

# PRELIMINARY ESTIMATES COVID-19 BUDGET IMPACTS



4/8/20

# Fiscal Impacts are Severe

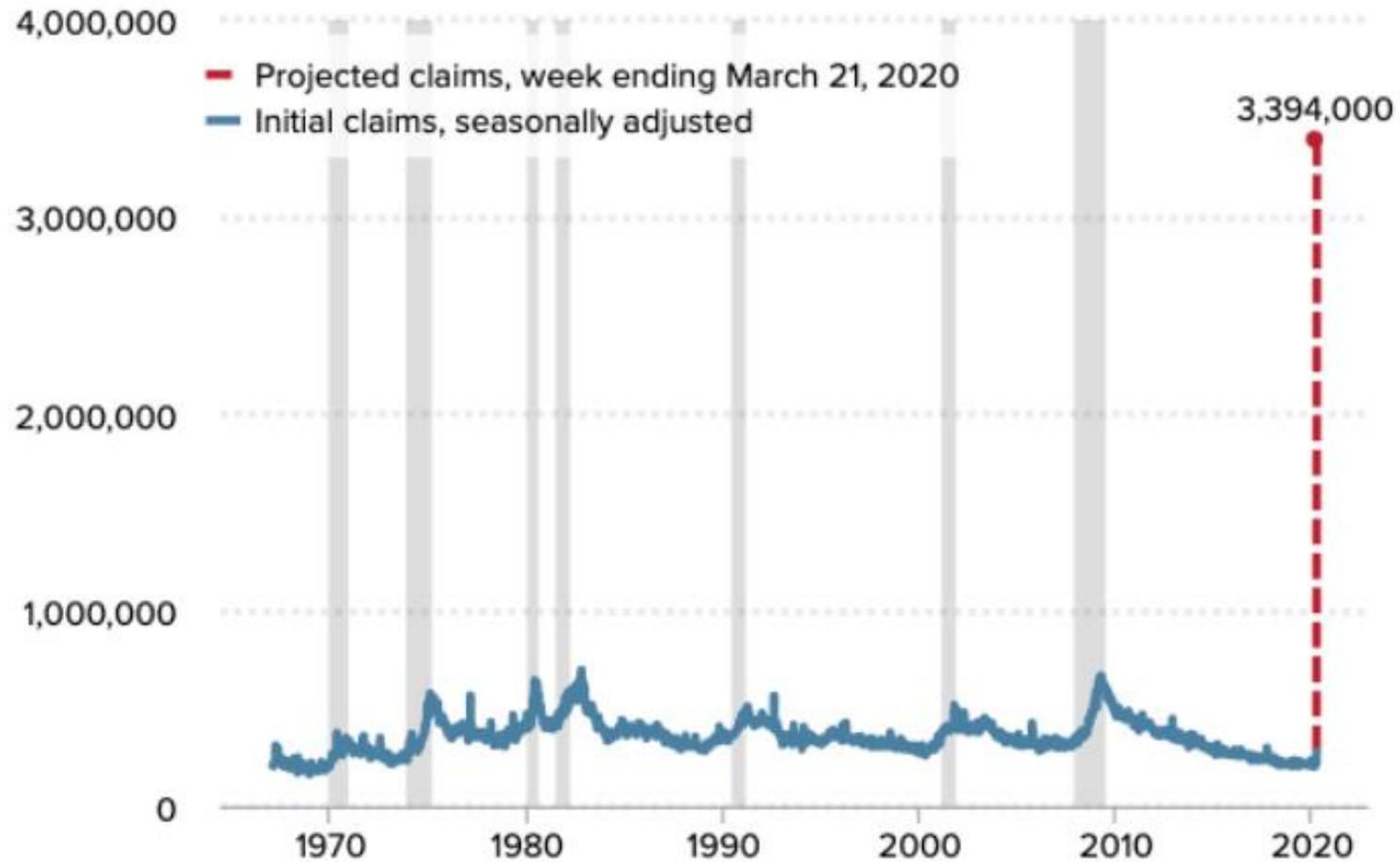


- County budget relies on robust economic activity which is not occurring while operations and businesses closed indefinitely
- Economic indicators point to a steeper economic decline than the Great Recession in 2008-2009
  - Unprecedented unemployment claims level following COVID-19
  - Investment markets experienced severe declines
- Current impact analysis assumes three month closures followed by recessionary impacts. Extended closures will present increased risks.

