

Legislative Update



April 17, 2020



Regional Approach to Reopen Economies

- ◉ The governors of Michigan, Ohio, Wisconsin, Minnesota, Illinois, Indiana and Kentucky are working in "close coordination" to reopen their respective economies.
- ◉ Effort is focused on working together on a "phase-in" approach.
- ◉ Politically speaking this gives Governor's cover with their constituents as they likely will extend stay at home orders.



White House Plan

- Yesterday, President Trump released new guidelines.
- The [nonbinding guidelines](#) would be implemented at the discretion of state governors.
- The guidelines lay out a three-phase plan, with each phase gradually lifting restrictions for people, employers, and venues like theaters and houses of worship.



Phased Approach and Economic Implications

- ◉ One financial challenge of a phased approach is large scale manufacturing and the hospitality economy will continued to be harmed. Any workplace that has people in close proximity will continue to be closed.
- ◉ Less being produced, means people will consume less and governments will collect less in taxes.
- ◉ So although bringing things back online is welcomed news, expect a prolonged impact on the state budget.



Consensus Revenue Estimating Conference

- ◉ Expect the May CREC to be held on May 15th.
- ◉ Difficult to have sound revenue projections, but it will provide some insights.



Revenue Forecasting - U of M RSQE

- ◉ Forecasting the state will see a 15.9% dip in General Fund (\$1.7 billion) and a 4% dip in the state's School Aid Fund (\$550 million) for FY 2020.
- ◉ Projecting combined GF and SAF revenues to be \$2.6 billion lower in fiscal year 2020, \$3.2 billion lower in fiscal 2021, and \$2.2 billion lower in fiscal 2022.



Revenue Forecasting - U of M RSQE

- CAVEAT - Forecast assumes that the public health situation will improve sufficiently for the **economy to begin reopening in early June**, and that future outbreaks of the disease will not cause similarly widespread disruptions to economic activity going forward.

