Preliminary Estimates of Impact of COVID-19 Pandemic on City Budget

DISCUSSION WITH FINANCE COMMITTEE

MARCH 23, 2020

Fiscal Sustainability and Resilience

City is well positioned to respond to the COVID-19 event

15% General Fund Balance Policy (sizeable reserves in Parking, Sewer and Stormwater enterprises)

Contingent Reserve

Rapid Repayment of Debt

Triple-A Bond Rating

Conservative Investment Strategy

Focus One-time Revenues on One-Time Expenditures or Fund Balance

Very limited other post-employment benefit liabilities

Well-funded pension system

Strong infrastructure – professional staff; solid IT resources; ample equipment; sound management structure

Economic Forecast

Economic Damage will be Severe

Assumes that limits on economic activity are in place through mid-May with return toward “normal” by early Q3.

Assumes that economic crisis does not become a financial crisis (runs on cash; seizing up of inter-bank lending; “Great Depression”).

- Municipal bond interest rates have soared in last couple of days on concerns of financial stability of state and local governments – was at an historic low a couple of weeks ago; Fed made moves to address.

Anticipate much steeper economic decline than 2008-2009

- Some forecasts see a 24% reduction in GDP in 2^{nd} quarter of 2020; unprecedented recession anticipated

Economic Damage will be Severe

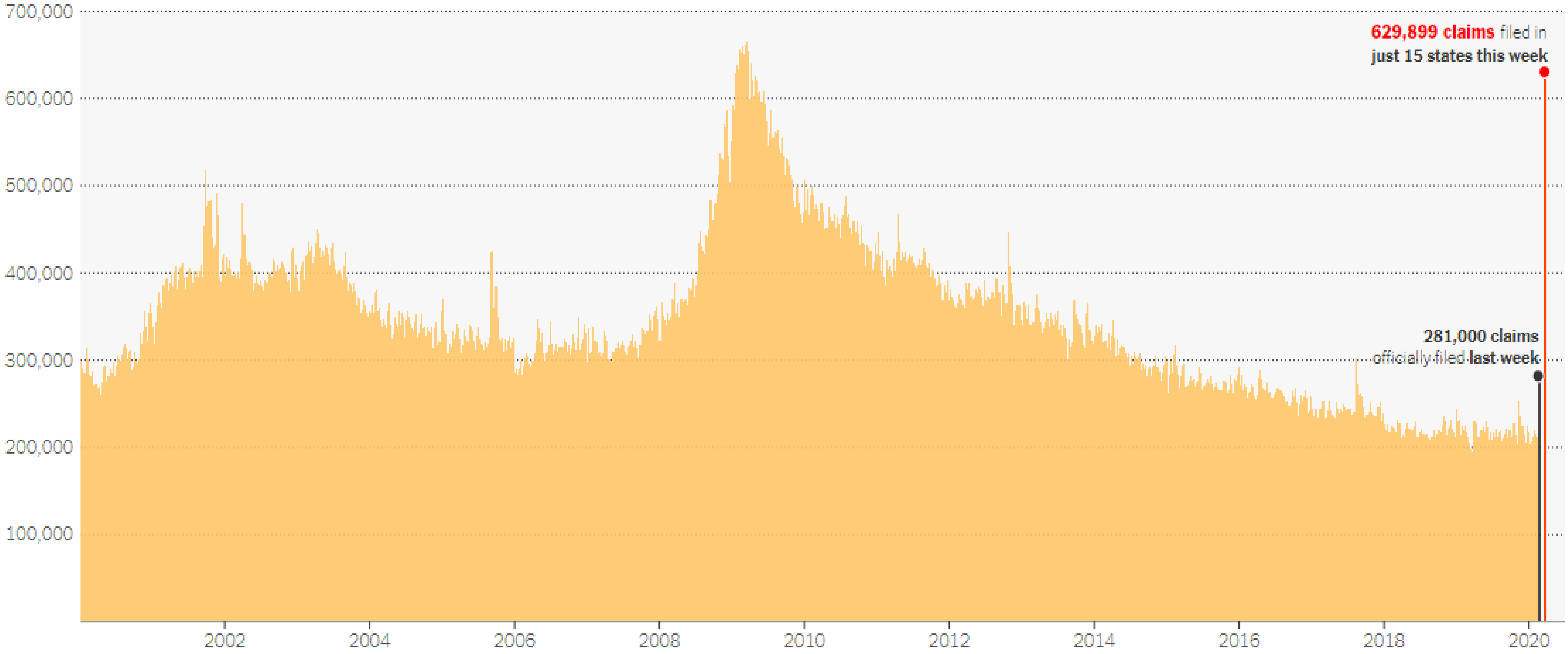
High unemployment

- Large sectors of the economy have completely shut down
- 30% annual reduction in travel, food service, hospitality and leisure industry
  - Over 90% reduction for the next two months.
- Auto plants closing; durable goods orders have collapsed
- Jobless claims have already skyrocketed and will continue to climb dramatically
  - (Week 12 2019 vs. Week 12 2020 – up 800%)
- Estimates of 10% to 20% unemployment (or possibly higher)

Some sectors of Madison’s economy are somewhat insulated; other sectors are not

