



Federal  
Stimulus and  
the Michigan  
Economy  
During the  
Pandemic

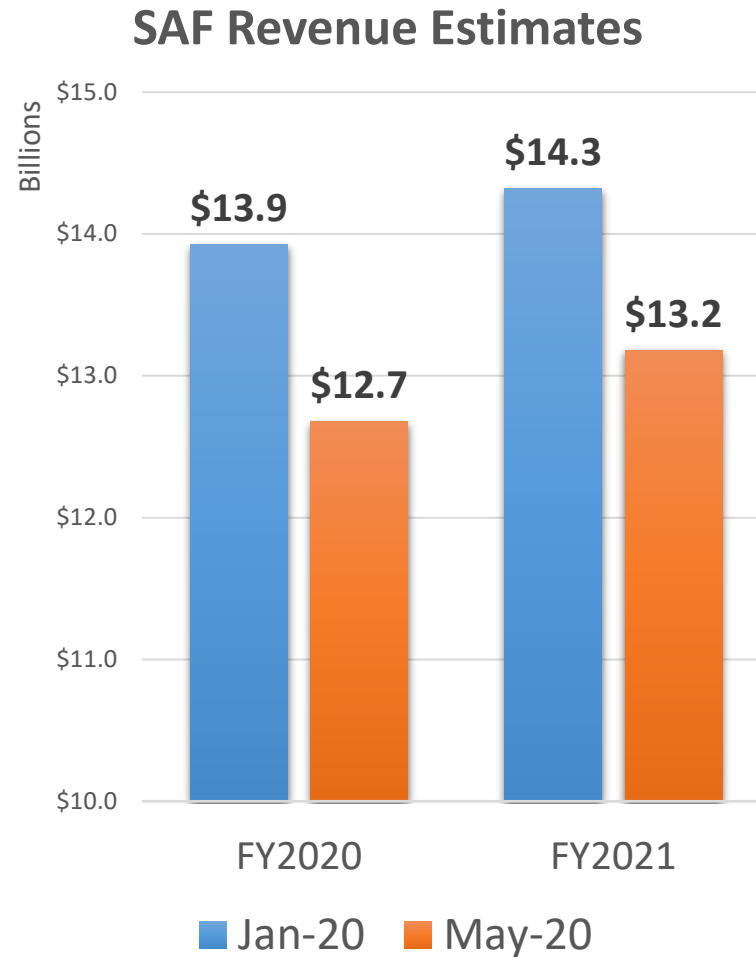
# Federal Stimulus and the Michigan Economy During the Pandemic

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Citizens Research Council of Michigan

Presentation to the Michigan Public Transit Association Annual Conference  
August 24, 2021

# The Year of COVID-19: An Economic Forecaster's Worst Nightmare

# May 2020: Revenue Estimates Plummet



May 2020: Combined GF/GP and School Aid Fund (SAF) revenue projections down \$6.3B

FY20 revenue forecast down \$3.2B, necessitating budget reductions more than mid-way through the fiscal year

