

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : 5/19/2020

TO : Supervisor Marcelia Nicholson Chair, County Board of Supervisors

FROM : Joe Lamers, Department of Administrative Services, Budget Director

SUBJECT : 2020 Budget – COVID-19 Impacts and Actions (20-298) REVISED 5/19/20

UPDATE 5/19/20

An update of this report is being provided to show estimated 2020 departmental expenditure impacts which are anticipated, as a result of fiscal actions which have been taken in response to COVID-19 revenue losses. The updated information is included beginning on page 6 of this report. While this information is being provided as informational, the amounts are reflective of mid-year budget adjustments which are planned to be proposed in an upcoming cycle.

OVERVIEW

County Board Resolution 20-298 requests that the Department of Administrative Services, with the support of all County departments, provide a monthly report regarding the recommended steps to address any budgetary shortfalls to Milwaukee County operations throughout the duration of the public health emergency. This informational report is being provided for the month of May 2020.

COVID-19 has placed severe impacts on Milwaukee County's budget and operations. Milwaukee County's budget relies on robust economic activity which is not occurring while business and operations are closed. In addition, impacts of COVID-19 are expected to have a lasting economic impact even after the Safer at Home Order is lifted and businesses begin to open with restrictions. More than \$100 million of revenue loss is currently expected in comparison to the Adopted 2020 Budget, and there is risk that revenue losses could be significantly higher if current conditions remain in place for a prolonged timeframe.

Several actions have been taken to address projected revenue shortfalls. Shortly after the outbreak of the pandemic, Fiscal Actions Administrative Order 20-9 was put in place. This order places a freeze on hiring and expenditures, with exceptions made for emergency functions directly related to the pandemic. In addition, the County has made the difficult decision to implement a furlough program across various departments in order to realize salary savings. As of 5/1/20, approximately 775 staff have been placed on furlough, and this number is expected to be increasing. The federal Coronavirus Aid, Relief, and Economic Security Act (CARES) provides emergency relief funding to the County. However, it is important to note that CARES Act funding comes with strict limitations which prevent the County from offsetting revenue loss in most areas apart from Transit and the Airport. Additional savings are planned to be recommended in centralized budgets such as contingencies, land sales, and health care.

The budget office is preparing to recommend mid-year budget adjustments in upcoming months, which would reflect the County’s changing fiscal situation. This report provides an early indication of some of the items which may be included in upcoming recommended budget adjustments.

Revenue Estimates

The budget office currently projects that the County will experience \$105 million in revenue loss in 2020 as a result of the pandemic, including \$66 million of lost revenues in non-airport departments, and \$39 million of lost revenue in the airport. It is important to note that there is a wide range of revenue risk as a result of COVID-19, and that there is potential for greater losses if the economy does not begin to recover after the stay at home orders are lifted. The \$105 million revenue loss estimate assumes that the County will be severely impacted by the “economic shock” of business and operational closures that are occurring at present and during the second quarter of 2020. Further, the projection assumes that revenues will continue to be impacted throughout the year by an economic downturn, high unemployment, and further impacts of COVID-19.

2020 Estimated Revenue Loss (\$ in millions)	
Description	Current Estimate
Sales Tax	\$ (20.0)
Property Tax	\$ (8.0)
Potawatomi Casino Revenue	\$ (1.9)
Program Revenues (non-airport)	\$ (36.1)
Subtotal (excluding airport)	\$ (66.0)
Airport Revenues	\$ (39.0)
Total	\$ (105.0)

Sales tax: Milwaukee County sales tax is currently projected to decline by \$20 million or by approximately 25% compared to the 2020 Adopted Budget. There is an approximately three-month lag time between the date a sales tax transaction occurs and the date that Milwaukee County receives its 0.5% share of the payment. This means that the County will not begin to see the actual COVID-19 impacts on sales tax receipts until June and July. In the absence of actual disbursement data, various indicators were considered to make an initial projection. As a starting point, the Great Recession resulted in a 12% sales tax decline between 2008 and 2009. This would result in a \$10 million loss in 2020. While this provides an initial benchmark, sales tax losses in 2020 are expected to be more severe. For example, taxable retail sales were reported by the U.S. Census to be down by over 13% in the month of March, while economic activity was heavily impacted by COVID-19 for roughly one-half month. In the second quarter of 2020, the Congressional Budget Office projects a 40% annualized decline in GDP. Hotel stays in Milwaukee are reportedly at 20% occupancy. Large events such as concerts and professional sporting events are cancelled or postponed with uncertain status going

forward. There are some indicators which may offset major losses in sales tax revenue. Online sales tax collections have reportedly increased substantially as a result of the pandemic, although much of this surge pertains to grocery sales which are not taxable in Wisconsin. Several “big box” retail stores which have been deemed essential and have remained open have seen an increase in sales. Overall, a \$20 million loss in sales tax reflects an initial estimate which is made with limited data, and it will be updated on a monthly basis going forward as more data becomes available.