FIGURE A

## The U.S. is experiencing a record-breaking spike in unemployment

Initial weekly unemployment claims since 1967 and projected claims for the week ending March 21, 2020



# Investments

## U.S. 10 Year Treasury (US10Y:U.S.)



Real Time Quote | Exchange

Yield | 3:56:26 AM EDT

0.853% +0.035

1D 5D 1M 3M 6M YTD **1Y** 5Y ALL

+ Comparison

1D Display Studies   



The benchmark **10-year Treasury** yield fell **below 1%** for the first time in its history



# MILWAUKEE COUNTY 2020 REVENUE BUDGET: \$1.2 BILLION

Bond Proceeds &  
Capital, \$86 , 7%

Property Tax, \$301  
, 25%

Direct Revenues,  
\$360 , 29%

Sales Tax, \$82 , 7%

State Revenue,  
\$278 , 23%

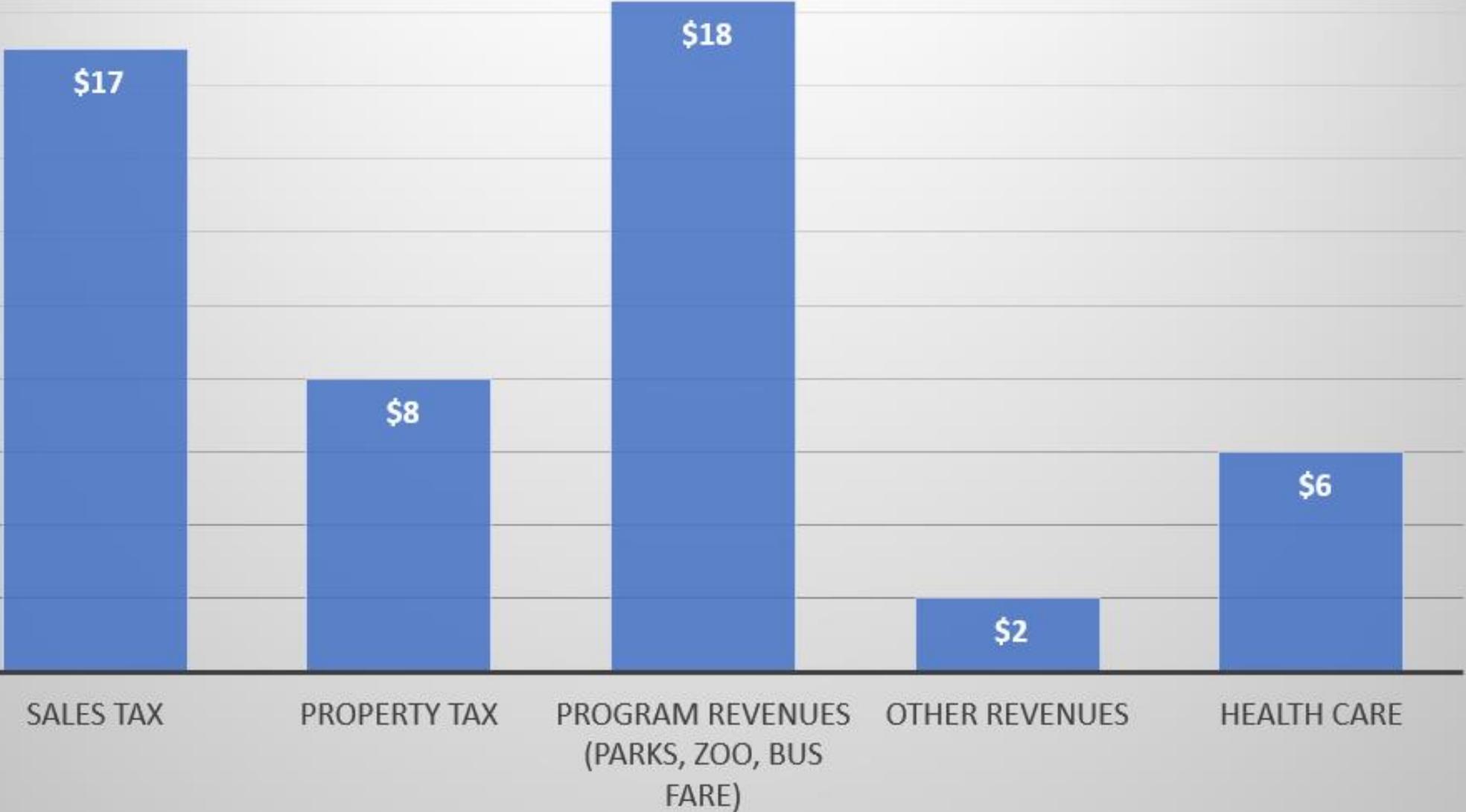
Other Revenues,  
\$44 , 4%

Federal Revenue,  
\$67 , 5%

\$ in Millions



# 2020 Budget: Major Risks From COVID-19 (\$ in millions)



# Sales Tax



- Sales tax heavily impacted by business closures
- Even after businesses re-open, recessionary impacts anticipated
- Great recession resulted in 12% reduction in sales tax between 2008 and 2009
- 2020 Estimate: 20% or \$17 million
  - Risk level increases as business closures are prolonged
- 2021 Estimate: 12% or \$10M decline
- Sales tax distributions lag by 3 months, actual COVID-19 impacts will be seen starting in/around June

# Property Tax

- Potential loss of uncollected property tax in 2020 (\$6 million risk estimate)
- State Legislative proposal prohibiting local governments from collecting penalties and interest on any delinquent property tax payments in 2020 (\$2.3M risk estimate)



# Program Revenues

- County departments generate \$360M in annual fee and reimbursement revenues, representing about 1/3 of County budget
- Departmental revenues impacted by current closures and operational changes
- Highest risk areas Parks, Zoo, and Transit expected to lose \$18 million combined under three month closure scenario
  - A portion of revenue loss will be offset by expenditure savings due to closures
  - CARES act provides funding for Transit which may offset farebox revenue losses
- All departments are preparing re-estimates to account for COVID-19 impacts



# Other Revenue Risks

- County budget includes \$6.4M of revenue from contract with Potawatomi which may be reduced by \$500k per month while casino is closed
- Investment revenues are expected to decline due to economic condition and market losses
  - Preliminary assessment indicates investment revenue losses in 2021
  - Pension fund impacted by investment losses in 2022
- The State needs to maintain a balanced budget and could reduce County allocations
- Employee contributions to fringe benefits decline if staffing levels are reduced



# Health Care



- Health Care budget has surpluses in recent years while expenditures have trended well below actuarial forecasts