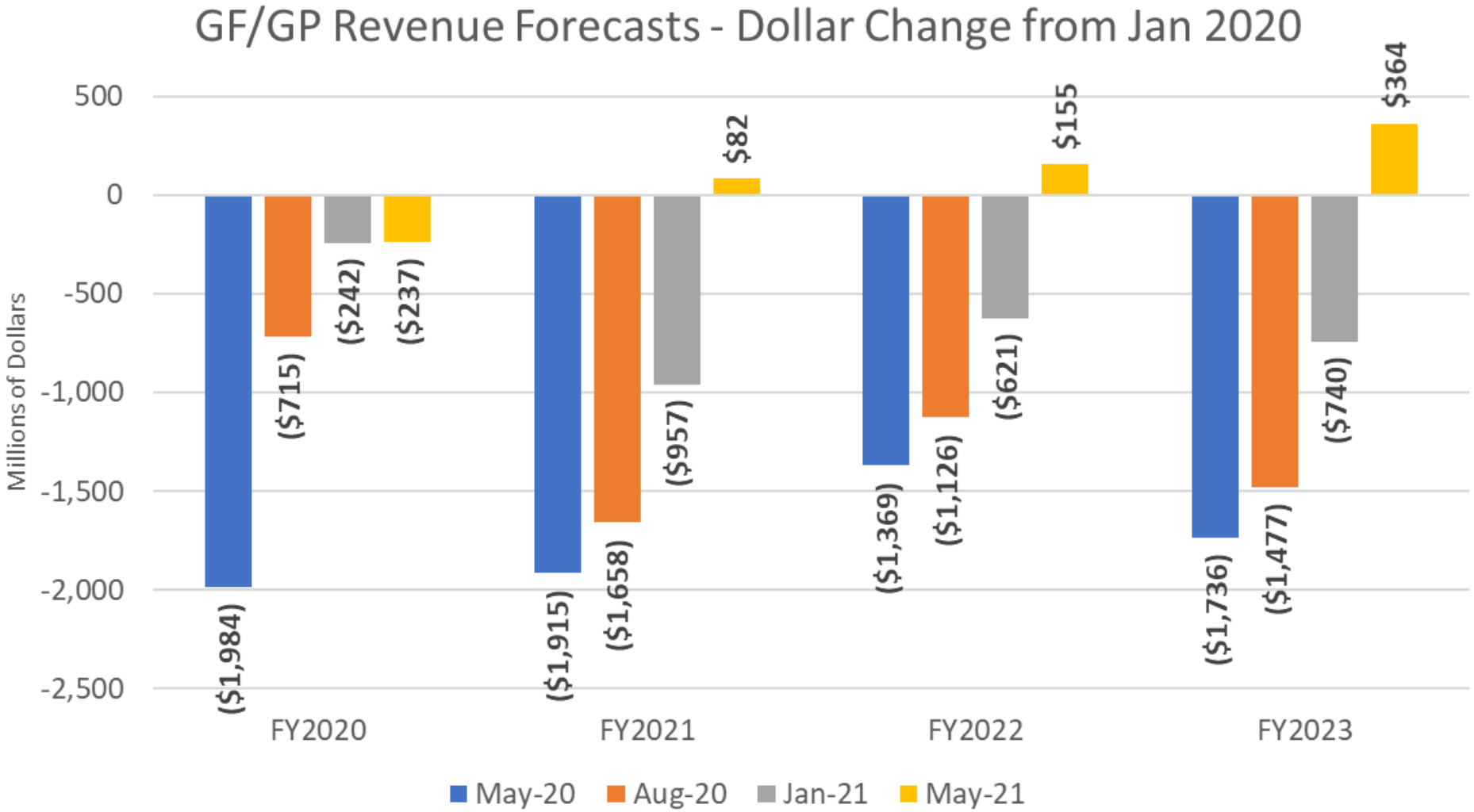
Source: May 2020 CREC Final Summary.

