

# Economic and Fiscal Impact on State and Local Budget

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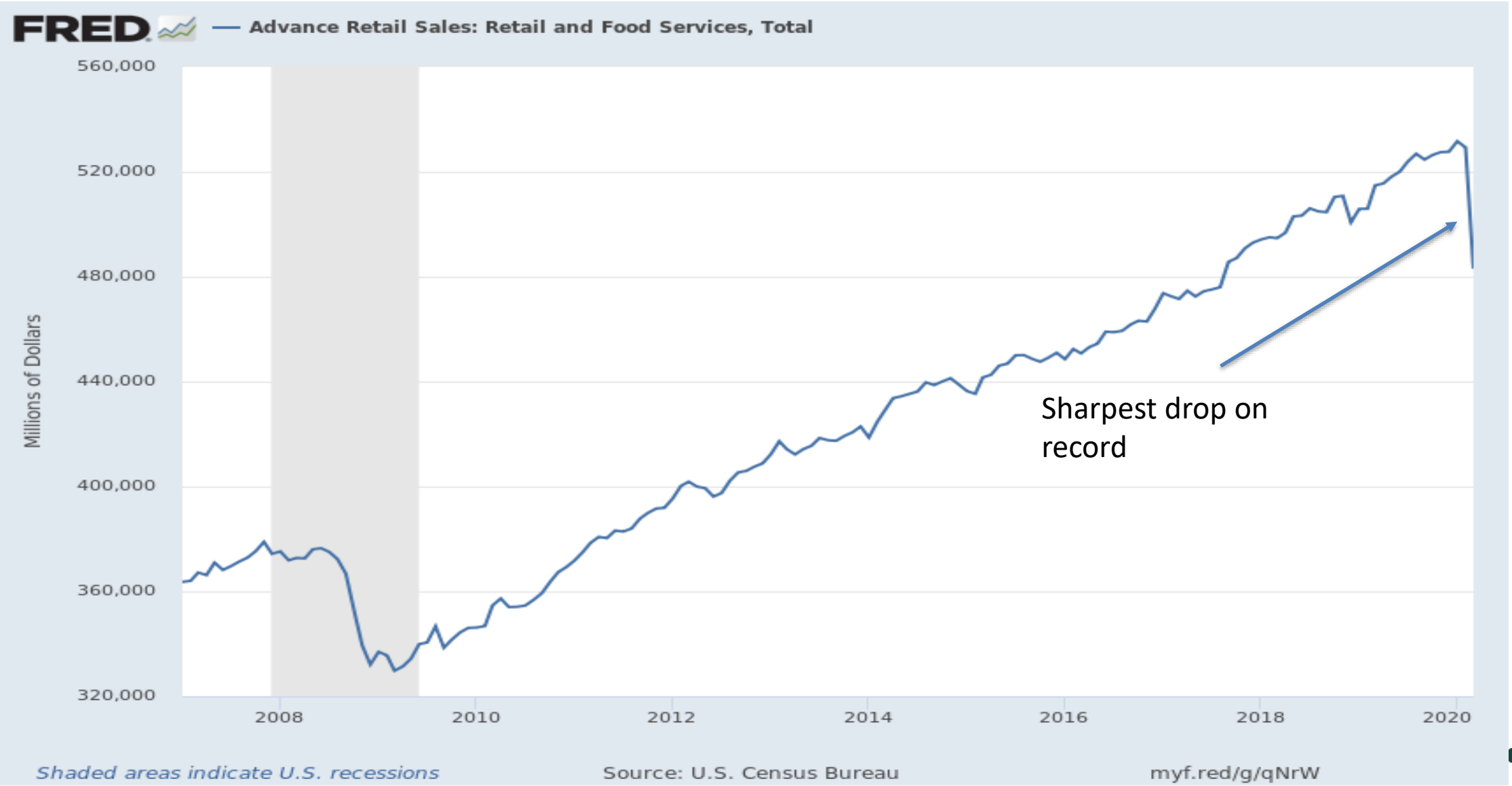
Michigan State University