- Although the true impact will only be known as claims come in, our benefits actuary has stated that we could incur costs of nearly \$6.0 million more in 2020 due to expenses relating to COVID-19.

# Note on Estimates

- Initial analysis assumes three month closures followed by recessionary impacts
- Revenue estimates are a "moving target" since we don't know when economic activity will return to normal
- Sales tax data is lagged three months; actual impacts will be seen in June or July
- Losses in program revenues collected by departments will be partially offset by expenditure savings from closed operations
  - Departmental Analysis is underway
- Health care actuary has projected a \$6.0M cost increase for COVID-19, but County spending has trended below actuary forecasts in recent years



# COVID-19 Emergency Response Funding

- \$1M contingency allocation for COVID emergency response has been exceeded. Costs above \$1M will be charged to departments until additional funds can be transferred to COVID project. Fund transfer is being planned for May cycle.



<b>Requests</b>	<b>Total</b>
Laptops	\$ 500,000
PPE's	\$ 352,500
Housing Resources/Placements	\$ 99,000
211 Impact (added call volume)	\$ 40,000
GPS Monitors (Courts)	\$ 17,000
OEM consulting (Integrated Solutions)	\$ 18,000
Grants Support Specialist	\$ 65,000
Communications/ Media	\$ 55,000
<b>Total Requests</b>	<b>\$ 1,146,500</b>

# Fiscal Response

- We will seek every opportunity for State & Federal emergency funding
  1. Coronavirus Preparedness Act
  2. Families First Response Act
  3. Senate Cares Act
- Fiscal Actions Administrative Order 20-9 v1
  - Initiates a freeze on hiring and expenditures
  - Exemptions for public safety, public health, emergency response
- As we continue to evaluate the County's fiscal condition, additional actions may be necessary



# 2021 Budget



- Before COVID-19 outbreak, a 2021 budget gap of \$21 million was estimated. This is now a “best case” scenario only if the economy fully rebounds.
- PSB is in process of preparing a revised gap estimate for 2021
  - Sales tax projection changed from \$3M growth to \$10M reduction
  - Losses to investment revenues anticipated
  - Property tax carries additional ongoing risks being evaluated
  - Program revenues may be impacted by recession
  - Health care expenses are expected to be increased industry-wide
- Based on these impacts alone a 2021 gap in range of \$40M or more is expected
- 2021 budget process will not be normal compared to past years due to unknowns including length of closures and recessionary impacts
- Commitment to working closely with departments and elected officials on an open and transparent process

# Questions / Comments