# Rewriting the FY20 Budget

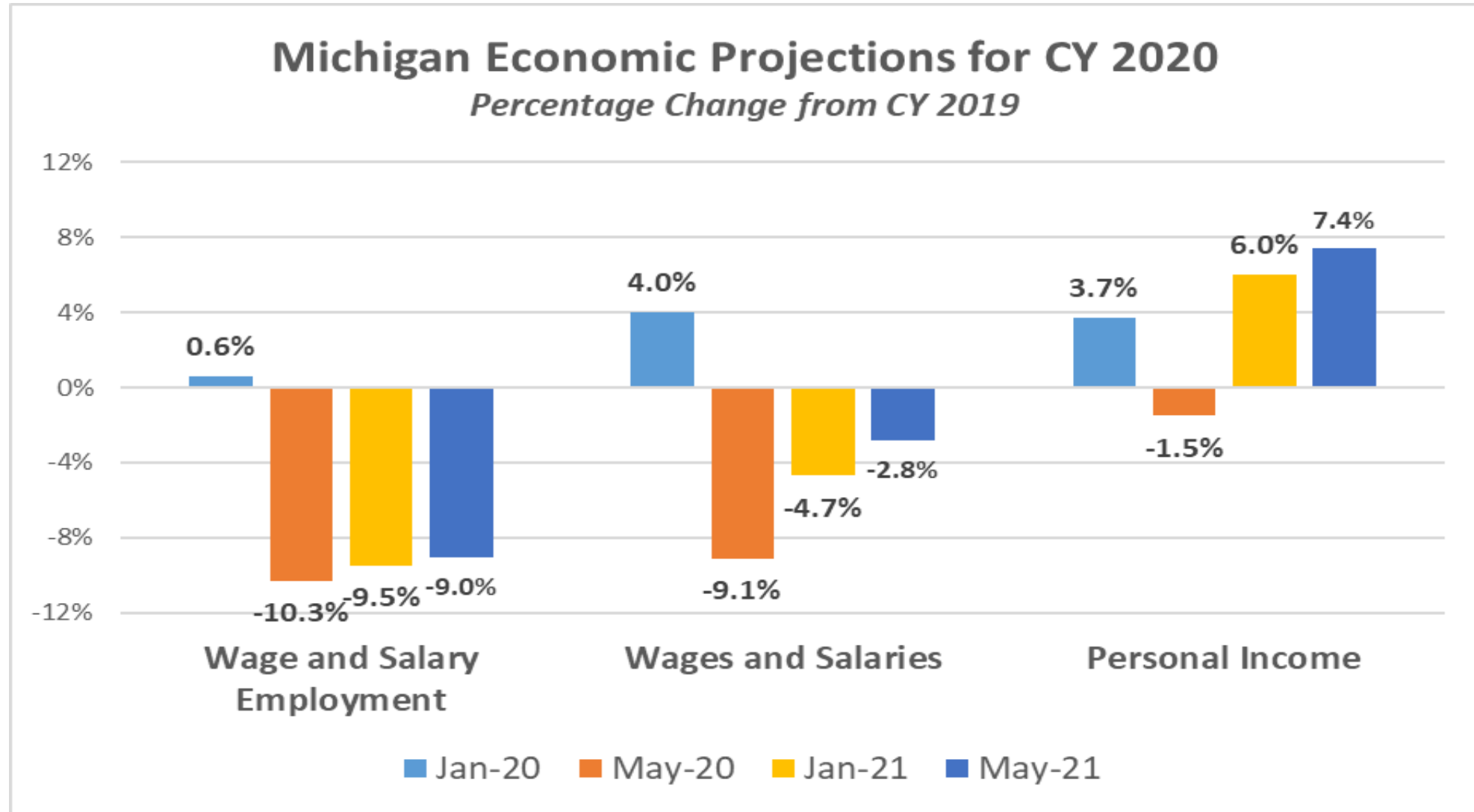
*July Budget Adjustments Save Over \$2.4 billion across GF/GP and SAF*

<b>Budget/Revenue Savings</b>	<b>GF/GP (millions)</b>	<b>SAF (millions)</b>
Federal Coronavirus Relief Fund Offsets GF/GP Costs	\$696.5	\$456.0
Enhanced Federal Medicaid Match: applied Jan-Sep 2020	\$523.3	
Budget Stabilization Fund Deposit into School Aid Fund		\$350.0
GF/GP Shifted to School Aid Fund Budget	(\$211.0)	\$211.0
Work Project Cancellations and One-Time Fund Shifts	\$97.3	\$44.1
State Hiring Freeze and Temporary Layoff Savings	\$48.4	
Other Statewide Budget Savings	\$138.9	\$120.0
<b>Savings to Address Budget Deficits</b>	<b>\$1,293.4</b>	<b>\$1,181.1</b>