&

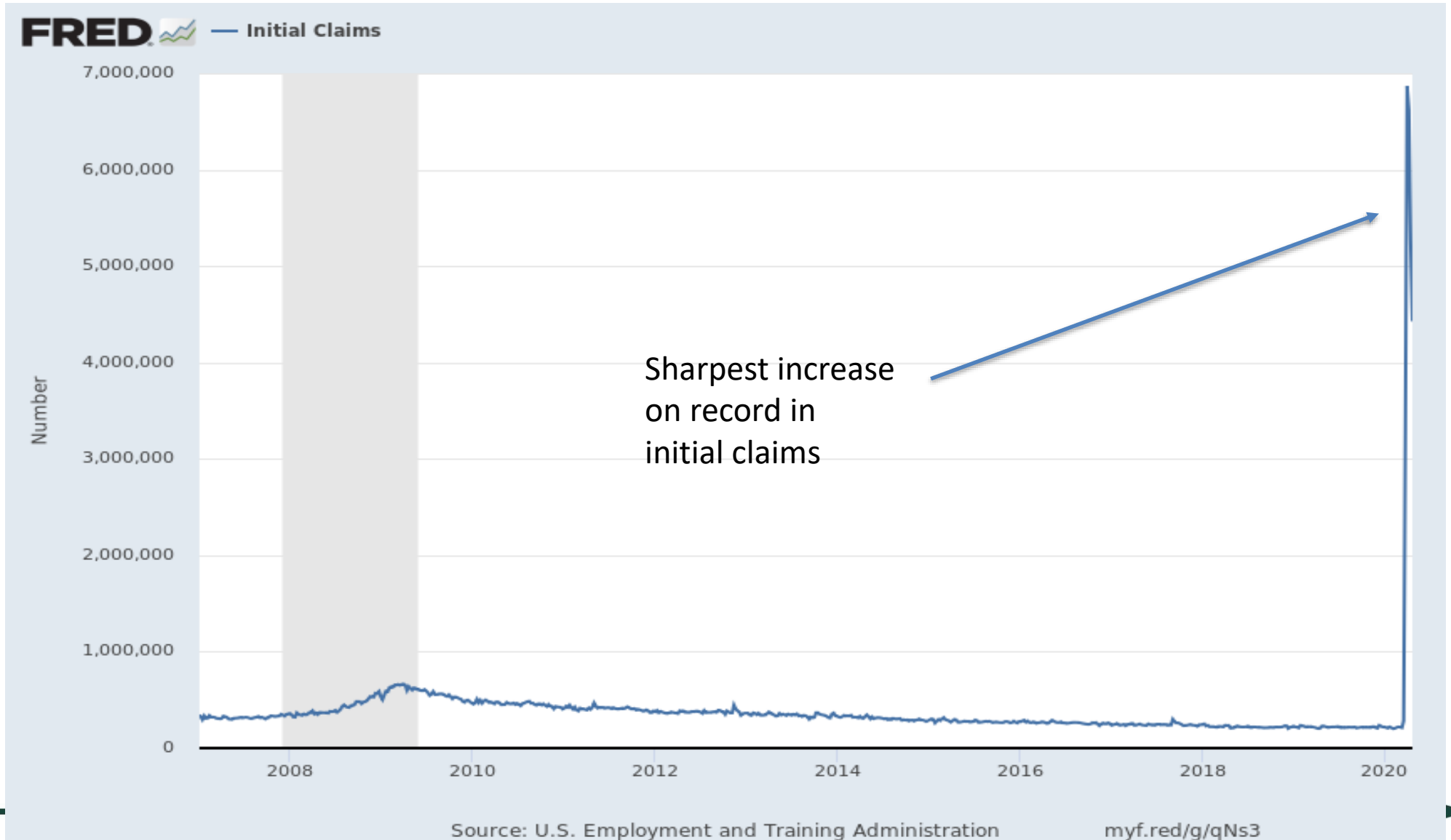
Senior Advisor


City of Flint, MI Mayors Office

