COVID-19 Updates and Resources for Local Governments

Monday, May 4, 2020
COVID-19 Updates and Resources for Local Governments Webinar  
Monday, May 4, 2020  
2 pm – 3:30 pm

I. Welcome & Introductions  
Joyce Parker, Deputy Treasurer of State and Local Finance, Department of Treasury

II. Michigan Economic Forecast  
Gabriel Ehrlich, Research Seminar in Quantitative Economics (RSQE)

III. FEMA Update  

IV. The State Budget Process  
Bethany Wicksall, Director of Legislative and External Affairs, State Budget Office

V. Local Government Budgeting and Projections  
Eric Walcott, Government and Public Policy Specialist, Michigan State University  
Stephanie Leiser, Lecturer in Public Policy, University of Michigan

VI. Question and Answer

VII. Closing Remarks  
Joyce Parker, Deputy Treasurer of State and Local Finance, Department of Treasury
Welcome & Introductions

Joyce Parker
Deputy Treasurer
of State and Local Finance,
Department of Treasury
Michigan Economic Forecast

Gabriel Ehrlich
Director, Research Seminar in Quantitative Economics (RSQE)
High-Frequency Economic Indicators
Weekly Initial Unemployment Insurance Claims

US (Thousand, SA) vs. MI (Thousand, SA)
- US Initial Claims (LH)
- MI Initial Claims (RH)

Chart showing the weekly initial unemployment insurance claims for the US and MI from 2005 to 2020.
Local Business Trends (Michigan)

Source: Homebase

RSQE: May 2020
COVID-19 Projections for Michigan

Source: University of Michigan Epimath COVID-19 Modeling group, April 29
U.S. Economic Outlook
Real GDP Growth

BEA Advance Estimate
2020q1: -4.8%

Forecast

Percent, SAAR

2018  2019  2020  2021  2022

Annual Real GDP Growth
Quarterly Real GDP Growth
Quarterly U.S. Unemployment Rate

- 2020q2 average: 14%
- Monthly peak of 16% in May
- We are projecting many job losers will be counted as out of the labor force rather than unemployed
- If not, unemployment rate could rise above 20%

RSQE: May 2020
Michigan Economic Outlook
U.S. Light Vehicle Sales, 1990–2022

Units (Millions)

- Autos
- Lt. Trucks
- Total

Forecast
• 2020q2: declines by 26%
Michigan Unemployment Rate, 2005q1–2022q4

- 2020q2 average: 23%
- Higher than national rate because of:
  - Michigan’s more cyclical economy;
  - The sharp decline in light vehicle sales;
  - Michigan’s relatively heavy burden of the disease; and
  - A smaller drop in the labor force participation rate.
Michigan Personal Income, 2005q1–2022q4

[Graph showing Michigan Personal Income from 2005 to 2022, with a forecasted line extending beyond 2020.]

RSQE: May 2020
RSQE Forecast – State Revenues by Fiscal Year
(Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual 2019</th>
<th>Forecast 2020</th>
<th>Forecast 2021</th>
<th>Forecast 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFGP revenue</td>
<td>11,126</td>
<td>9,361</td>
<td>9,505</td>
<td>10,484</td>
</tr>
<tr>
<td>(% change)</td>
<td>(1.6)</td>
<td>(-15.9)</td>
<td>(1.5)</td>
<td>(10.3)</td>
</tr>
<tr>
<td>Earmarked state SAF revenue</td>
<td>13,561</td>
<td>13,014</td>
<td>13,160</td>
<td>14,024</td>
</tr>
<tr>
<td>(% change)</td>
<td>(1.7)</td>
<td>(-4.0)</td>
<td>(1.1)</td>
<td>(6.6)</td>
</tr>
<tr>
<td>Combined change from Feb’20 forecast</td>
<td>0</td>
<td>-2,624</td>
<td>-3,167</td>
<td>-2,165</td>
</tr>
<tr>
<td>(% change)</td>
<td>(0.0)</td>
<td>(-10.5)</td>
<td>(-12.3)</td>
<td>(-8.1)</td>
</tr>
</tbody>
</table>
FEMA Update

Penny Burger
Grants and Financial Management Section Manager,
Michigan State Police
All Potential Applicants are Required to Attend

- 17 virtual briefings scheduled beginning May 4
- Divided into state districts but can attend any briefing that fits your schedule.

www.Michigan.gov/EMHSD

- FEMA related COVID-19 information, including
  - Briefing schedule and login information
  - FEMA Fact Sheets on eligible emergency protective measures, emergency medical care costs and documentation required to support costs.
The State Budget Process

Bethany Wicksall
Director of Legislative and External Affairs, State Budget Office
Michigan’s Budget Process

1. Budget Implementation: July-September
2. Governor’s Budget Recommendation: Late January/Early-February (March if new Governor)
3. First Revenue Estimating Conference: Mid-January
4. Governor’s Budget Review: Mid-June
5. Conference Committee Action: Late May/Early-June
6. Set Budget Targets: Mid-May/Late May
7. Subcommittee Deliberations: February thru April
8. Appropriations Committee Review: April
10. First House Floor Action: Mid-April
11. Second House Floor Action: Mid-May
12. Second House Committee Deliberations: April thru May
13. Prepare for Next Budget: September thru January