# May 2021: Revenues Completely Rebound



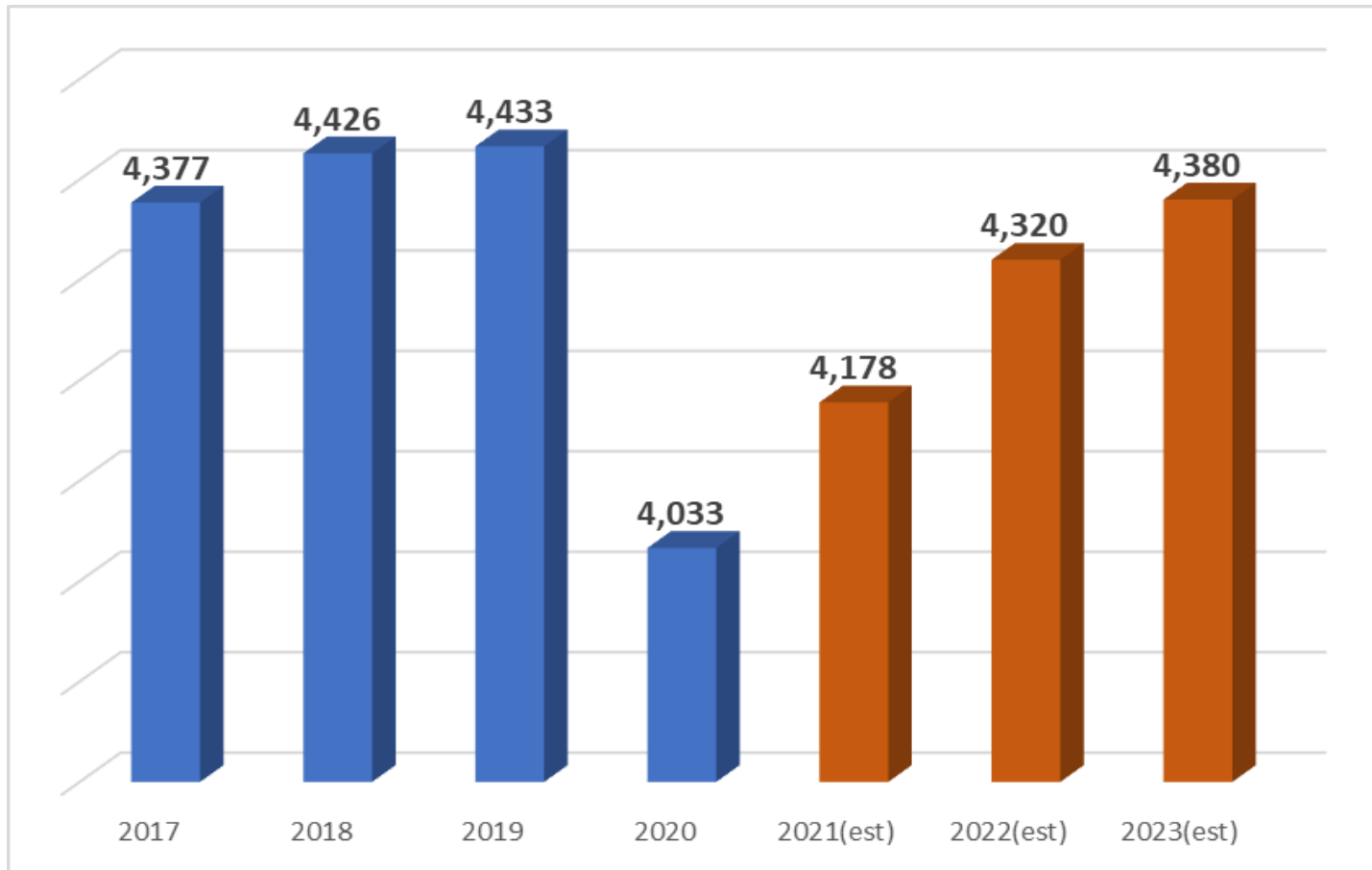
# What Happened with the Economy?



Source: CREC Final Summaries.

# Michigan Wage and Salary Employment

(Thousands of Jobs)