- Government; Large Employers – employees continuing to be paid; remote work
- Health Care – work continues
- Hotels, restaurants, direct services – largely shutdown with significant layoffs

Nationwide unemployment claims



Note: Official figures are seasonally adjusted. This week's claims are not seasonally adjusted and represent a third of total national employment. Source: Department of Labor, state level reporting.

State Revenues and Budget Implications

Sales, Corporate and Individual Income tax will see steep and immediate decline (revenues fell 13% in 2008-2009)

Sales activity will decline and shift from discretionary taxable products and services to non-taxable groceries.

County sales tax revenues will fall commensurately.

Transportation Fund may also face revenue shortfalls due to economic slowdown (less gas taxes due to less vehicle travel; fewer new vehicle purchases; etc.)

State rainy day fund is 4% of annual revenues (about two weeks); revenue growth in latter half of CY 2019 (first half of SFY 2019-2020) may help cushion the blow.

State must maintain balanced budget – could potentially need to make cuts before June 30, 2020, and again in FY 2021. Half of the budget is allocated to aid to schools and local governments.

City Revenue Implications

Over 70% of General Fund revenues from the property tax; nearly two-third of property taxes for 2020 have been paid.

Preliminary projected overall drop of 4% ($13 million); wipes out forecast revenue growth from 2019 to 2020.

Room taxes expected to fall 30% ($6 million), based on travel forecasts.

Anticipate state aid cuts of 5% due to state revenue shortfalls (cuts exceeded 10% in 2012)

Investment earnings could fall 40% ($1.5 million)

City Revenue Implications

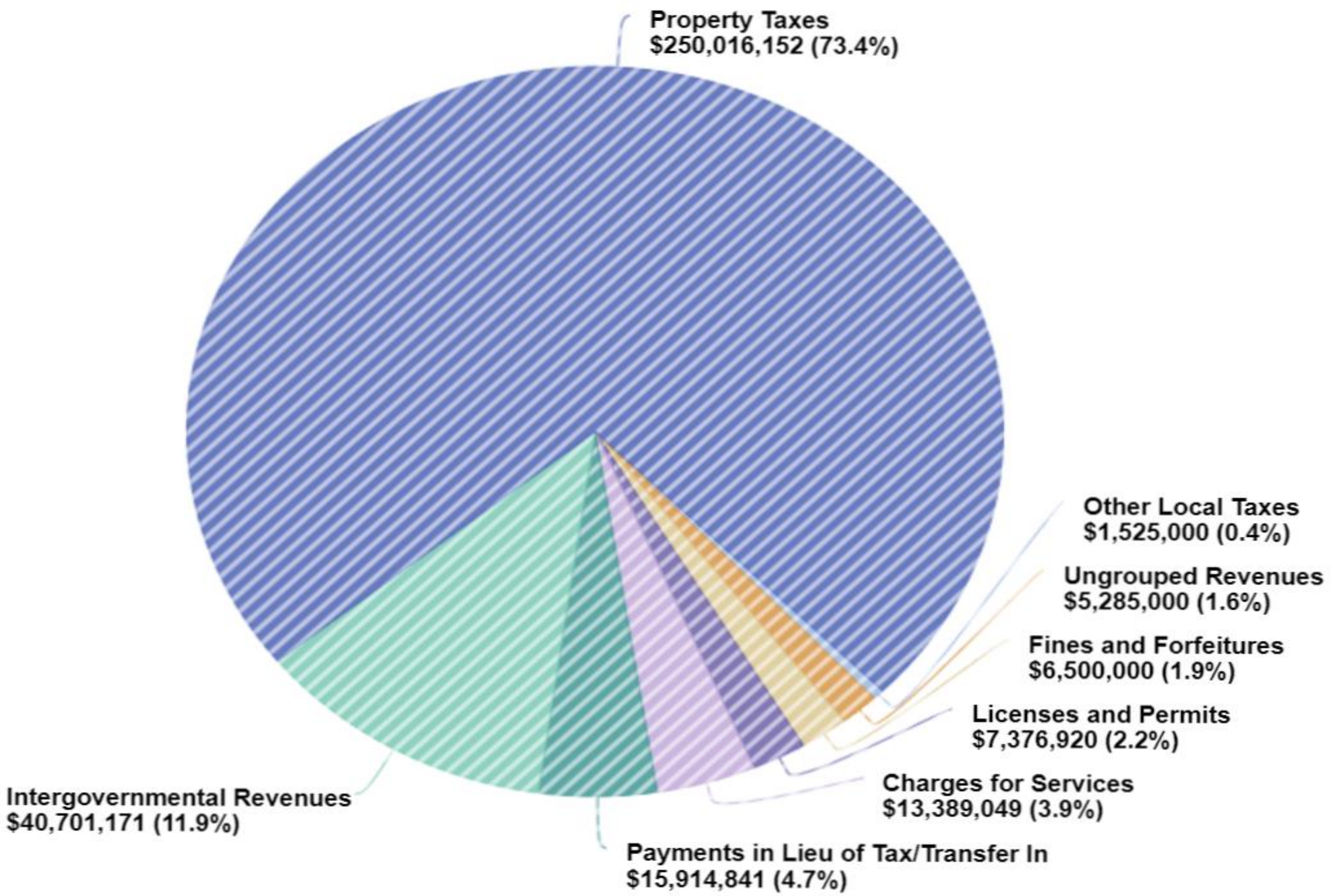
Fines / Forfeitures (parking violations; moving violations) expected to fall 25%; Licenses and Permits (building permits) down 15%