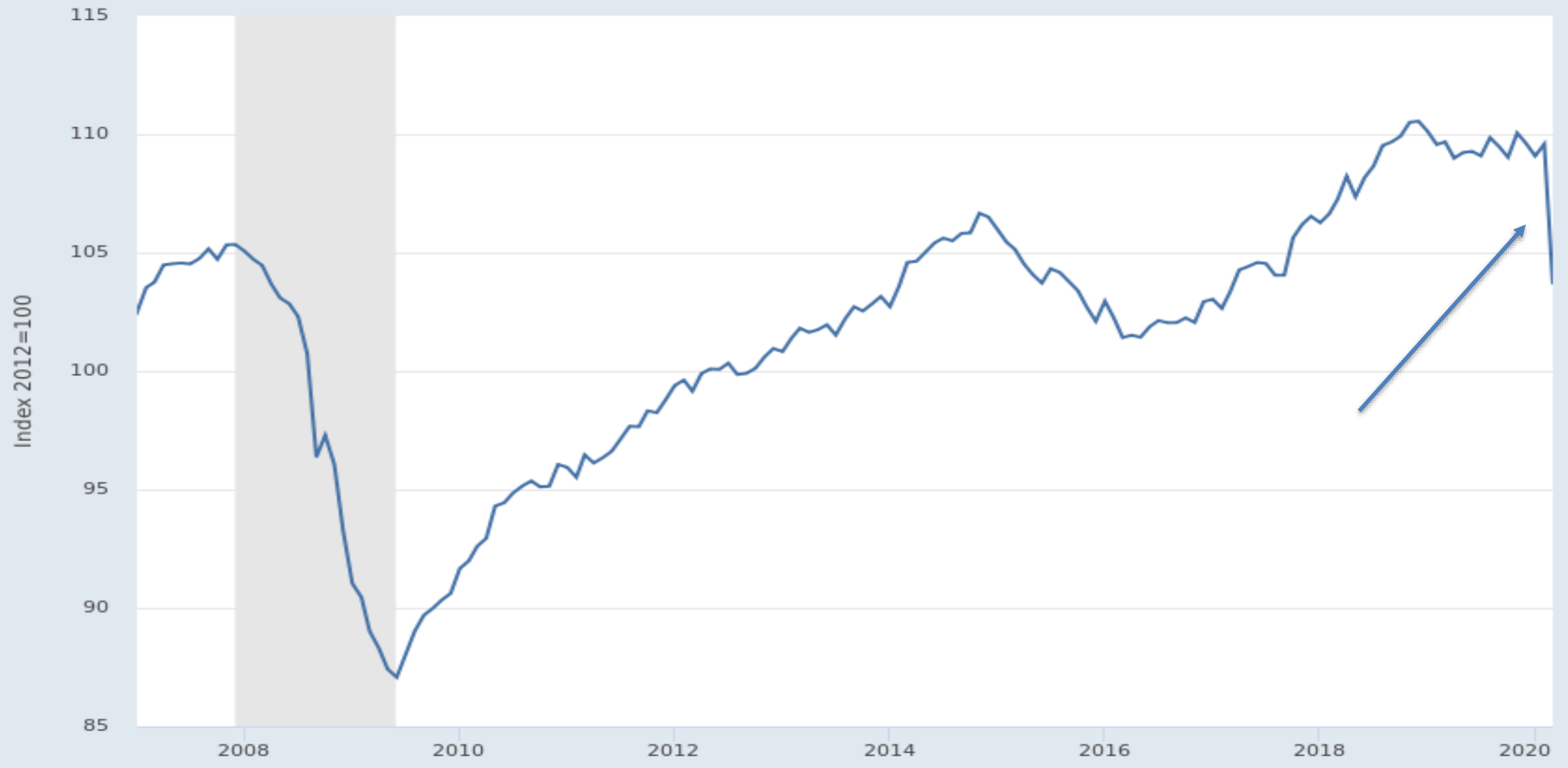
## SECTION ONE: ECONOMIC OUTLOOK



