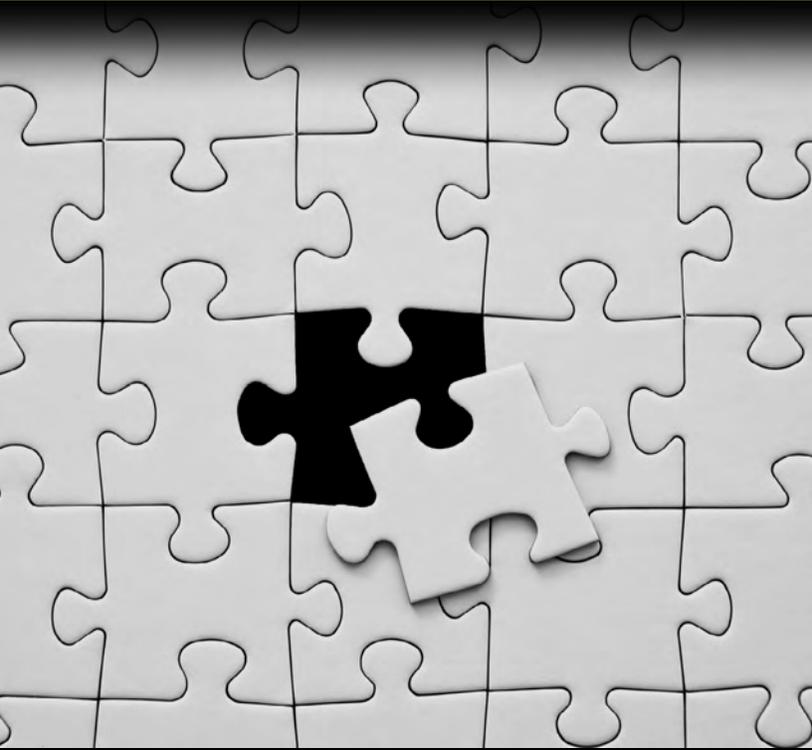




MARATHON COUNTY 2020 BUDGET REPAIR PLAN





To: HR, Finance & Property Committee Chairperson John Robinson and other members of the Committee
From: Lance Leonhard, County Administrator
Date: June 9, 2020
Subject: **2020 MID-YEAR BUDGET REPAIR PLAN**

Pursuant to the May 12, 2020, directive of the HR, Finance & Property Committee, I present to you this report on the financial condition of Marathon County. Specifically, this document is offered to provide a road map whereby the County can close one-half of the projected \$5.2 million deficit for the remainder of fiscal year 2020 through expenditure reductions and revenue enhancements. It is envisioned that the remaining \$2.6 million shortfall would be funded through the use of the County's Working Capital Fund.

Marathon County has a longstanding history of prudent fiscal management and this mid-year budget repair plan is in keeping with that history and the county's vision of being the Healthiest, Safest, and Most Prosperous County in the State of Wisconsin.

The Global COVID-19 Pandemic poses immense challenges to all levels of Wisconsin government. However, county governments are likely to be impacted to a greater degree than other types of government on both the revenue and expenditure sides of the budget. Experience also demonstrates that the recovery of the government sector will be far slower than that within the private sector.

Managing the fiscal ramification of the pandemic will require a balance of short-term and long-range planning, coupled with frequent re-forecasting. The financial environment, like the spread of the virus itself, is dynamic.

In the short period of time since the HR, Finance & Property Committee requested this report, we have seen the State unemployment rate increase to the highest level since the Great Depression, causing applications to our Economic Support staff to dramatically increase. Our Public Health professionals are working diligently to perform contact tracing, while also assisting local businesses understand and adopt best practices to prevent the spread of COVID-19 in our community.

Our experience is confirming what we have always known to be true, in challenging times the need for government services increases. It is with that in mind, that our financial leadership team has prepared this report.

In service,

A handwritten signature in black ink, appearing to read "L. Leonhard".

Lance Leonhard
County Administrator

REVIEW OF CURRENT FISCAL ENVIRONMENT

Revenue Assumptions

While the COVID-19 pandemic is likely to have impacts in each of the revenue streams comprising the county budget [1], this report will examine more closely three specific revenue streams that are expected to be significantly impacted in the remainder of 2020.