Agency and enterprise revenues will be affected – street use vending refunds; bus fare box revenues; Monona Terrace events; etc.

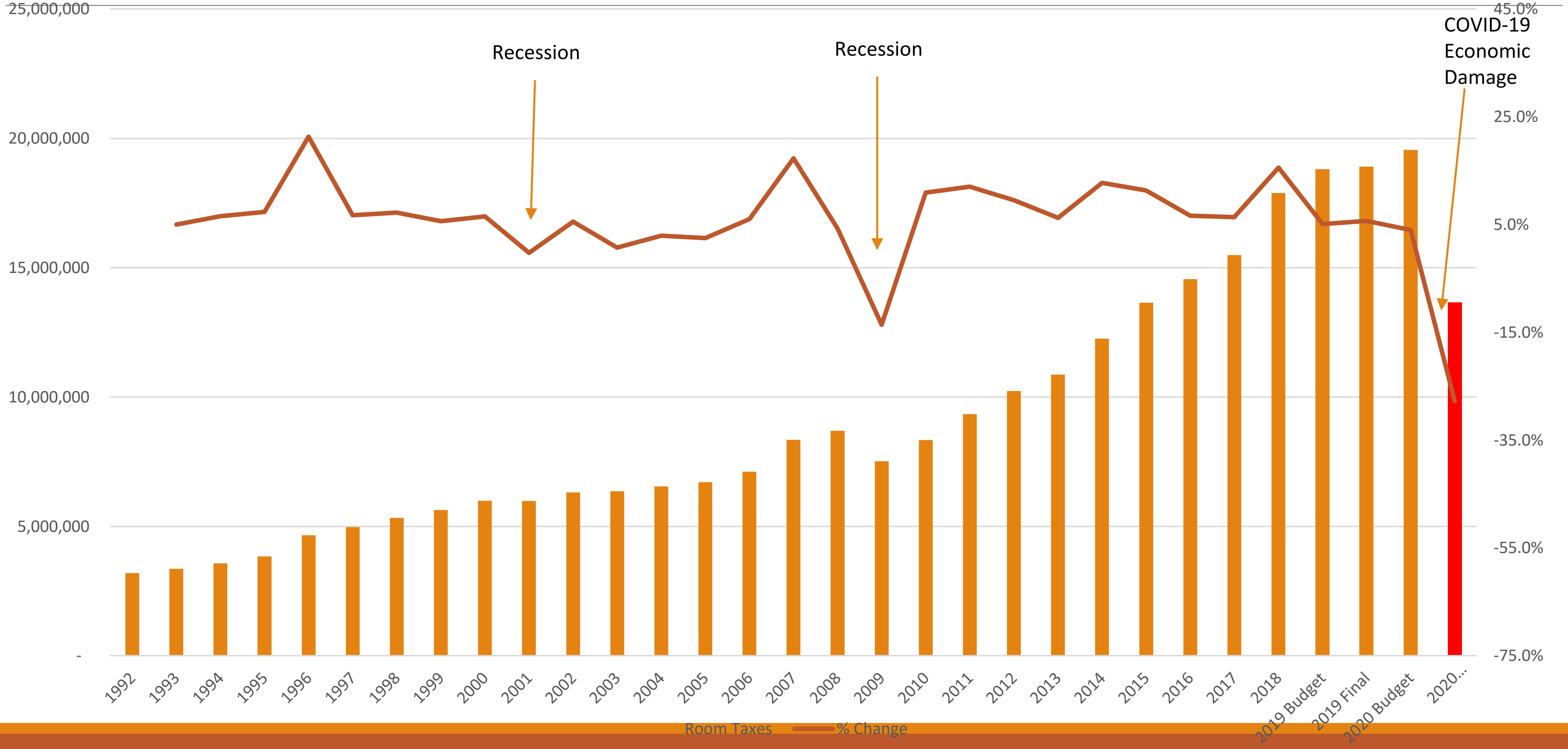
General Fund balance could fall from estimated $52 million at end of 2019 to $36 million by end of 2020 (from 16% of general fund to 11% of general fund)

