

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : 8/6/2021

TO : Scott Rolland, County Supervisor, ARPA Task Force Chair

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

SUBJECT : American Rescue Plan Act (ARPA) Revenue Loss Projections

Background

The American Rescue Plan Act (ARPA) of 2021, which was signed into law on March 11, 2021, provides Milwaukee County with an allocation of \$183.7 million of Local Fiscal Recovery Funds. Funds are required to be incurred by December 31, 2024 and are available to:

- A. Support public health response to the pandemic
- B. Address negative economic impacts
- C. Provide government services to the extent of the reduction in revenue due to the COVID-19 public health emergency
- D. Provide premium pay to essential workers
- E. Support water, sewer and broadband infrastructure

This report focuses on the revenue loss provision (part C).

ARPA Revenue Loss Definition and Calculation

ARPA recovery funds may be used for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency. Government services can include, but are not limited to, maintenance or funding of infrastructure, modernization of cybersecurity, health services, provision of police, fire, and other public services.

A reduction in revenue is measured relative to the revenue collected in the most recent full fiscal year prior to the COVID-19 emergency: year ended December 31, 2019. An annual growth adjustment (4.1%) is factored into the calculation to account for average annual revenue growth across State and local governments.

The United States Treasury released an Interim Final Rule which further describes the revenue loss provision and provides a calculation for State and local governments to use to quantify revenue loss under ARPA. The calculation is to be applied as follows:

1. Identify revenues collected in the most recent full fiscal year prior to the public health emergency, called the **base year** revenue
2. Estimate **counterfactual revenue** which is:
 - a. the base year, plus an annual growth adjustment factor which is the greater of 4.1 percent and the recipient's average annual revenue growth in the

- three full fiscal years prior to the COVID-19 public health emergency
3. Identify **actual revenue**, which equals revenues collected over the past 12 months
 4. Revenue reduction equals counterfactual revenue less actual revenue

It should be noted that the revenue loss formula, promulgated by the US Treasury, includes numerous exclusions that need to be taken into consideration. Examples of exclusions include intergovernmental transfers from the federal government, proceeds from the issuance of debt or the sale of investments, refunds or correcting transactions, and revenues generated by utilities and insurance trusts.

Preliminary 2020 Revenue Loss Amount

The Office of Performance, Strategy and Budget (PSB) has collaborated with the Comptroller's Office to calculate 2020 revenue loss relative to the ARPA recovery fund. Fiscal estimates remain preliminary, as we are seeking clarifications on exclusions and how to factor for certain items including capital project fund revenues, Airport fund revenues, and BHD hospital fund revenues. The clarifications are necessary due to various reasons including State Statute restrictions, revenue bond covenants, agreements with third-party's, and the nature of the funding source.

The preliminary revenue loss estimate for 2020 is \$58 million excluding Airport fund revenue loss. If the revenue loss of the Airport fund is considered, the County-wide revenue loss for 2020 would be \$94 million. We are seeking to determine if Airport fund revenue loss should be included the calculation.

Major factors included within the 2020 revenue loss estimate include:

- Property Tax: \$6.4 million
- Sales Tax: \$3.6 million
 - o Includes sales taxes funding for capital projects
- Transit Fares: \$18.9 million
- Service Charges and Other Revenues: \$15.5 million
 - o Includes Zoo, Parks, and other departments.
- Potawatomi Revenue: \$1.9 million
- Doyne Hospital Sale Lease Revenue: \$3.8 million
- Airport: \$36.1 million
 - o Evaluation of use of Airport revenue loss is still ongoing.

2020 – 2023 Revenue Loss Estimate

The ARPA revenue loss calculation extends from 2020 through 2023. Each year, actual revenues will be compared to the counterfactual scenario included within the ARPA revenue loss definition. The counterfactual scenario includes a 4.1 percent annual growth factor for each additional year.

The Office of Performance, Strategy, and Budget (PSB) is currently estimating revenue loss totals in the range of approximately \$300 to \$400 million for the fiscal years of 2020 through

2023. The estimate is based on actual revenue loss from 2020 (\$58 without Airport to \$94 million with Airport), combined with an expectation that it will take multiple years for many of the County's revenue sources to return to pre-pandemic levels. In addition, the 4.1 percent growth factor included in the ARPA revenue loss calculation impacts the amount of estimated revenue loss in future years. While the 4.1 percent growth factor reflects average growth amongst State and local governments, historical analysis, including the Comptroller's five-year fiscal forecast, show that Milwaukee County revenues only grow on average by 1.0 percent per year.

Following are some of the major factors contributing to the 2020 through 2023 revenue loss estimate.

- Property tax revenues are estimated to grow by 1.5 percent per year based on historical net new construction, resulting in an ARPA revenue loss estimate of \$76.5 million.
- While sales tax revenues have rebounded to pre-pandemic levels, these revenues are not projected to keep pace with the ARPA growth factor. \$21.5 million of sales tax revenue loss is estimated over four years.
- State aids (excluding Transit) are projected to remain flat resulting in \$13.5 million of ARPA revenue loss.
- Beginning in 2022, revenues from Doyne hospital sale lease will no longer be collected. These revenues totaled \$10.3 million in 2019 (base year). Estimated revenue loss from this factor over the four-year period is \$33.3 million.
- Transit farebox revenues remain at approximately 50 percent of pre-pandemic levels. With an expectation that it may take multiple years for Transit fares to return, \$53.6 million of revenue loss is estimated over a four-year period.
- The 2021-2023 State budget included a \$32.7 million reduction in Transit aid. State funding reductions factor into the ARPA revenue loss estimate.
- Estimated 2020-2023 revenue loss across multiple service charges (i.e. zoo, parks) is \$32.5 million. This includes estimates pertaining to the return of service charge revenue over the upcoming years.

The above estimates include preliminary revenue loss totals for 2020, and estimated revenue loss for 2021-2023. A calculation must be performed each year to determine the actual amount of revenue loss that can be used to fund government services. Estimates are subject to significant variation depending upon future revenue growth and the ongoing impacts of the COVID-19 pandemic. After the end of each fiscal year, PSB will work with the Comptroller's Office to determine the actual amount of revenue loss that is available to support the provision of government services.

RECOMMENDATION

This report is for informational purposes only.

JOSEPH LAMERS

Joseph Lamers, Director
Office of Performance, Strategy and Budget
Department of Administrative Services