bonds (Sales Tax Alternative Revenue Source), Series 2011B. In 2011, the village had $58.3 million of outstanding general obligation debt (Moody's, 2011) compared to $23.2 million in 2009 (Bond Buyer, 2010).

EMERGENCY STRATEGY

According to Guzman and Ermasova (2023), during the second Emergency Stage when localities experience the worst decline, municipalities resort to more extreme cost cutting tactics. Yet, they are also more successful at increasing taxes and non-tax revenues and initiating administrative and budget reforms.

In 2013, the village established District No.3, which incorporated Lincoln Mall and surrounding properties and started to generate new revenues via the District No.3 taxes; including occupation taxes, service occupation taxes, and hotel occupation taxes (Village of Matteson, IL Code, 2020). With these new taxes, revenues collected from District No.3 businesses increased from $533,560 in 2013 to $1,698,891 in 2014 (218% increase) (Village of Matteson, 2018b, p.5).

In 2015, Matteson additionally started to collect the 1% Tax on the Gross Receipts of Places for Eating (Eating Tax) and the 1% Tax of Gross Receipts for Prepared Food Sold at Retail (Matteson, IL Code, 2020, Ord. 4254, passed 3-2-2015). The village has "four business districts that were created to help fund the development and commercial improvement of certain designated areas, through an additional 1% sales tax levy" (Village of Matteson, 2020, p.iii). The additional sales taxes are deposited into separate funds, and this revenue is used to incentivize business attraction and expansion efforts in the village.

The Village of Matteson steadily increased its property tax rate from 0.819% in 2009 to 1.891% in 2016 (Table 2), although it remained lower than Cook County's average Effective Property Tax Rate of 2.09% (Cook County Clerk's Office, 2021).[2] The median property tax in Matteson, Illinois, is $3,681 per year for a home with the median value of $265,800. The composite property tax rate (the average rate that combines all taxing jurisdictions within each municipality, including residential and commercial properties) in Mattesson increased from 10.414% in 2009 to 18.731% in 2015 (Marx & Berlin, 2017).

TABLE 2

PROPERTY TAX RATES IN MATTESON FROM 2009 TO 2020

YEAR	PROPERTY TAX OF VILLAGE OF MATTESON, %	CHANGES FROM PREVIOUS YEAR, %	COMPOSITE PROPERTY TAX RATE OF VILLAGE OF MATTESON, %	CHANGES FROM PREVIOUS YEAR, %
2009	0.819	-	10.414	
2010	0.883	7.81	11.086	6.45
2011	1.121	26.9	13.692	23.5
2012	1.663	48.35	15.92	16.27
2013	1.516	-0.088	17.281	8.5
2014	1.659	9.43	18.139	4.96
2015	1.81	9.1	18.731	3.2
2016	1.891	4.48	18.092	-3.41
2017	1.938	2.4	17.31	-4.3
2018	2.183	12.64	18.231	5.22
2019	2.242	2.7	18.345	0.06
2020	1.87	-16.59	16.059	-12.46

Source: Created by the authors based on Property Tax Reports of Cook County from 2009 to 2020 (Cook County Clerk's Office, 2021).

As shown in Table 3, in the beginning of 2013, the total expenditures exceeded total revenues by $3,872,510. In 2017, the total revenues were greater than total expenditures by $3,125,332. The village's major revenue sources are sales and property taxes. Both sources, when combined, contribute two-thirds of the total revenue. Sales taxes held steady across 2013 to 2017, slightly dropping in 2017. Property taxes increased significantly from $4.32 million in 2013 to $6.05 million in 2017. The main expenditures are public safety, which increased from $11.7 million in 2013 (53% of total expenditures) to $13.39 million (59.7% of total expenditures) in 2017.