Other impacts – rising pension costs due to reduced earnings in WRS portfolio; reduced WMMIC dividends.

General Fund Revenues – 2020 Budget

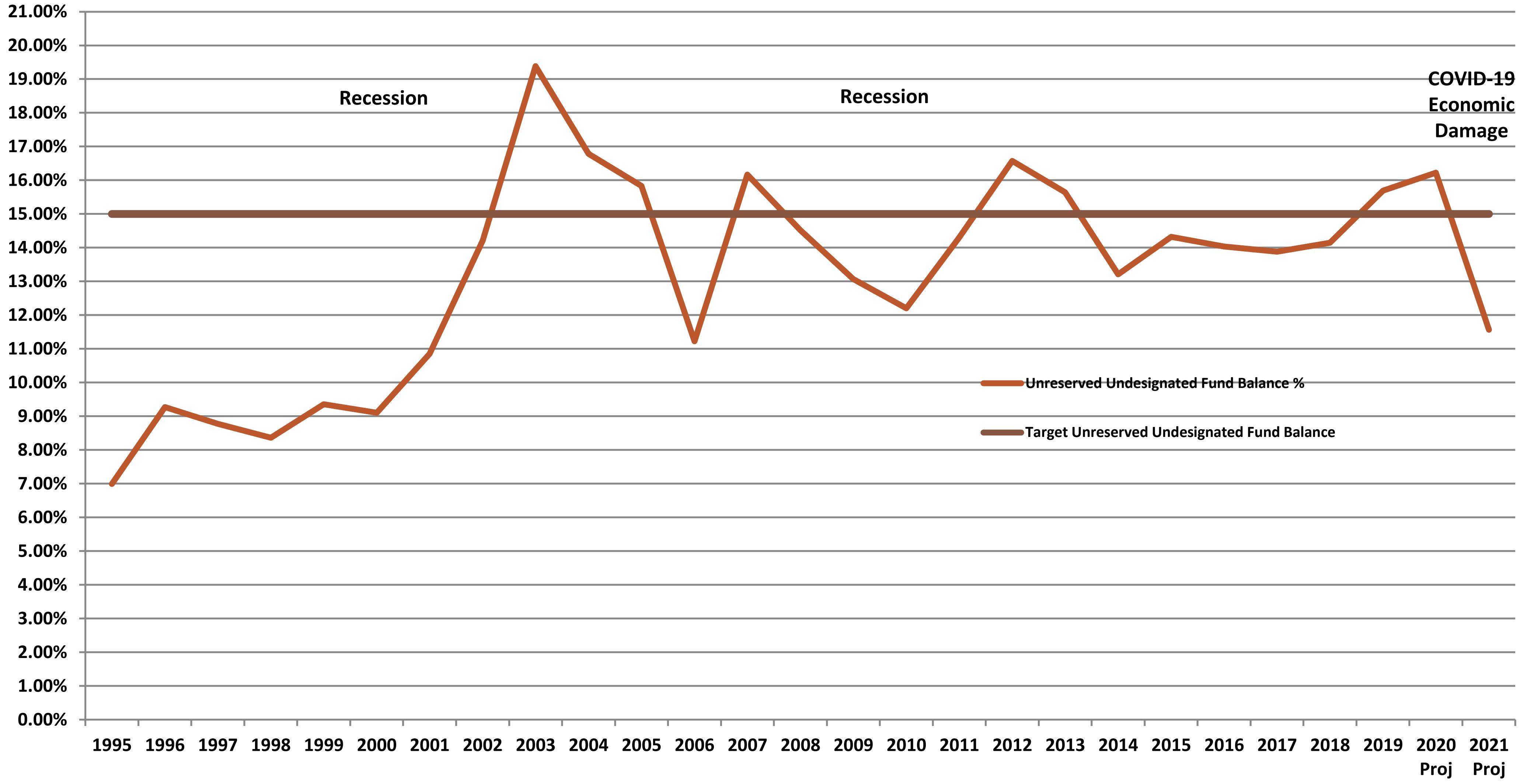


Room Tax Forecast



General Fund Unassigned Balance

1995 to 2019 Actual
2020 and 2021 Projected



2019 reflects $813,000 advance to Golf Enterprise; 2020 assumes advance reduced to $500,000

Federal and State Action

Federal Action

March 6 – Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020

- $8.3 billion – vaccine development; diagnosis; medical supplies; surge capacity building, public health efforts, surveillance, testing, infection control, mitigation, global health programs, research and training, evacuation costs

March 18 – Families First Coronavirus Response Act (FFRCA) -- ~$150 billion

- Two weeks mandatory, paid emergency leave; FMLA expansion; refundable tax credits to cover cost (less than 500 employees and all public sector employers)
- Free testing (without deductibles or copayments)
- Temporary 6.2% increase in federal share of Medicaid
- Unemployment benefits ($1 billion)
- Nutrition assistance ($1.4 billion)

"Phase Three" -- Senate CARES Act – possibly upwards of $2 trillion for direct payments to families and individuals, small business loans, direct assistance to companies (airlines, etc.), corporate tax cuts, public health, nutrition, higher education loan provisions.

Next Steps – Additional economic stabilization and recovery funds will be necessary; aid to states (and possibly cities) to address revenue losses (direct aid; further increases in Medicaid share).

State Action

Waiver of Work Search for Unemployment Benefits

Direct action on public health orders

Considering legislation sometime in the Spring

City Budget Impacts and Response

2020 Budget

At this point in the fiscal year (still in first quarter), agencies currently have sufficient budget authority for immediate response needs.