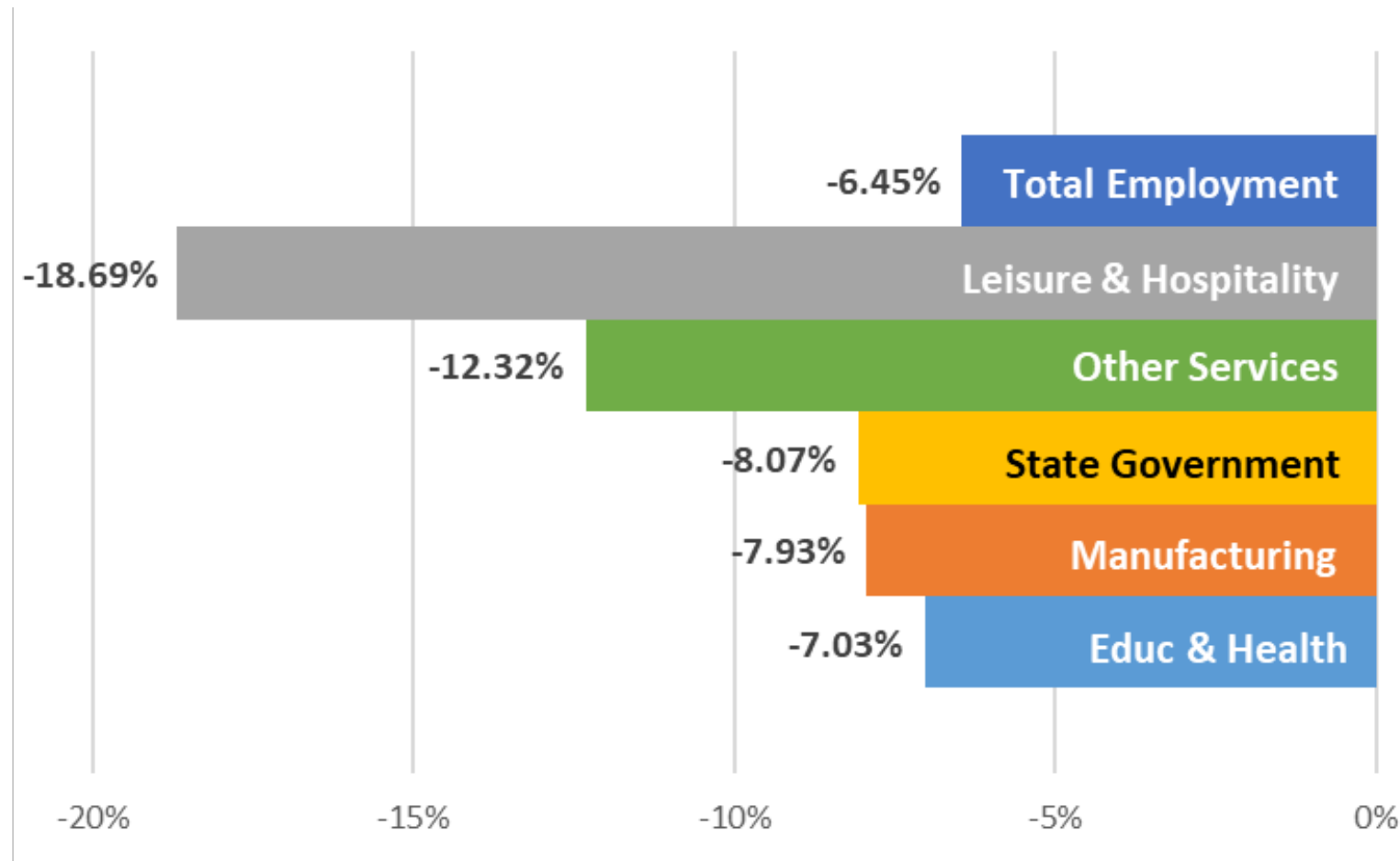
- Michigan shed 400,000 jobs during 2020
- Less than half have been restored
- Current forecasts suggest the state won't fully recover from job losses until at least 2023

Source: MI Bureau of Labor Market Information and Strategic Initiatives data; projections from May 2021 Consensus Revenue Estimating Conference



# Michigan Employment by Major Sector

Change from February 2020 to July 2021



- Biggest job losses were in “Leisure and Hospitality” and “Other Services” sectors
- Job losses have been concentrated in lower-wage sectors and with lower-wage employees