Property tax: It is anticipated that a portion of property tax payments will go uncollected if homeowners are unable to pay their taxes as a result of high unemployment during the public health emergency. The most recent estimates prepared by the Comptroller’s Office identify a potential loss of \$8 million in uncollected property taxes in 2020.

Potawatomi Revenue: The 2020 County budget includes \$6.4 million in anticipated revenue from Potawatomi casino based on Class III Net Win during the period of July 1, 2019 to June 30, 2020. If the casino remains closed through June this revenue source may be reduced by \$1.9 million in 2020.

Program Revenues (non-Airport): Many County departments rely on fees and direct service charges as an offset to expenditures. Due to operational closures and other impacts of COVID-19, program revenue losses of approximately \$36.1 million are currently projected in non-airport departments. Most heavily impacted departments include Parks, the Zoo, Transit, and the House of Correction. Parks is currently projecting \$8.4 million in reduced revenue for 2020 due to reduced sales and activity across operations including golf, concessions, rental facilities, recreation, and beer gardens. The Zoo projects \$7.7 million of lost admission and other revenues, due to current closure as well as an expectation that attendance will be reduced during the peak summer season and beyond. Transit is currently projecting \$7.9 million in reduced farebox revenue through the month of June as fares are currently not being collected during the Safer at Home Order. It is likely that there will be additional losses in bus fares during the year due to impacts of COVID-19 and social distancing. Losses in farebox revenue can be offset by a CARES Act allocation for Transit (detail below). House of Correction (HOC) revenues are projected at \$4.1 million below budget. State and municipal commitments are no longer being placed at HOC due to COVID-19. Budgeted revenue for these commitments is not currently anticipated to be realized. In addition, program revenue losses as a result of COVID-19 are expected in the Courts, Register of Deeds, Child Support, Sheriff, and other departments.

Airport Revenues: The airport is currently projecting a reduction of \$39 million in airline fees and other revenues, while airline ridership is reported to be down by approximately 94%. A loss in fee revenue is expected to be offset by CARES Act allocation for the airport as well as other savings (detail below).

Potential Savings

The following chart provides a summary of actions that have been taken as well as options that may be available to offset estimated revenue loss of \$105 million including \$66 million of savings in non-

airport departments and \$39 million of savings in the Airport. This is followed by a description of each of the major categories of savings options.

Potential Savings Options (\$ in millions)	
Description	Current Estimate
Admin Order 20-9 Impacts and Other Department Savings Estimate	\$ 22.0
Furlough / Workshare	\$ 3.0
CARES Act - Transit	\$ 16.0
CARES Act - CRF Direct Costs	\$ 5.0
Land Sales	\$ 3.9
Contingency	\$ 4.8
Health Care	\$ 1.5
Debt Service Reserve	\$ 5.0
Other / TBD / Targets	\$ 5.0
Subtotal (excluding airport)	\$ 66.0
CARES Act - Airport	\$ 29.0
Airport Savings	\$ 10.0
Total	\$ 105.0

Admin Order 20-9 / Department Savings: Fiscal Actions Administrative Order 20-9, which was issued on March 30, 2020, places a freeze on County hiring and spending, with exceptions made for functions that are directly responsible for responding to the pandemic including public safety, emergency response, public health and patient care. The order includes a freeze on hiring, personnel actions, overtime, new contracts and amendments, travel, training and professional development spending, and operating capital. Cash financed capital projects which have not yet started are subject to possible delays or cancellation. Departments have been asked to review and liquidate open encumbrances which aren't critically needed in the current fiscal environment. Based on current vacancies, unexpended balances in frozen accounts, and other factors, the budget office currently estimates approximately \$22 million in savings from the administrative order.