SALES TAX REVENUE SHORTFALLS

As a result of the COVID-19 pandemic, governments and private sector employers instituted a number of policies and practices to slow the spread of COVID-19 and allow our medical systems to acquire necessary personal protective equipment, develop critical care resources, and institute surge plans.

Examples of government policies enacted at the federal and state level include:

- International travel restrictions
- Closing of, or operating restrictions on, certain types of businesses (bars, restaurants, etc.,)
- Closing schools
- Shelter-in-place orders, restrictions on local travel (e.g., Safer At Home Order) [2]

COVID-19 and the corresponding policies enacted at the federal and state level, have led many employers to reduce their workforce through layoffs or furloughs, pursue telework strategies, and suspend business-related travel, all of which negatively impact county sales tax revenues. [3]

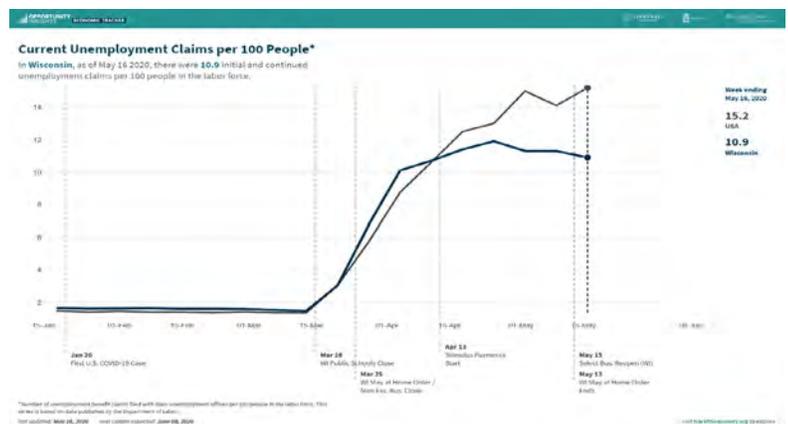
Sales Tax is a significant component of Marathon County's overall budget. In our 2020 budget, we assumed \$13,479,000 in sales tax revenues, an increase of nearly \$500,000 over 2019. Importantly, however, this figure was the full amount projected by the State of Wisconsin, essentially leaving us without any cushion in the event of an economic downturn.

Based on forecasting models from the Wisconsin Counties' Association, the COVID-19 pandemic could result in a \$1,924,860 reduction in sales tax revenue in 2020. [4]

PROPERTY TAX COLLECTION SHORTFALLS

Property tax collections are the single largest source of revenue within Marathon County's annual budget, accounting for approximately 30% of total revenues. In our 2020 Annual Budget, we anticipated receiving \$50,610,851 of property tax revenue.

While Property Tax revenues are projected to be far more stable than sales tax and other revenue streams, we nevertheless anticipate that the significant economic downturn, particularly the dramatic increase in unemployment, will result in an increase in the number of property owners unable to make their required property tax payments.



At this time, we are forecasting \$1,516,913 shortfall in property tax collections.

MISCELLANEOUS REVENUE

In the context of the Annual Budget, miscellaneous revenue includes a variety of revenues not otherwise accounted for in the primary revenue categories, most notably investment income. While our 2020 Annual Budget anticipated receipts of \$17,192,518, we are forecasting a reduction of \$1,031,551 in total miscellaneous revenues.

The primary reason for the shortfall is that the pandemic has significantly impacted the investment market. While the County has a sound investment policy that prioritizes security, liquidity, and yield, in that order, we are nevertheless subject to the challenging and ever-changing investment market. At this time we estimate that the County's investment income will decrease by 38% relative to the 2019 portfolio performance (approximately \$600,000).

Collectively, the revenue forecasts discussed above, as well as those smaller impacts in other revenue sources—such as Public Charges and Fines/Licenses—predict a \$5.2 million deficit over the remainder of 2020.

