City of Milwaukee

Department of Administration
Budget and Management Division

Cavalier Johnson
Mayor

Sharon Robinson
Administration Director

Nik Kovac
Budget and Management Director

November 1, 2022

MEMORANDUM

To: Mayor Cavalier Johnson
Common Council
City of Milwaukee

From: Nik Kovac, Budget & Management Director

Subject: Calculating allowable ARPA spending in the revenue loss category

The American Rescue Plan Act (ARPA) includes a provision for lost revenue usage. It allows the amount of lost revenue from the pandemic to be used to fill budget shortfalls and avoid cuts to services. The City can spend these funds on almost any government service or expenditure except debt interest and principal payments, direct pension contributions, and replenishing reserves.

The amount of revenue loss is calculated through a formula using allowable revenues. The allowable revenues are included in the US Treasury guidelines. They exclude internal transfers between funds, utility revenue, and payments from the Federal Government. Using these guidelines, City revenue for 2019 was $831.3 million.

The formula from US Treasury then calculates what the revenue should have been under normal circumstances in 2020. In a prior memo from the Budget and Management Division to these same recipients, dated August 31, 2021, we used the contemporaneous draft advice from US Treasury which offered the option of multiplying the 2019 revenue amount by either an annual growth rate of 4.1% or the actual average growth between 2015 and 2018, whichever is greater. For Milwaukee, the annual growth of 4.1% was greater than actual growth in those prior four years, so we used 4.1% in our calculations at that time.

Subsequent to August of 2021, in early 2022 the US Treasury updated its draft guidelines and allowed municipalities to use an annual growth rate of 5.2%. The updated calculations for 2020 are shown in the table below.

2020 Actual Revenue Loss Calculation

2019 Actual Revenue	Assumed Growth Rate	2020 Assumed Revenue	2020 Actual Revenue	Revenue Loss
$831,273,000	X 5.2%	$874,499,196	$811,738,000	($62,761,196)

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The 2021 memo, using the lower 4.1% multiplier, produced an allowable revenue loss amount of $53,617,193, and this is the amount we initially assumed was allowable in the 2022 budget. The actual allowable amount with the updated 5.2% multiplier was $62,761,196. This difference of $9,144,003 was then carried over into our calculations for 2021, which are shown in the table below.

2021 Estimated Revenue Loss Calculation

2020 Assumed Revenue	Assumed Growth Rate	2021 Assumed Revenue	2021 Actual Revenue	Revenue Loss
$874,499,196	X5.2%	$919,973,154	$847,630,000	($72,343,154)

As authorized by the Common Council in January 2022 via file #211526, some first tranche ARPA allocations that were not eligible in their originally slated categories were then switched into revenue loss during calendar year 2022. Those adjustments reduced the carryover amount from 2020 still available to $7,270,255, leaving a revised revenue loss limit of $79,613,409 from the 2021 calculations.

It is important to note that this current “limit” is based on our most recent year-end actuals, which is why we are still using 2021 calculations in the calendar year 2022 to budget for the year 2023. Once we know our 2022 year-end actuals in the calendar year 2023, we will then be able, if necessary, to use those updated numbers when ensuring that our revenue loss expenditures in 2023 are within federal limits. Just as we are currently expecting to use some 2020 carryover to raise the limit based on 2021 calculations for the 2023 budget, we could also go in the other direction and eventually apply 2022 revenue loss amounts for the 2023 budget. Doing so would, however, reduce the amount of carryover we would then have available for the 2024 budget.

Using the 5.2% multiplier on the 2021 assumed revenue amount of $919,973,154 will yield a 2022 assumed revenue amount of $967,811,758, which is an increase of $47,838,604. We do not yet know how much the 2021 actual revenues of $847,630,000 will increase by 2022 year-end, but we expect it to be less than the actual increase of revenues from 2020 to 2021 ($35,892,000) because the COVID effects which caused 2020 actual revenues to be lower than 2019 actual revenues were not as present in 2021 nor in 2022 so far. In other words, we do expect the amount of allowable revenue loss to be higher next year than this year, although we can’t say with certainty by how much yet.

Our recommendation continues to be that we use the certainty of the “in-hand” numbers we already know from the most recent calendar year-end, because it best to be conservative when making decisions that could affect compliance with grant guidelines. It also provides flexibility in future budget years.

NK:cei

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