Furloughs: Due to the County's financial condition, combined with the operational closures which currently exist, the County has made the difficult decision to place a portion of its workforce into a furlough status. A "furlough" is a work status change that is temporary with the expectation of the employee returning to their normal work schedule at a point in time. As of 5/1/20, there are approximately 774 employees on furlough status with reduced work hours. Unfortunately, we don't have an end date for these furloughs, but the status of furloughs will be reviewed no later than July 31. Administration's top priorities for when operations/programs can reopen are the safety of the employees, our community and budget status. If the furloughs were to remain in place until the end of July, savings from April through the end of July are estimated

at approximately \$3.0 million. This estimate is subject to variation based on the length and number of staff on furloughs.

CARES Act – Transit: The CARES Act provides a \$54.9 million allocation for Transit which can be used for expenditure increases or revenue loss. There is not an end date for the use of these funds. Current estimates indicate that approximately \$16.0 million of the funds will be needed in 2020. However, this amount is subject to significant variation depending on how long that bus fares remain free and how significantly ridership remains limited by social distancing and other impacts of COVID-19. If farebox revenues do not return to normal during 2020 and into 2021, it is possible that this allocation for Transit will be exhausted by 2021.

CARES Act – Coronavirus Relief Fund Direct Costs: Milwaukee County received a \$62.0 million allocation under the CARES Act Coronavirus Relief Fund (CRF). Guidance released by the U.S. Treasury on 4/22/20 indicates that this funding can not be used for revenue loss, and further that the funding can only be used to 1) pay for necessary expenses directly related to COVID-19 which 2) were not included in the most recently approved budget as of March 27 and 3) which were incurred 3/1/20 to 12/30/20. This guidance provides strict limitations on uses and lacks flexibility to offset budget deficits. However, additional guidance released on 5/4/20 indicates that the funding may be used for costs which are “substantially dedicated” to mitigating or responding to the COVID-19 public health emergency. Further, the funding may be used to cover costs which have been dedicated to a “substantially different use” than what was budgeted. Current estimates include approximately \$5.0 million of costs which fall under these “substantially dedicated” and “substantially different use” conditions, across departments including HOC, the Sheriff, IMSD, Aging, Parks and Zoo, and other departments. The budget office is currently working with departments to evaluate spending related to COVID-19 and this estimate is likely to change.

Land Sales: Approximately \$4.3 million of land sale transactions were recently closed on related to County property on the Milwaukee Regional Medical Center Complex. This funding is expected to be placed to the Appropriation for Contingencies, net of a \$400,000 allocation to support the DAS Economic Development budget, for a net total of \$3.9 million. This is in accordance with Chapter 6 of the Milwaukee County Code of Ordinances as amended through File No. 17-204. DAS recommends land sale transactions be considered as an option to offset the County’s revenue shortfall.

Contingency: The current balance of the appropriation for contingency is \$4.8 million. This amount is expected to be increased by \$1 million after an adjustment is made to replenish the contingency for two projects pertaining to COVID-19, which were initially funded from contingency but can now be supported by CARES Act revenue. At this point in time, DAS recommends reserving the majority of contingency to offset for lost revenue.

Health Care: After the outbreak of COVID-19 occurred, the County’s health care actuary projected a potential risk of increased medical costs. However, an opposite trend has occurred. Since the outbreak of COVID-19 there has been a significant reduction in medical claims, as hospitals have cancelled elective surgeries and there has been reduced emergency room and medical visits. It is expected that these costs will return at some point in time, but when that will

be is unknown. At this point in time, a \$1.5 million surplus in health care is projected in 2020 and this will be closely monitored on a monthly basis going forward.

Debt Service Reserve: The County's Debt Service Reserve currently has a balance of approximately \$35 million and is expected to increase to approximately \$50 million after the 2019 year-end close is completed. DAS recommends limiting planned use of the reserve due to uncertainty regarding revenues, as well as the potential need to access reserves over multiple years. For purpose of this analysis, an assumption is made that \$5 million of reserves may be needed to cover revenue shortfalls.

Other / TBD / Levy Targets: Even if all the above factors were utilized to close the gap, there is still a shortfall of \$5.4 million remaining and additional solutions are expected to be needed. When faced with large gaps during the annual budget process due to an ongoing structural deficit, the County has applied levy reduction targets to departments to generate savings and that option may be necessary for 2020 if additional savings aren't identified elsewhere.