REVIEW OF CURRENT FISCAL ENVIRONMENT

Expenditure Assumptions

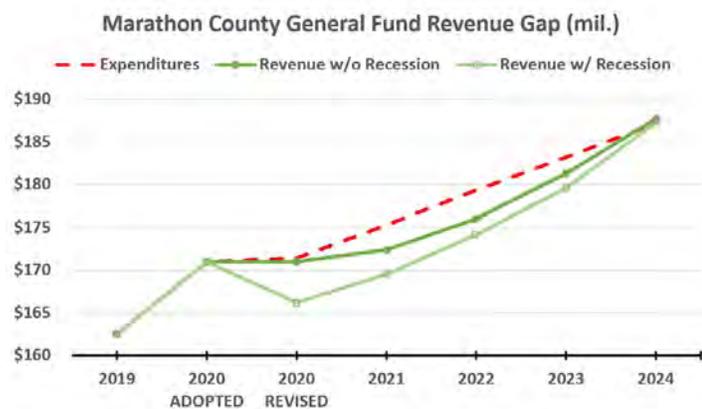
In addition to significantly impacting revenues, the COVID-19 pandemic is resulting in substantial unanticipated expenditures. The Health Department has been the department most clearly impacted by the pandemic with respect to both operations and budget.

As the local entity statutorily responsible for controlling, preventing, and suppressing the spread of communicable diseases, the Health Department has transformed its operations to carry out its mandate. Existing staff have been reassigned, and additional staff hired, to perform necessary public information activities and contact tracing and investigations. In addition we have had to procure alternative housing resources for individuals needing to isolate or quarantine that do not have suitable housing.

Other specific departments with statutory responsibilities relative to emergency response coordination and implementation have incurred additional unbudgeted expenditures (e.g., securing necessary mortuary resources in the event of a significant increase in need for decedent storage and the acquisition of necessary personal protective equipment for our staff).

Finally, like countless other employers, we have implemented a number of practices (e.g., increased telework, virtual meeting resources, facility modifications and signage, and enhanced disinfecting practices) that have required the expenditure of unbudgeted funds to procure the necessary technology and materials to allow us to continue to perform our work.

We continue to track COVID-19 related expenditures for potential reimbursement from both the federal and state government, as each has recently released various local aid packages. Our Finance Department is working with staff from our Health, Facilities, and Emergency Management Departments, to ensure that we are well positioned to apply for any aid and competitive grant funding. While we anticipate that our unbudgeted expenditures will be significant, this plan has been developed with the assumption that these expenditures will be reimbursed, in whole or in part, through federal and state aid and grant programs. Guidance regarding our ability to receive reimbursement is still being developed by federal and state entities and this plan will be updated as that information is made available to us.



Year	Expenditures	Revenue w/o Recession	Revenue w/ Recession
2019	162.5	162.5	162.5
2020 ADOPTED	171.0	171.0	171.0
2020 REVISED	171.4	171.0	166.2
2021	175.3	172.4	169.5
2022	179.3	176.0	174.2
2023	183.2	181.3	179.6
2024	187.2	187.7	187.3

APPROACH IN DEVELOPING THIS PLAN

Philosophy

In building this plan we have sought to preserve the level of services we provide to the community, particularly in our most critical program areas, and to maintain employment stability for staff.

Managing our projected budget shortfall by cutting essential services at a time when our residents most need them or by instituting mass layoffs, further increasing the number of local residents relying on unemployment, would not only be short-sighted, but would be contrary to our otherwise stated goals.



Process

As an organization comprised of twenty-one (21) individual county departments and four (4) departments operated in cooperation with other municipal governments, we understood that to develop a meaningful plan, it must be department led and implemented.

To gather accurate, up-to-date information from each of our departments, our financial leadership team developed a Department Budget Survey ^[5], seeking information on opportunities for the following:

Expenditure Reductions

- Personnel – anticipated vacancies, potential staffing changes, travel cost savings
- Capital projects & Contractual services

Enhanced Revenues

- Improving Cost recovery
- Grant funding

Program Prioritization Opportunities – use of Priority Based Budgeting

- Service-level Reductions in Quartile 3 or 4 programs
- Savings associated with programs suspended as a result of COVID-19

Process Improvement Potential Savings

- Identifying opportunities for savings from IDEAS Academy improvement events

Miscellaneous

- Outside-the-box solutions

BUDGET STRATEGIES

2020 Budget Deficit Management Strategies

Our strategy to reduce the anticipated 2020 budget deficit is built upon the framework set forth above. Ultimately, the plan before you today provides for savings of \$2.45 million in 2020.

In broad terms, we intend to accomplish those savings as follows:

- Personnel cost reductions ≈ \$1.1 million
- Travel & Training reductions ≈ \$150,000
- Contractual & Material savings ≈ \$850,000
- Inmate Housing reductions ≈ \$225,000

Our Finance Department must work with individual departments to monitor our progress toward these targets, providing periodic updates to elected officials.