The cycle then repeats with updated information and priorities.
Breaking Down the Budget

Total Budget

- Federal/Misc. Funds
  - $23.4 billion
- School Aid Fund
  - $14.1 billion
- Transportation Funds
  - $3.6 billion
- Other Restricted Funds
  - $7.0 billion
- General Fund
  - $10.6 billion

- Total Budget: $58.7 billion
- Restricted Funds: $10.6 billion
- General Fund: $14.1 billion
- School Aid Fund: $23.4 billion
- Transportation Funds: $3.6 billion
- Federal/Misc. Funds: $14.1 billion
Over 75% of the combined GF and School Aid Budgets go out to local governments, school districts, and external health providers.

Combined GF and SAF Budget: $24.7 Billion
$10.6 Billion General Fund: Over 80% of GF/GP appropriations are for health care, protecting vulnerable children and adults, public safety, and education.

Other Major GF Equivalent:
Statutory Revenue Sharing - 5%
Income Tax for Roads - 4%
The state’s Rainy Day Fund balance is nearly $1.2 billion, which equates to less than 5% of combined GF and SAF revenue.
Federal CARES Act

- Coronavirus Relief Fund
  - $3.1 billion to the state for the following:
    - Necessary expenditures incurred because of the COVID-19 public health emergency;
    - Costs not accounted for in the most recently approved State budget as of the date of enactment; and,
    - Costs incurred between March 1, 2020, and December 30, 2020.

- Supposed Deal between Congressional Democrats and US Treasury on retroactive flexibility to use as revenue backfill in next package.
- Congressional Democrats making additional State and Local funds high priority in next package.
Budget Timeline

• Current State Action –
  • Hiring Freeze
  • Discretionary Spending Freeze
  • Temporary layoffs of nearly 3,000 state employees
  • Evaluate other potential budget reductions
• Consensus Revenue Estimating Conference – May 15
• Balance FY 20 Budget soon after
  • Executive Order or Negative Supplemental Reductions
• Begin FY 21 Budget discussions
  • Revisit revenue estimates in August after postponed income tax collection in July
Local Government Budgeting and Projections

Eric Walcott
Government and Public Policy Specialist, Michigan State University Extension
Planning for Reduced Operating Expenses

• Consider long-term impacts of spending cuts
• Avoid across the board cuts that take funds away from higher priority programs and services
• Prioritize cuts that have a short time-to-benefit, are not complex, and are easily reversible
Before making expenditure decisions:

- Understand your financial position and clearly articulate the goal of any budget cuts or changes
- Examine rainy day fund
Proven Strategies

• Act quickly
• Take a long-term view
• Focus on core mission
• Foster creativity
• Manage revenue as carefully as expenditures
• Look for areas of consistent surplus in prior budgets
Actions Communities Are Taking

- Hiring Freeze
- Furloughs, split shifts, reduced hours
- Delaying or temporarily eliminating programs
- Postponing capital expenditure
  - Caution when delaying maintenance, as it may have greater long-term costs
Budget Planning

• Frame the process around strategic plans and priorities
• Pressures may vary based on fiscal year
• Get comfortable with uncertainty
  • Use the best information you have, look at prior experience, plan for multiple scenarios
Forecasting Tools Streamline Budget Evaluation

• Use forecasting software or Excel to test different revenue scenarios (best, worst, moderate)
• Evaluate different cost reductions needed to keep expenditures in line with revenues
• Set fund balance thresholds and ensure they can be met
• Use the results of the different forecast scenarios to communicate with elected officials and the public
  • Update the forecast model as conditions change
  • Amend budgets if needed to maintain reserves and critical services

Stephanie Leiser
Lecturer in Public Policy, University of Michigan

Collaborators:

- Center for Local, State, and Urban Policy (CLOSUP), Ford School of Public Policy, UM
- MSU Extension – Center for Local Government Finance & Policy
- Eastern Michigan University
- Oakland University
- UM – Dearborn
- Citizens Research Council of Michigan
- Southeast Michigan Council of Governments
- Municipal Analytics
- Guidehouse Consulting

- Advisory—Michigan Department of Treasury, Michigan Municipal League, Michigan Townships Association, Michigan Association of Counties

Topics will include:

• Reducing operating expenses
• Building budget models and scenarios
• Likely effects on property taxes and other revenue sources
• Sources of federal aid
• Cash management
• Debt management
• Adjusting CIPs and long-term planning
• Contracting and PPPs
• IT security and information systems
• More…

closup.umich.edu/COVID-19/
Questions
Contact & Website Information

Websites:

- [Treasury Local Government Website](http://Treasury.Local.Government.Website)
- [www.michigan.gov/revenuesharing](http://www.michigan.gov/revenuesharing)

Contact Information:

- Michigan Finance Authority (MFA): [TreasMFA@michigan.gov](mailto:TreasMFA@michigan.gov)
- Revenue Sharing: [TreasRevenueSharing@michigan.gov](mailto:TreasRevenueSharing@michigan.gov)