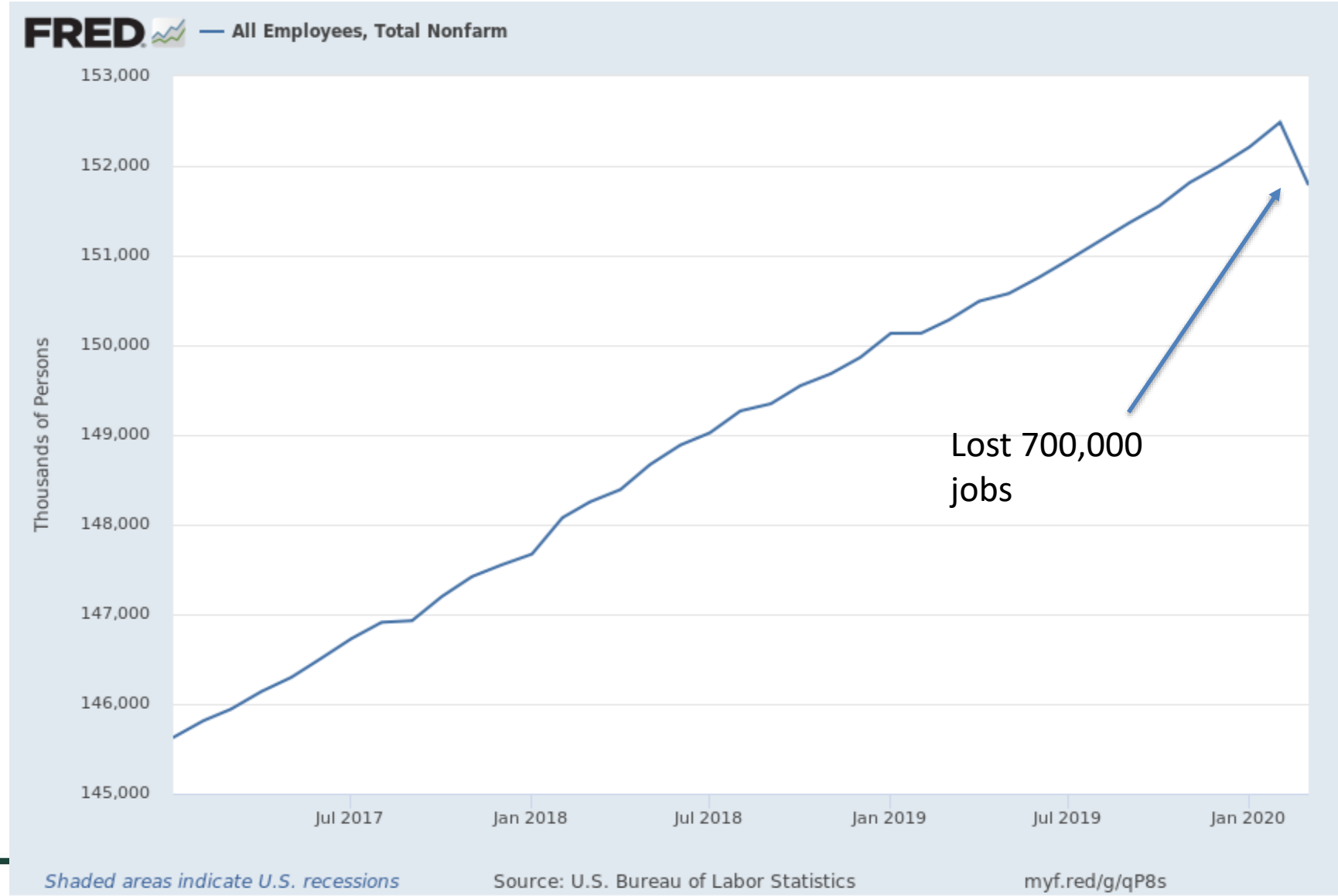
Unemployment  
, initial claims

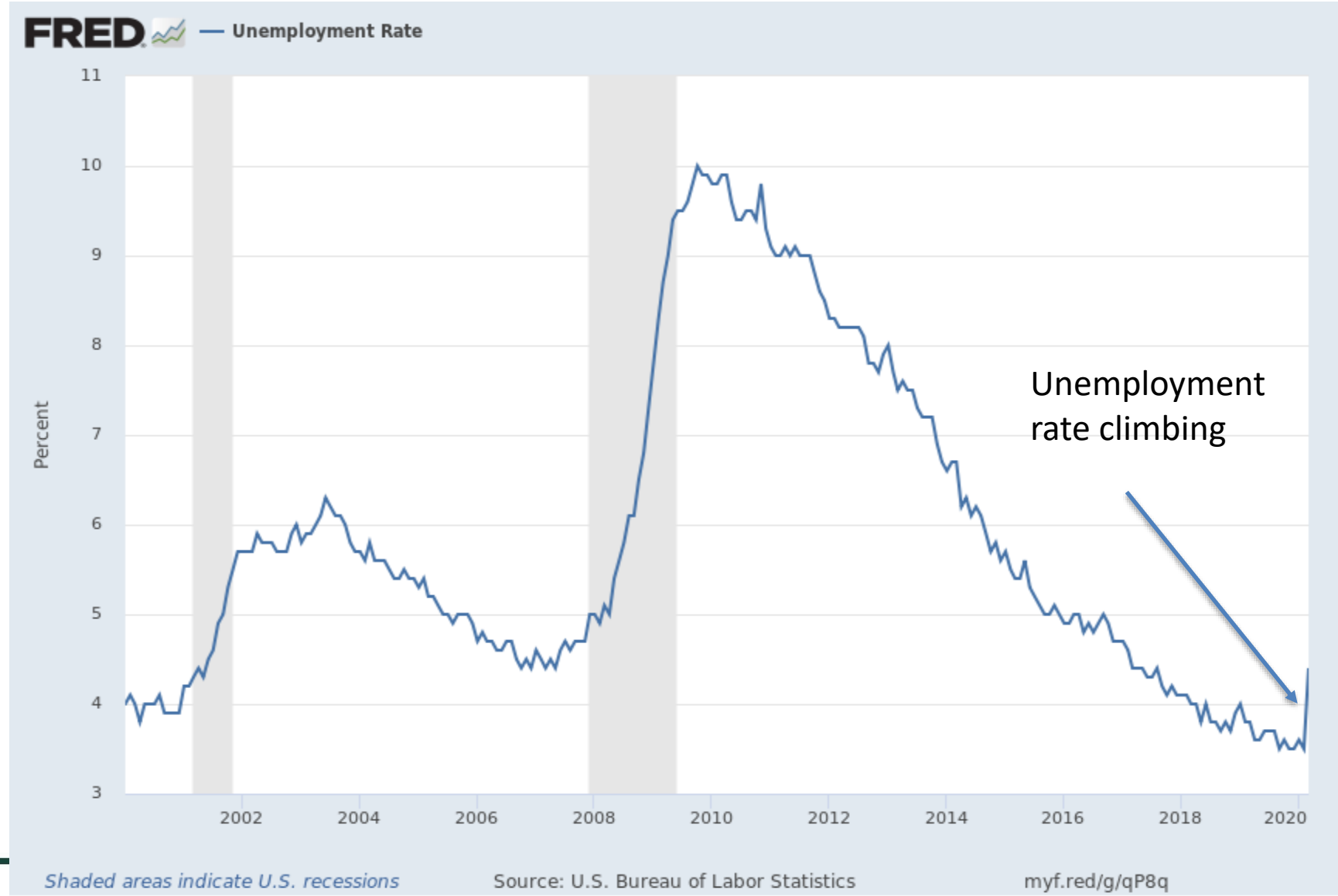