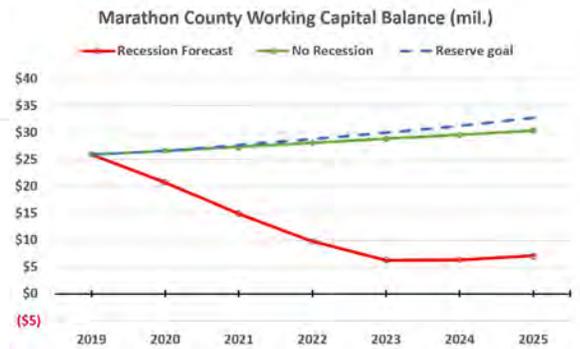


Chart illustrates the impact on Working Capital Balance in the event the county were not to take any mitigation measures.

Desired Working Capital Goal: \$25 Million

Year	Recession Forecast	No Recession	Reserve Goal
2019	25.9	25.9	25.9
2020	20.7	26.6	26.6
2021	14.9	27.4	27.7
2022	9.8	28.1	28.8
2023	6.2	28.9	30.0
2024	6.3	29.6	31.2
2025	7.1	30.4	32.7

2021 Budget Building Strategies

To that end, we have begun estimating the fiscal impact of various strategies, building on those referenced above, to minimize the need to supplement operational expenses with Working Capital Funds. While this work is in its early stages, we have identified several long-term areas worthy of further examination.

- Improve Use of Customer Facing Technology to Increase Efficiency
- Restructuring of Departments due to Operational Changes
- Additional Personnel Cost Reduction Strategies (e.g., cross-departmental position sharing, retirement incentive)
- Facility Consolidation
- Cost Recovery Enhancements
- Alternative Long-term Capital Funding strategies

Some of the initiatives above were referenced within the Annual Work Plan; however, resources were diverted from these activities to manage the County's pandemic response. Identifying resources to move these initiatives forward will be challenging, particularly given that a significant component of our 2020 Budget Repair Plan provides for sustaining operations with reductions in staffing in numerous departments, including Administration and Finance.

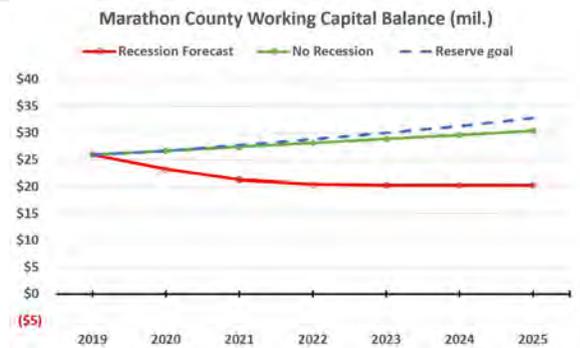


Chart illustrates the impact on Working Capital Balance in the event the county adopts mitigation measures suggested.

Year	Expenditures	Revenue w/o Recession	Revenue w/ Recession
2019	162.5	162.5	162.5
2020 ADOPTED	171.0	171.0	171.0
2020 REVISED	171.4	171.0	166.2
2021	175.3	172.4	169.5
2022	179.3	176.0	174.2
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CONCLUSION

While this report, and the road map within it, is a meaningful first step to addressing the fiscal ramifications of the COVID-19 pandemic, it is merely a first step. We must continue to plan to address the intermediate and long-range challenges that we know will confront us in 2021, 2022, and beyond. While the challenge before us is significant, we are united in our focus on achieving our goal of being the Healthiest, Safest, and Most Prosperous County in the State of Wisconsin, and I am confident that Marathon County Government will continue to serve as a leader in both the quality of services that we deliver and in our fiscal management.