Figure 5
Quarterly Michigan Unemployment Rate, 2005q1–2022q4

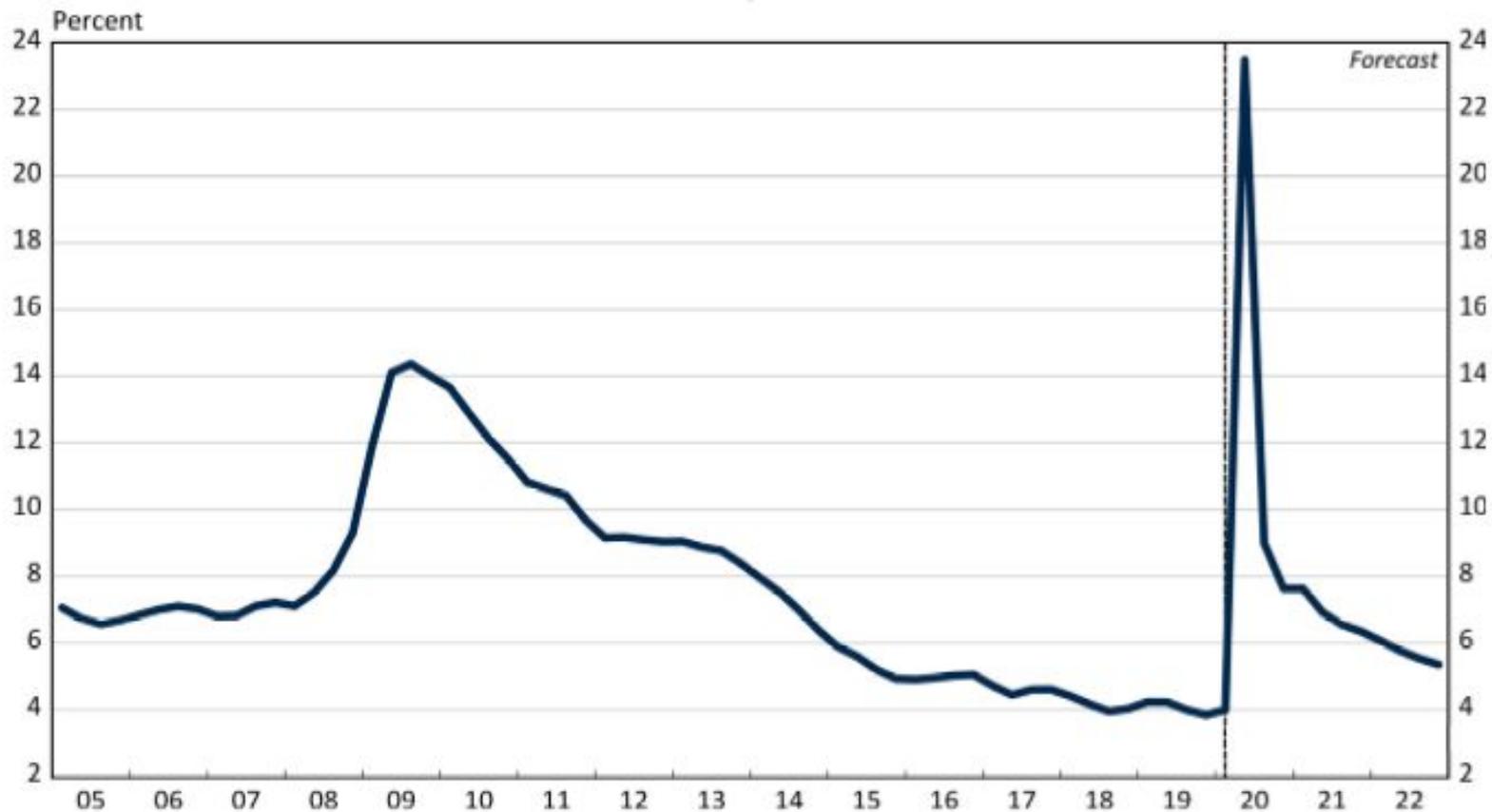


Figure 1
Quarterly U.S. Real GDP Growth, 2005q1–2022q4



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

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



Revenue/Savings Options

- ◉ Budget Stabilization Fund – \$1.2 billion.
- ◉ Federal Stimulus – CARES ACT – \$389 million
- ◉ Federal Stimulus – Governor Emergency – \$89 million
- ◉ MPSERS Debt Restructuring – \$800 million*
- ◉ Categorical Reductions – \$60 million*

- ◉ Will there be additional federal funds allocated? How long can the federal government sustain propping up our economy?



Negative Supplemental

- ◉ Senator Shirkey yesterday hinted towards a negative supplemental in early July.
- ◉ Emphasized they would do everything possible to avoid proration or foundation reduction.
- ◉ Negative supplemental means pulling back unspent line items, suspending new projects, etc.



Budget Timing Challenges

- ◉ Although our fiscal year runs until June 30, the state fiscal year runs on revenues generated through September 30.
- ◉ This makes it incredibly difficult to manage any proration especially given the restrictions placed on schools to continue paying staff under EO 2020-35.



Budget Process

- ◉ Legislation was passed that required the legislature to present the Governor a budget by July 1. They will not hit that timeline.
- ◉ A budget is only as good as the projections its built on.
- ◉ Expect delays in passing a budget. They likely have to rework debt, incorporate federal support and other policy changes to understand what revenues are available.
- ◉ If the prohibition on large gatherings continue they may need to move towards conducting some business remotely.



31a Spending Flexibility

- MDE has issued a [memo](#) allowing for additional flexibility for section 31a and section 41.
- Flexibility duplicates what's allowed under Title 1.



Other Information

- ◉ Unemployment has been extended from 26 weeks to 39 weeks.
 - Self-employed (1099 people) people are now eligible for unemployment
- ◉ Temporary suspension of state hiring.



Federal Stimulus (CARES ACT)

- President Trump signed the CARES act.
- K-12 portion is \$13.5 billion
 - Distributed same way as Title I funding to states.
 - Estimated Michigan will receive \$389.7 million.
 - Governor's Emergency Education Relief Fund is \$3.01 billion
 - Estimated Michigan will receive \$89.7 million



Federal Stimulus (CARES ACT)

- Allowable expenditures include:
 - Supplies for cleaning and sanitizing schools
 - Efforts to help students from low-income families, students with disabilities, English learners, “racial and ethnic minorities,” homeless students, and students in foster care
 - Coordinating long-term school closures, including meals, technology, and serving students with disabilities
 - Continuing to provide district-level services and employ staffers



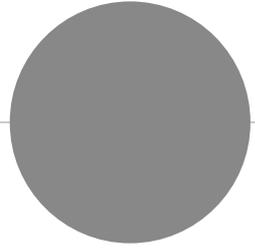
Federal Stimulus (CARES ACT)

- Allowable expenditures include:
 - Buying technology, including connectivity, to help students continue learning, including adaptive equipment for students with disabilities
 - Items principals need “to address the needs of their individual schools”
 - Mental health services
 - Planning and providing in-person or online summer learning programs and after-school programs



COVID-19 Relevant Links

- ◉ Governor's Executive Orders can be found [here](#).
- ◉ MDE Guidance can be found [here](#).
- ◉ MASA has a webpage with a number of relevant resources that can be found [here](#).



The End.