TABLE 3

REVENUES AND EXPENDITURES IN MATTESON, IL FROM 2013 TO 2017
(IN CURRENT DOLLARS)

	2013	2014	2015	2016	2017
REVENUES					
Sales taxes	$ 4,914,671	$ 4,997,379	$ 4,995,673	$ 4,990,652	$ 4,670,448
Property taxes	4,322,459	5,685,385	5,360,659	5,964,464	6,055,770
Other taxes	4,327,721	4,070,339	4,277,131	4,691,274	4,625,736
Charges for services	2,256,859	2,491,234	2,599,275	2,627,245	2,967,534
Intergovernmental	191,984	219,654	111,230	290,691	341,432
Recreation Programs	1,311,428	1,213,695	1,131,969	1,173,913	1,160,725
Interest	10,839	1,992	834	6,924	3,815
Fines, forfeitures and penalties	395,786	431,371	715,412	614,508	3,340,896
Miscellaneous	138,535	179,734	1,400,743	1,173,739	1,251,896
Total revenues	18,249,321	20,093,126	21,544,069	22,283,732	25,551,812
EXPENDITURES					
General Government	4,229,472	3,885,580	4,095,451	3,993,597	3,729,377
Public safety	11,729,563	12,141,204	12,244,665	12,699,735	13,398,243
Public works	1,478,214	937,212	779,785	691,021	707,945
Parks and Recreations	2,015,549	2,046,473	2,031,376	2,012,444	2,074,590
Capita	467,095	64,145	153,565	113,673	457,373
Total Expenditures	**$22,121,831**	**$21,052,993**	**$21,018,292**	**$21,186,689**	**$22,426,480**

Source: Created by the authors from the Village of Matteson, Illinois, CAFRs (Village of Matteson, 2013, 2014, 2015a, 2015b, 2016, 2017)

INNOVATIVE STRATEGY

At the final Innovative Stage, Matteson made its budget process more transparent, started to use more long-term planning, developed formal mechanisms to set aside funds for preserving existing facilities, and increased collaboration between departments. In 2019, the village submitted its first Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association of the United States and Canada (GFOA) for consideration under its prestigious Certificate of Achievement for Excellence in Financial Reporting program.[3]

The village set the following goals: (1) strengthening and diversifying the village's tax base; (2) increasing employment opportunities; (3) attracting new businesses while retaining current businesses; and, (4) promoting a positive business and community environment.

After demolition of Lincoln Mall, the Village of Mattesson purchased and repurposed the Lincoln Mall site for retail and entertainment uses.

The village's government created special programs to improve economic development and attract new businesses. As a result of these programs, Matteson experienced growth in retail businesses, tourism, and service sectors. The Economic Development Department implemented the following financial incentives for businesses in Matteson: (1) created three Tax Increment Financing (TIF) districts; (2) created four business districts; and, (3) introduced Cook County Property Tax incentives.

There are three TIF districts[4] in Matteson: Lincoln Highway/Cicero Avenue, TIF #5, and TIF #6. The first, the Lincoln Highway/Cicero Avenue TIF district is approximately 125 acres, surrounding and including portions of Lincoln Mall. The second, TIF #5, includes approximately 75 acres of property, including a portion of the development at the Matteson Auto Mall. The purpose of TIF #5 is to develop the automobile dealerships in one location. The third, TIF #6, includes 98 acres of property and consists of commercial and office uses in the redevelopment project area.

In addition to TIF districts, Matteson offered property tax incentives for: (1) Industrial Development (up to 50% reduction in manufacturing, warehouse or distribution of company's total property tax bill for 12 years); (2) Environmental Cleanup and Development (up to 50% reduction in property taxes for 12 years for commercial and industrial redevelopment of brownfields); and, (3) Industrial or Commercial Development (up to 50% reduction in property taxes for 12 years) (Village of Matteson, 2018a, 2018b, 2019, 2021a).

These financial incentives helped to attract new businesses, including Pete's Produce Market, Sam's Club Dot Com (e-commerce distribution center), as well as an Amazon fulfillment center, which contribute significantly to general fund revenues. In 2019, Matteson housed 1,558 businesses, including 1,135 minority-owned companies. Some other examples of the businesses located in the village include Valspar Paint (corporate office), Rogers & Holland Jewelers (corporate office), and the Greater Chicago Auto Auction (Village of Matteson, 2019, 2020a, 2020b, 2021a, 2021b, 2022).

