

County Revenue Considerations

May 8, 2020

In the midst of the COVID-19 pandemic, WCA is working to assist counties with the inevitable reduction in local revenue (sales tax, property tax, county fees, state support, etc.). Recent news, including the potential Act 185 property tax delay, revised estimates from the Legislative Fiscal Bureau indicating unprecedented declines in state revenues, and new county sales tax estimates from Forward Analytics illustrate revenue reductions for which counties must begin preparing. Below are a few areas counties may wish to consider when making financial decisions for the current and upcoming year.

Revised Sales Tax Estimates

In early April, Forward Analytics provided county officials with estimates of sales tax revenue reductions as a result of COVID-19. Since then, more information has facilitated updated estimates. The new information includes:

1. March estimates of retail sales from the Bureau of Economic Analysis showing taxable retail sales falling 7% from prior year numbers and food service sales down 23%.
2. Figures from the Department of Revenue and Legislative Fiscal Bureau showing that April sales tax collections (reflecting March sales) were down 9.9% from previous year; collections from food service and drinking establishments were down 38%.
3. A Department of Labor report of 20.5 million jobs lost nationally in April resulting in an unemployment rate of 14.7%. The true unemployment rate is closer to 18% when accounting for those who have left the labor market.
4. Wisconsin initial unemployment claims from March 15 through May 15 increasing from 25,579 in 2019 to 339,920 in 2020. These numbers indicate Wisconsin's unemployment rate will likely be in the high teens in April.
5. A Congressional Budget Office estimate that unemployment will average 16% in the third quarter of 2020 and 11.7% in the fourth quarter.

Two sets of sales tax estimates are attached. The first set of estimates are those prepared a month ago assuming a two month "safe at home" order. The second set makes that same assumption but assumes a slower recovery for the economy.

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State Revenue Picture

As expected, state revenues are being adversely impacted by the COVID-19 pandemic. Recently, the Legislative Fiscal Bureau released a memo indicating state tax collections in April were down \$870 million compared to collections in April 2019. Department of Administration (DOA) Secretary Brennan recently announced a 5% general fund lapse for fiscal 2019-2020 (the state's

fiscal year concludes June 30, 2020). DOA has indicated the \$75 million lapse in the current fiscal year is likely only an initial step to attempt and keep the state budget balanced. Recent conversations between WCA staff, the Governor's office, and legislative leaders indicate future spending reductions will likely be necessary in the current as well as the upcoming state fiscal year. This could result in reduced aid to county governments.

LFB Memo

See a Legislative Fiscal Bureau memo [here](http://docs.legis.wisconsin.gov/misc/lfb/misc/207_april_2020_general_fund_tax_collections_5_6_20.pdf):

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County Cash Flow

Counties have historically undertaken cash flow analysis as a tool to identify fluctuations in cash balances throughout the fiscal year in order to better manage the allocation of short, mid and long-term investments. This analysis will take on a new level of importance starting in fiscal 2020 as COVID-19 will have a significant and immediate impact on the magnitude or timing of certain revenues including sales tax, property tax, fee collections, and the potential for reduced state support.

WCA's financial partners at PMA have created a new cash flow model for counties that utilizes historical trends and current year budgetary assumptions to create a monthly revenue, expenditure, and cash balance forecast. The tool has recently been modified to provide multiple scenarios based on assumptions related to COVID-19, particularly in the areas of sales and property tax receipts.

We encourage counties to begin reviewing projected cash balance levels, especially in the third and fourth quarters of 2020 to identify any possible cash shortfalls and plan accordingly. All counties should begin considering cash flow and fund balance projections either in-house or with financial experts in the industry.

For questions, do not hesitate to contact the Wisconsin Counties Association at 866.404.2700.

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