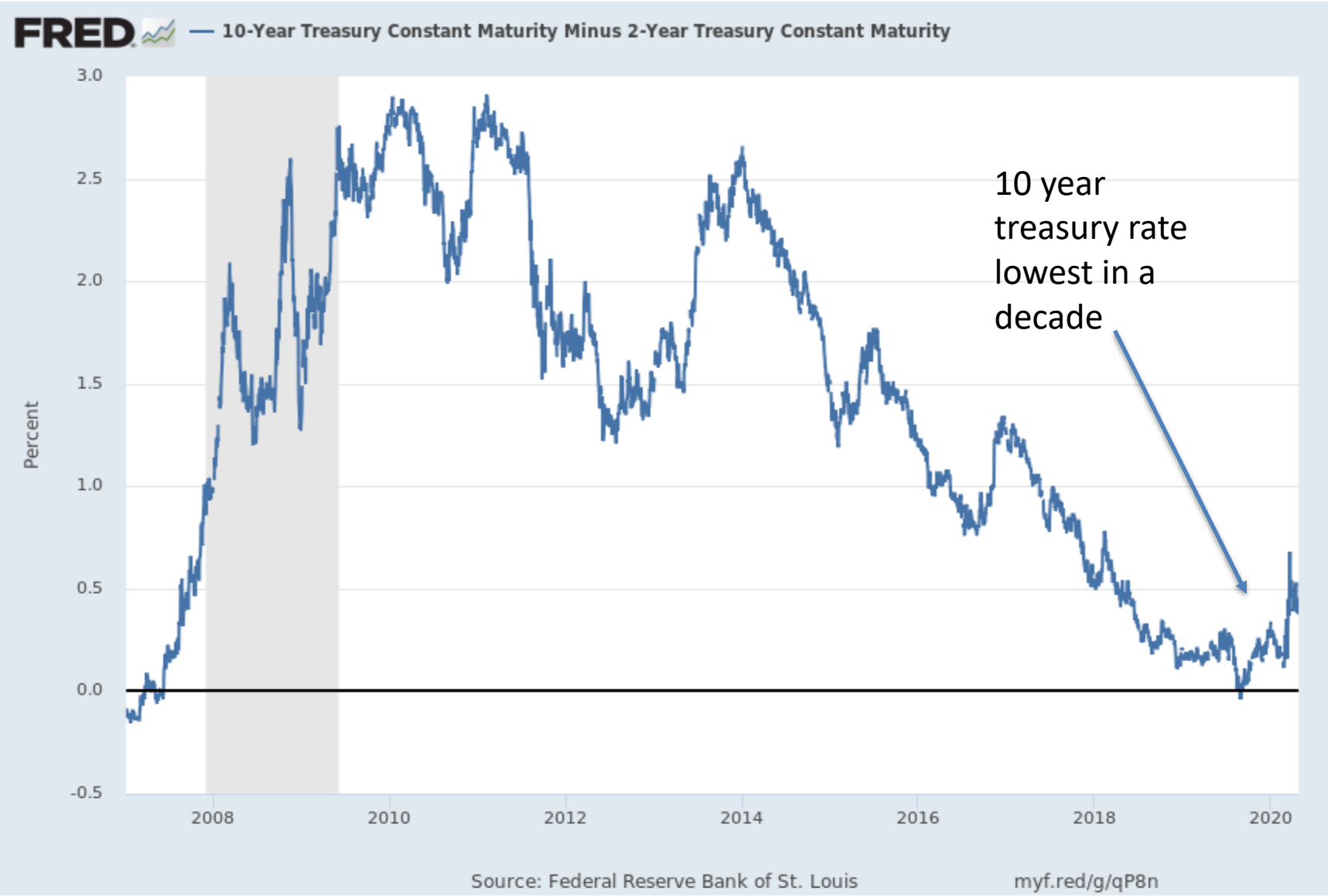
FRED  — Industrial Production Index



Source: Board of Governors of the Federal Reserve System (US) [myf.red/g/qNs7](https://myf.red/g/qNs7)