Sam's Club Dot Com opened its doors in January 2019. Sam's Club has employed over 500 people and has announced impressive sales resulting in high sales tax revenues for the village. As for the Amazon fulfillment center, Village President Sheila Chalmers-Currin of Matteson said in her interview that, "Amazon's distribution center has been one of the greatest additions to our city. Matteson has begun receiving portions of a minimum of $2 million in tax revenue" (Chicago Defender, 2022). "Matteson is now on the forefront of creating a 21st century local economy," President Sheila Chalmers-Currin said, noting the village is already "home to a state-of-the-art Amazon fulfillment center that has created 1,000 full-time jobs" (Schuba, 2021). Matteson is attractive to businesses not only thanks to various economic incentives, but also because it has a geographically convenient location and high median household income.

On top of a much stronger tax base created by new businesses, Matteson has received a new stream of revenues coming from a Municipal Cannabis Retailers' Occupation Tax since October 21, 2019 (Matteson, IL Code, 2020, Ord. 4399, passed 10-21-2019). On August 17, 2021, elected officials and executives from Phoenix-based 4Front Venture joined to break ground on a massive cannabis cultivation center in Matteson (Schuba, 2021). This new cannabis cultivation company (the 550,000-square-foot greenhouse) is the largest indoor manufacturer of cannabis in the State of Illinois. Village President Sheila Chalmers-Currin described the cannabis facility as a "great addition" to her village that will have a remarkable economic impact on local communities and will offer a swift economic boost (Schuba, 2021).

In 2018, the village introduced a Municipal Hotel Tax (Matteson, IL Code, 2018, Ord. 4394, passed 8-20-2018), which it defined as "a tax of 6% on the gross rental receipts (not including taxes or other non-room rental charges added to the hotel or motel bill) for each such hotel or motel room rented for every 24-hour period" (Matteson, IL Code, 2020). In 2022, the Municipal Hotel Tax was increased to 7% (Village of Matteson, 2023).

The diversification of revenues helped to improve the financial situation in Matteson. The Village of Matteson was able to decrease its property tax rate from 2.242 in 2019 to 1.87% in 2020. The composite property tax rate in Matteson decreased from 18.345% in 2019 to 16.059% in 2020 (by 12.46%) (Table 2). Matteson froze its property tax levy for five years in 2022 (Village of Matteson, 2023).

In June 2022, the village achieved home rule status via referendum. The village made some changes to revenue structure, including replacing a 1% business district sales tax with a 1% home rule sales tax, and adjusting the hotel tax rate. The board of trustees passed Ordinance #4525, on August 15, 2022, to discontinue the 1% Tax of the Gross Receipts of Places for Eating (Eating Tax), effective from December 31, 2022.

According to the Village of Matteson (2023), the Finance Department is working to develop a five-year financial forecast for all village funds beginning from 2024. These forecasts will be used to help monitor the long-term financial outlook of the village, determine available funding for capital improvements, and assist in setting budget goals for department directors.

Standard & Poor's (2023) commented that Matteson "significantly improved budgetary flexibility during the past three audited fiscal years, with available general fund reserves improving to 22.2% of expenditures, or $6.1 million, from 0.1%, or $36,000" (p.3). Matteson implemented standard financial-management policies, procedures under Standard & Poor's Financial Management Assessment (FMA) methodology, with a strong Institutional Framework score (Standard & Poor's, 2023).

The village remains persistently proactive in achieving a structural balance of its funds. The administration and board of trustees promote conservative budgeting and fiscally responsible financial decisions to lay the foundation for a successful future. The village is focused on maintaining municipal services while growing fund balances, effectively managing debt, proper pension funding, and addressing capital needs.

The strong performance of the local economy and the recently obtained home rule status were the main catalysts for dramatic improvement of fiscal situation. The General Fund balance was $21.4 million at the end of

Fiscal Year (FY) 2023. Revenues and other financing sources exceeded expenditures and other financing uses by $15.2 million at the end of FY 2023 (Village of Matteson, 2023, p.5).

Table 4 provides expenditures and revenues in Matteson during the Innovative Response Stage.