CARES Act – Airport: The CARES Act provides \$29.0 million in funding for the airport which can be used to offset revenue loss and/or expenditure increases.

Airport – Other Savings: The Airport Department currently projects a \$39.0 million reduction in fee revenues, offset by \$29.0 million in CARES Act revenue, which results in a need to identify \$10.0 million in additional savings. The \$10.0 million in savings is expected to be achieved through a combination of airport expenditure reductions and through invoices to the airlines to pay in the 2020 year-end settlement per the Airport's residual ratemaking agreement with the signatory airlines.

Estimated Department Impacts: DRAFT Mid-Year Budget Amendment (update 5/18/20)

Within the above described savings, there are two components which are expected to have a direct impact on departmental tax levy expenses in 2020. The administrative order is estimated to result in approximately \$22.0 million in savings and furlough savings are estimated at \$3.0 million. Combined, this represents an approximately \$25.0 million impact to departments.

This updated report is being shared to provide a breakout of estimated tax levy expenditure savings by department. Savings are estimated based on freezes and expenditure controls in Fiscal Administrative Order 20-9, including freezes on hiring, overtime, personnel actions as well as operating cost savings from freezes on contracts, travel, training, and other expenses. Anticipated savings from furloughs are also included in the estimate.

As indicated above, the budget office is currently preparing to propose a mid-year budget adjustment to reflect our revised economic circumstances in 2020. The following departmental expenditure budget reductions totaling \$25.0 million are currently planned to be included in this amendment.

2020 Projected Tax Levy Savings by Department Admin Order and Furlough Impacts			
Department	Expense	Department	Expense
Sheriff	(811,728)	Comptroller	(243,347)
HOC	(624,340)	ROD	(201,539)
OEM	(67,857)	Aging	-
BHD	(1,503,170)	Parks	(4,162,543)
DHHS	(1,509,878)	Zoo	(2,172,610)
Vet's Svcs	(21,200)	County Board	-
Courts	(1,105,955)	CEX	(2,257)
CSS	(119,190)	DAS-Risk	(1,557,931)
Pre-Trial	(2,000)	Elections	(3,200)
DA	(604,025)	Treasurer	(81,444)
ME	(9,691)	Clerk	(2,196)
OAAA	(281,000)	Airport	-
PRB	(126,717)	Highways	-
OCC	(113,373)	Transit	(3,009,000)
HR	(658,581)	Fleet	-
DAS-Gen	(3,195,033)	MCDOT	(83,835)
DAS-IMSD	(1,397,383)	Cash Capital	(1,348,763)
		Total	(25,019,786)

Draft Budget Amendment – Department Details

The following expenditures savings estimates are planned to be included in a mid-year budget amendment.

Sheriff: \$811,728 in savings are assumed in the Sheriff's Office primarily due to current vacancy rates which exceed budgeted levels, as well as estimated savings on travel, training, and operating capital accounts which are frozen in the administrative order. While direct public safety positions are exempt from the hiring freeze, some administrative vacancies which do not provide direct service are currently on hold from the hiring process (i.e. clerical support, financial).

House Of Correction: \$624,340 savings are estimated based on current vacancies, as well as savings from travel, training, operating capital, and closure of a prior year encumbrance which is not needed for inmate medical services.

Office of Emergency Management (OEM): \$67,857 of savings are estimated from a reduction in prior year encumbrances which are being closed with no outstanding vendor payments due.

Behavioral Health Division (BHD): \$1,503,170 of expenditure savings are assumed in BHD due to administrative order impacts related to vacancies, travel, training, and operating capital. In addition, savings are anticipated from BHD administrative staff furloughs.

Department of Health and Human Services (DHHS): \$1,509,878 of savings are estimated in DHHS due to vacancies and freezes on overtime, travel, training, and operating capital. The savings also accounts for a reduction in the amount of youths committed to the Department of Corrections. In addition, savings are anticipated from DHHS administrative staff furloughs.

Veteran's Services: \$21,200 in savings are projected from administrative order impacts on salary spending, travel and training.

Courts: \$1,105,955 of expenditure savings are estimated in Courts due to vacancies and salary savings, as well as savings from staff currently on indefinite furlough due to operational closures. The estimate also includes anticipated savings from travel, training, operating capital, and courtroom furniture.