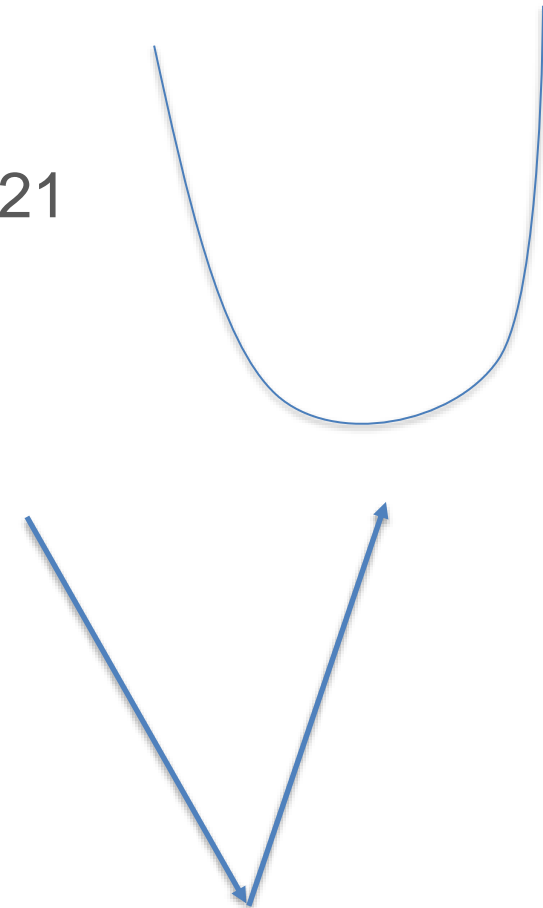






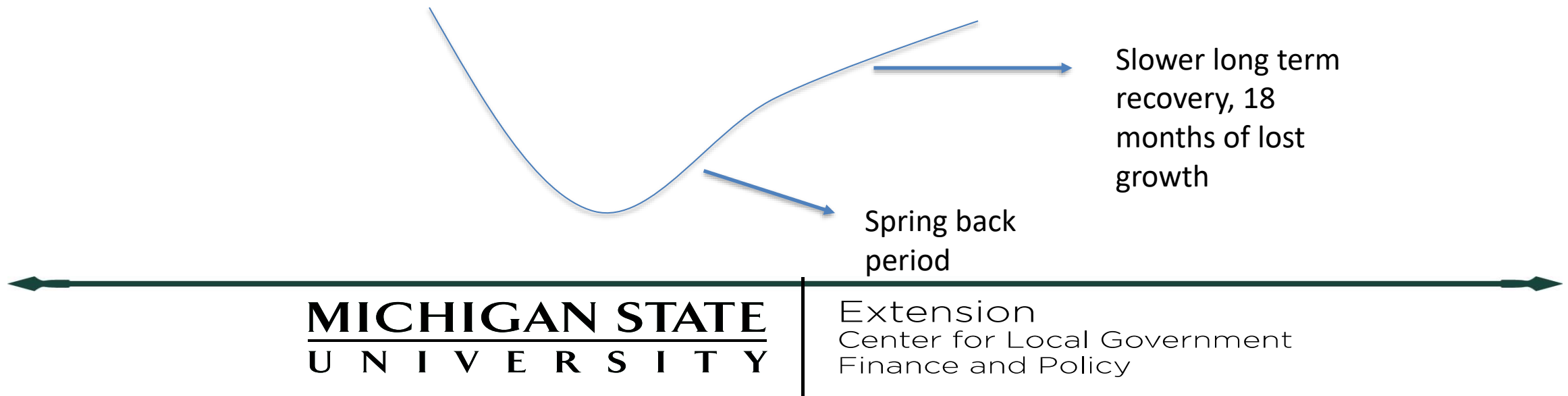
# U recession vs. V recession

- U recession
  - Longer downturn with a still sharp upturn
  - Growth in 4<sup>th</sup> quarter of 2020 and 1<sup>st</sup> quarter of 2021
- V recession
  - Shorter downturn with a sharp upturn
  - 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2020
- Dependent on:
  - Social distancing rules and virus flows
  - Consumer and business confidence