TABLE 4

REVENUES AND EXPENDITURES IN MATTESON, IL FROM 2022 TO 2023 (IN CURRENT DOLLARS)

	2022	2023
REVENUES		
Charges for Services	$ 15,366,531	$ 16,515,020
Property Taxes	10,170,127	11,426,046
Other Taxes*	15,851,879	18,545,822
Grants and Contribution	2,755,540	2,968,987
Miscellaneous	1,614,114	2,524,990
Total Revenues	**45,758,191**	**51,980,865**
EXPENDITURES		
General Government	8,004,349	8,485,008
Public Safety	16,052,459	13,011,791
Public Works	3,182,784	2,616,450
Recreational Services	1,393,909	1,925,311
Community Development	1,573,988	1,751,767
Water and Sewer	8,957,726	8,912,689
Total Expenditures	**$ 41,783,332**	**$ 38,240,238**

**Sales taxes included in other taxes*
Source: Created by the authors based on ACFRs of the Village of Matteson, Illinois (Village of Matteson, 2022, 2023)

In FY 2023, the village's combined accounting balance in all governmental funds increased from $28.2 million to $36.4 million. The change was primarily related to the growth in general fund revenues resulting from higher tax and non-tax revenues and the transfer of accumulated fund balances from the hotel/motel tax fund and the business district funds to the General Fund. Governmental activities total revenue increased from FY 2022 by $5.3 million, or 13.8%, due to increase in property taxes by $1.3 million, charges for services by $1 million, and other tax revenues by $2.7 million. Property tax revenues increased due to the conversion of a large vacant parcel of land to a new Amazon facility. Charges for services increased thanks to higher collections from the ambulance service fees (Village of Matteson, 2023, p.8). The largest contributors to the increase in other taxes were state sales taxes that increased by $1.1 million, thanks to favorable economic conditions, and implementation of a new home rule sales tax which generated more than $1.4 million in the first year of being instituted.

FINDINGS

Figure 1 provides the summary of approaches that the Village of Matteson utilized in each one of the three stages discussed by Guzman and Ermasova (2023) (*Haphazard Responses, Emergency Responses,* and *Innovative Responses).*

FIGURE 1

SUMMARY OF APPROACHES TO ADDRESSING FISCAL DISTRESS IN MATTESON IN 2009-2024

Stages of restructuring and exit from fiscal distress in Village of Matteson	• Stage I. Haphazard Stage • Stage II. Emergency Stage • Stage III. Innovative Stage
Stage I Haphazard Stage (2009-2013)	• Budget cuts • Attempts to renegotiate debt and contractual obligations with creditors • Continuing reliance on “old” budgetary, financial, and administrative practices • New fees and penalties
Stage II Emergency Stage (2014-2019)	• Budget cuts • Cost-saving approaches • Increasing taxes and fees • Installing traffic-light cameras on heavy traffic roads • Collecting higher service charges and permit fees • Issuing new debt to refinance old contractual obligations
Stage III Innovative Stage (2019-present)	• Establishing new guiding budgeting principles • Emphasis on transparency • Improving capital budgeting • Administrative innovations • Economic development • Capital investments in public infrastructure • Establishing home rule status

Source: Created by authors

CREDIT RATINGS

On March 7, 2008, Moody's Investors Service assigned an A1 rating to the village's $10 million general obligation debt (Moody's, 2008). An A1 rating means that Matteson presented above-average creditworthiness relative to other domestic issuers (Moody's, 2020, 2022). In 2010, Moody's Investors Service downgraded Matteson's outstanding general obligation debt ($23.2 million) from A1 to Baa2 with negative outlook (Bond Buyer, 2010).[5] A Baa2 rating with a negative outlook indicates that the entity is subject to moderate credit risk and that its credit position could weaken.

The long- and short-term debt totaled $50,450,124 in 2013 (more than 200% of total revenues). The debt service included $3,121,901 principal and $900,131 in interest and fees. On December 17, 2013, Moody's Investors Service further downgraded the Village of Matteson's outstanding general obligation debt to B1 from Ba1.[6] Moody's downgraded the rating on the village's unpaid general obligation limited tax certificates to B3 from Ba2. The rating reflected the village's high debt profile, limited revenue-raising flexibility, and significant tax base declines. The interest on these bond issues increased from 3.75% to 5.50% that further raised debt service and the village's expenditures. On February 2, 2015, Moody's Investors Service withdrew the village's general obligation unlimited tax rating and general obligation limited tax rating due to "the lack of sufficient information needed to maintain the ratings. Village officials failed to provide necessary and pertinent information on finances and debt" (Moody's 2015, p.1).