Child Support: \$119,190 of tax levy savings are estimated in Child Support Services from salaries, overtime, travel and training. This estimate reflects approximately one-third of total estimated savings, reflecting the anticipated local tax levy share.

Pre-Trial Services: \$2,000 in savings are assumed in travel and training accounts.

District Attorney: Tax levy savings of \$604,025 are estimated within the District Attorney's Office due to vacancies which currently exceed budgeted levels, savings on overtime, travel, training, operating capital, and current furlough programs which impact 148 staff.

Medical Examiner: Savings of \$9,691 are estimated in operating accounts including travel and training.

Office of African American Affairs (OAAA): Savings of \$281,000 are estimated in OAAA due to administrative order impacts on hiring and training.

Personnel Review Board (PRB): \$126,717 in savings are estimated in the PRB due to one vacant position as well as a reduction in expected costs related to a prior year encumbrance.

Office of Corporation Counsel (OCC): \$113,373 of savings are estimated in OCC from administrative order impacts on hiring, travel and training. The estimate also includes anticipated savings from Work share furloughs.

Human Resources: \$658,581 in savings are projected related to the administrative order freeze on hiring, travel and training, and operating capital. Estimated savings from 45 staff furloughs are also included.

Dept of Administrative Services (DAS): \$3,198,513 of savings are projected within DAS due impacts of the administrative order including hiring and operational spending freezes. Anticipated savings from furloughs are also included in the estimate.

Information Management Services Division (IMSD): \$1,397,383 in savings are projected in IMSD due to administrative order impacts on hiring and operational expenditures. Savings are also anticipated from Work Share furloughs.

Register of Deeds (ROD): \$201,539 in savings are estimated in the ROD due to administrative order impacts on hiring and operational expenditures.

Comptroller: \$243,347 in savings are projected due to administrative order impacts on hiring and operational expenditures. Anticipated Work Share furlough savings are also included in this estimate.

Parks: Expenditure savings of \$4,162,543 are projected in the Parks Department due to administrative order impacts on hiring and operating expenditures. The estimate also includes an expectation of limited hiring of seasonal staff in Parks. Anticipated savings from furloughs are also included in the projection. There are 344 staff in the Parks Department on furlough status with reduced hours including 114 Full-Time employees and 230 Seasonal or Hourly employees.

Zoo: \$2,172,610 of expenditure savings are projected in the Zoo as a result of the administrative order hiring and spending freeze, as well as anticipated savings from furloughs. Seasonal hires have also been limited in the Zoo. Estimated savings from 168 staff furloughs are included in the estimate.

Election Commission: \$3,200 of savings on travel and training are projected in the Elections Commission.

County Executive: \$2,257 of savings are projected on travel and training in the County Executive's Office.

DAS Risk Management: \$1,557,931 of savings are currently projected in Risk Management, primarily due to Worker's Compensation expenses which have trended below budget by approximately \$1.4 million. Worker's Compensation claims are continuously reviewed and savings in this area are subject to change. Additional savings are expected from the administrative order freeze on hiring and operating expenses.

Treasurer's Office: \$81,444 of savings are projected in the Treasurer's Office, primarily due to anticipated vacancy savings and furloughs.

Clerk's Office: \$2,196 in savings are projected in the Clerk's Office related to unexpended balances in travel and training accounts.

Transit: The Milwaukee County Transit System (MCTS) is projecting \$3,009,000 of expenditure savings due to a decrease in fuel expenditures, reduced paratransit rides, hiring freezes, and other contract savings.

MCDOT: \$83,385 of savings are projected within the Milwaukee County Department of Transportation (MCDOT) related to vacancies, travel and training, and operating capital.

Non-Departmental Savings: In addition to department savings, the mid-year budget amendment is also expected to include recommended savings from centralized accounts such as contingencies and health care which are described above.

Summary

Unprecedented revenue losses are expected to occur in 2020 as a result of the impacts of COVID-19, including \$66 million of currently projected revenue loss in non-airport departments and \$39 million of projected lost revenue in the airport. There is potential for losses to be greater than this if the economy does not re-open and begin to recover. Potential savings options have been identified which would close out a large majority of the gap, including hiring and spending freezes, furloughs, utilization of CARES Act funding, and identification of savings in centralized accounts such as contingency, land sales, and health care. Additional actions are expected to be needed to end the year with a balanced budget and the budget office will continue to work with departments, the County Executive, and the County Board throughout the year on this process.

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