## Third scenario - A half V and then slow recovery

- Economic boost happens as personal consumption and business investment pick back up
- But some industries are forced to operate half or two thirds capacity for some sustained period of time



# Forecasting

- Dealing with a downturn is always tough, historical data from last few years won't be of much help
- Plus this is a whole set of economic factors that we have never dealt with
- Best option is to identify who pays for the taxes and what is the economic impact on their cash flow and balance sheet
  - Will they pay, will they defer
  - State govt.
  - Local businesses and residents

## SECTION TWO: STATE BUDGET OUTLOOK

## State Budget Challenges

- GF/GF
  - \$1 bil. to \$1.5 billion shortfall
- SAF
  - \$1bil. to \$1.5 bill shortfall

# State of Michigan own source Revenues

- Individual income tax
  - \$10.5 billion
  - Unemployment income is taxable
- State sales tax
  - \$9.5 billion
  - Huge decline likely

# Federal Government Coronavirus Relief Fund

- Michigan provided \$3.9 billion in relief funds but only for covid-19 related expenses
  - Three large counties provide their own separate funds

## SECTION THREE: COUNTY BUDGET RISK AND PRESSURES



## County Government Revenues

- Property tax 50%
- Intergovernmental revenue 25%
- Fees, charges, fines, etc.... 25%
  
- Let's take one at a time

## County property taxes

- Likely won't be hit initially
  - Values should be stable for now with assessment cycle
  - Question whether delinquency rates will rise
  - Policy question around deferred property tax payments

# County intergovernmental revenue

- Revenue sharing
  - Based on state income and sales tax; 50% cut in April and May
  - Some proportionate cut likely coming
- Local community stabilization act money
  - Based on use tax – set in statute
  - Some “excess” funding may be lost
- Other state funds
  - Health
  - Corrections
  - environment

## County charges, fines and fees

- District and circuit court costs and fees
- County clerk fees and costs
- Register of deeds
  - Real estate transfer tax, record copying, recording fees
- All of these may see some hit depending on how you structure operations and how quickly the economy gets back online

# County Covid-19 Expense Reimbursement

- FEMA
- Department of Justice
- CDBG, FQHC, housing/homelessness, election security
- CARES act
  - \$3.1 billion to the state
  - Costs incurred between March 1 and Dec 30, 2020
  - Currently does not account for lost revenue; expenses related to Covid-19 only
  - Medical costs, public health expenses, medical related payroll expenses, unemployment, small business support,

# County Fund Balances (FY 2012 and FY 2018)

**FY 2012**

Average	22.9%
Median	19.4%
Variance	16.8%
Maximum	70.6%
Minimum	-21.6%

**FY 2018**

Average	33.7%
Median	31.3%
Variance	18.7%
Maximum	89.9%
Minimum	2.4%

## County Financial Leadership

- County leaders have used the stronger economic trends in the last 6-7 years to invest in services and infrastructure and rebuild reserves
- Leadership is needed now more than ever to balance the needs to maintain financial health and maintain critical public services

# Strategies and Management

- Typical strategy
  - Hiring and spending freeze, training and travel freeze
- Timeframe
  - How long will the risk last
- Risk profile
  - There are significant economic risks, but reducing services and cutting employees also entails risks
- Financial resilience
  - Fund balance, open positions, professional services and supplies



- Thank you!
- Questions?
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