The Village of Matteson received a credit rating of AA-/Stable from S&P Global Ratings in 2023. This impressive achievement reflects the village's solid financial position, prudent fiscal management, and the potential for sustainable growth (Village of Matteson, 2023). This rating enhances investor confidence and opens opportunities for future economic development.

CONCLUSIONS

This case study examined the financial and economic conditions surrounding the Village of Matteson before, during, and after fiscal distress. To address its fiscal challenges, Matteson used a variety of revenue generating, cost cutting, and innovative administrative/budgeting approaches. The village "stretched the budget" to get through the fiscal year, introduced a business district tax, established new fines, forfeitures, and penalties, installed traffic-light cameras in busy intersections, increased service charges and fees, implemented more efficient billing practices, offered property tax incentives, created three TIF districts and four business districts to attract new businesses, improved budgeting practices, and established new policies. In June 2022, the village achieved home rule status via a voter referendum.

Between 2009 and 2014, Matteson was going through the Haphazard Stage when it cut expenditures, issued new debt to refinance old contractual obligations, and postponed capital investments. This strategy, however, can only be short-term during fiscal stress "because municipalities need to get back to a basic level of delivering public services, particularly related to safety, social insurance, and economic development (Guzman and Ermasova, 2023).

From 2015 through 2017, during the Emergency Stage, Matteson implemented new taxes, installed red-light cameras, increased permit fees and penalties, and initiated positive budgeting tactics. According to Guzman and Ermasova (2022), "the constructive steps to recovery start at this stage."

At the end of 2017, Matteson resorted to more innovative approaches, including incentives for economic development. During the third stage of financial recovery, Matteson substantively improved transparency of its budgeting process, started to use more long-term planning, and enhanced financial management policies. Multiple economic development incentives have been employed by Matteson on their recovery paths. Matteson used tax and non-tax incentives to attract new businesses to diversify and expand its tax base. As a result, Sam's Club Dot Com and an Amazon fulfillment center opened business in the Village of Matteson.

The Village of Matteson is an example of how important it is to make sound fiscal decisions and take quick and timely actions to improve the situation in the very beginning of fiscal distress. Understanding how fiscal emergencies unfold and what decisions need to be made may prove to be helpful for other municipalities that find themselves in similar conditions. It is imperative that localities diversify their tax base and tax structure and over time adapt to changing economic and demographic conditions. This case study demonstrates that economic development incentives can be one of the tools that contribute to revenue generation and diversification. However, economic development incentives should be used much earlier to prevent fiscal struggles in the first place.

We acknowledge the limitations of our study. Common challenges in the case study approach are that "case studies are sometimes seen as merely descriptive, lacking theoretical or policy importance. It is said that because they are based on a sample size of one, or just a few, valid generalization is impossible" (Garson, 2002, p.209). However, case studies do offer a rigorous and consistent mode of examining and comparing information and then drawing conclusions.

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ENDNOTES

[1] A non-home rule municipality may only exercise powers for which express authority is provided by state law and home rule municipalities can exercise any power and perform any function unless it is specifically prohibited from doing so by state law.

[2] Cook County has one of the highest median property tax rates in the United States and is ranked 91st of the 3,143 counties in median property taxes. The average yearly property tax paid by Cook County residents amounts to about 5.09% of their annual income. Cook County is ranked 69th of the 3,143 counties for property taxes as a percentage of median income.

[3] Certificate of Achievement for Excellence in Financial Reporting program means that local government have achieved "the highest standards in government accounting and financial reporting."

[4] When TIF is established, the taxing jurisdiction continues to collect the property tax within the TIF area, but the tax is imposed only on the base existing at the time of TIF creation. The tax on any increments of the base property value is then reinvested in a TIF district – usually in infrastructure improvements – which is supposed to promote economic development in the area.

[5] Obligations rated A are considered upper-medium-grade and are subject to low credit risk. Obligations rated B are considered speculative and are subject to high credit risk (Moody's, 2022).

[6] Obligations rated Ba2 are subject to moderate credit risk. They are considered medium-grade and as such may possess speculative characteristics and are a subject to high risk of default on certain senior operating obligations and other contractual commitments (Moody's, 2022).

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