SOURCES

1. *Marathon County 2020 Annual Budget (last accessed June 8, 2020):*
https://www.co.marathon.wi.us/Portals/0/Departments/MCF/Documents/Final2020BudgetBook_AdminApproved10142019.pdf.
2. *Safer at Home Order (last accessed June 9, 2020):* <https://evers.wi.gov/Documents/COVID19/EMO28-SaferAtHome.pdf>
3. *COVID-19 and County Sales Tax Revenues, Forward Analytics, March 30, 2020 (last accessed on June 8, 2020):*
<https://files.constantcontact.com/77ea05ac001/47860bed-c11b-403a-ba70-d3a21ddb77b1.pdf>
4. *COVID-19 and County Sales Tax Revenues, Forward Analytics, May update (last accessed on June 8, 2020):*
<https://files.constantcontact.com/77ea05ac001/57cd516c-a575-4fe2-b76b-a5ed7d4555d5.pdf>
5. *A copy of the Department Budget Survey is appended to this report (page 7).*

APPENDIX: DEPARTMENT BUDGET SURVEY

BACKGROUND:

Based on the most recent information available, we anticipate that we will close 2020 with a \$5.2 million budget deficit due to the economic impacts associated with the COVID-19 pandemic. On May 12, 2020, the HR, Finance & Property Committee directed County Administration to prepare a plan to reduce the projected shortfall to \$2.6 million during the remainder of 2020. The additional \$2.6 million would then be absorbed through a transfer from working capital.

This survey is meant to gather important information to aid Administration in developing the mid-year budget repair plan. For us to be successful in accomplishing the Committee's directive, we are all going to need to take part in developing and executing a multifaceted approach. As I referenced in my previous communications, I am committed to doing all we can to minimize the potential for layoffs and preserve income stability for our staff. To accomplish that goal, I am asking each of you to dedicate yourself to completing the survey below and to finding ways over the next second half of the year (and beyond) to reduce expenses and enhance revenues.

Given the 2020 budget repair target set by the HR, Finance & Property Committee, please outline any plans or opportunities you see within your department to realize a $\geq 3\%$ savings in your overall budget for the remainder of 2020. Outlined below are a few thought starting questions, please answer these and also include any other upcoming plans/ideas you have in regard to expenditure control and/or enhanced revenue generation opportunities.

EXPENDITURE REDUCTIONS:

- What travel related costs were budgeted this year within your department that will no longer need to be paid/reimbursed due to travel restrictions?
- Are there any known/anticipated vacancies upcoming? (Please provide specifics on position, timing, budget impacts, and operational/service implications if positions are not filled)
- Do you anticipate any planned staffing changes that will impact your budget, seasonal/part time headcount reductions?
- Are there any programs or contractual services that you can renegotiate for 2020 due to change in scope, reduction in services, closures, underutilization/lack of participation, or under-performance due to the pandemic?
- Are there any CIP projects, vehicle acquisitions, material/supply purchases that can be postponed, canceled, or reconsidered for any type of savings/cost avoidance? (ex: delaying vehicle replacement)
- Are there any new ways that you have discovered to reduce costs of materials or supplies or efficiencies that you have developed due to working remotely?

ENHANCED REVENUES:

- Are there any opportunities to increase fees to maximize program cost recovery? (Explain if you are capturing 100% cost recovery in the respective fees you are charging.)
- Have you applied for/been approved for any new grants or other forms of funding?
- Are you planning to recover any lost revenues from COVID-19? (Please provide specifics on budget impact and funding source(s).)

PRIORITY BASED BUDGETING – PROGRAM PRIORITIZATION INFORMATION:

Think about priority based budgeting quartiles/requirements/current climate: Are there any programs that could be suspended/eliminated to assist in achieving the savings target? Could program resources be reallocated? Please utilize your PBB program list in answering this question and indicate the potential savings in fiscal year 2020.

- Are there any programs you will not be running for the remainder of the year in response to COVID-19? (Please provide specifics)
- Are there service-level reductions you could implement in Quartile 3 or 4 programs and what cost savings would result?

PROCESS IMPROVEMENT POTENTIAL COST SAVINGS:

- Do you see any opportunity for process improvement/refinement that may equate hard dollar cost savings moving forward? (Please indicate where you are in this process and if you would like support from IDEAS Academy)

MISCELLANEOUS:

- What other plans/ideas have you come up with within your department in regard to expenditure control and/or enhanced revenue generation opportunities?

TOTAL BUDGET IMPACT:

- Considering all plans and opportunities what do you anticipate to be the total budget impact for your department for the remainder of 2020?
- In the event that you have not identified 3% or more of your total department budget using the prompting questions above, please identify how your department would achieve that goal?



Marathon County's goal is to be the healthiest, safest and most prosperous county in Wisconsin.

Marathon County: 2020 Budget Repair Plan

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