Contingent Reserve is $1.8 million

Spending on COVID-19 Emergency not subject to state Expenditure Restraint Limits

Budget amendment resolution(s) will be necessary at some point.

2020 First Quarter Projection will further identify budget pressures and possible areas for reallocation to higher priorities.

Administrative Actions

Mayor anticipated provisions in federal Families First Coronavirus Response Act (FFRCA) by issuing guidance on emergency paid leave to address COVID-19 impacts. An Emergency APM is being drafted that will eventually be followed up with a resolution and ordinance.

New hiring and non-essential purchases will be more closely reviewed (similar to August 2019 actions).

Reviewing options for deferred payment of property tax installments and water bills (both require state action); also reviewing options for deferral of other fees and modifications of contracts to meet emergency needs.

COVID-19 Response Costs

Public Health began tracking costs in January; remaining agencies began March 10th

City costs to date = $125,000 (excluding staff costs)

Costs will increase with purchase of emergency supplies, IT equipment and subscriptions for remote work and meetings, and staff time.

Expenses will be closely tracked for reporting purposes and potential federal reimbursement programs.

2021 Budget Outlook and Process

The economic damage from COVID-19 response will impact 2021 budget

- Already anticipated a budget gap before COVID-19 due to cost-to-continue and collective bargaining agreements.
- Revenue base will be considerably weaker.
- Replenishing fund balance will need to be a priority.

COVID-19 response is an organization-wide effort; capacity is limited for a “normal” budget development process.

- Focus on “cost-to-continue” current services and COVID-19 recovery
- Defer capital budget kickoff to May; 2021 budget and CIP would only be adjusted for recovery efforts.