Source: MI Bureau of Labor Market Information and Strategic Initiatives

# Half of Current Job Losses are in Four Subsectors

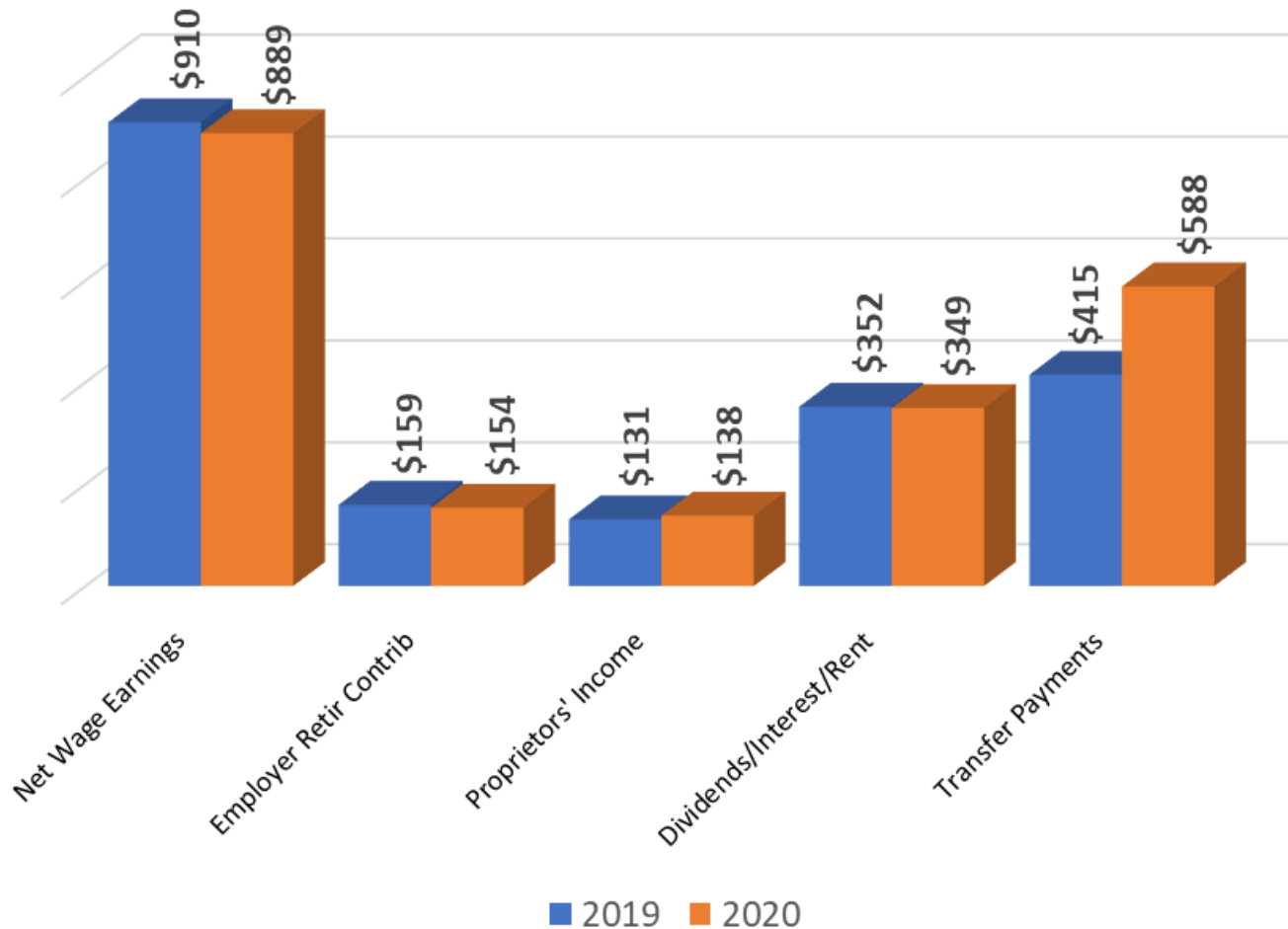
21 Percent of Total Private Employment; 50 Percent of Private Sector Job Loss

	Employment (in thousands)			
	Feb-20	Jul-21	Decline	%Chg
Accommodations and Food Service	382.0	313.5	68.5	-17.9%
Arts, Entertainment, and Recreation	53.5	40.6	12.9	-24.1%
Administrative and Waste Services	282.2	256.7	25.5	-9.0%
Other Services	167.2	146.6	20.6	-12.3%
<b>Total Private Employment</b>	<b>3,836.0</b>	<b>3,581.6</b>	<b>254.4</b>	<b>-6.6%</b>

Source: U.S. Department of Labor, seasonally-adjusted data

# Michigan Personal Income by Component

(billions of \$)



- Wage earnings are down by \$21B in 2020; about 2.3 percent
- Personal income growth is driven by \$173B in additional government transfer payments in 2020
- Transfers include stimulus checks, unemployment benefits, Paycheck Protection Program, etc.

Source: US Bureau of Economic Analysis

# Boost from COVID-Related Federal Stimulus

Federal Assistance Adds \$150B to Michigan Personal Income in 2020

Unemployment Supplements (\$600/\$300 wk)	\$57.5 B
Economic Impact Payments	\$35.6 B
Expanded Unemployment Benefits	\$24.5 B
Other Supports (PPP/Health Care/Lost Wages)	\$32.5 B
<b>TOTAL FEDERAL COVID STIMULUS</b>	<b>\$149.9 B</b>

Source: US Bureau of Economic Analysis

# State General Fund Budget Picture Looks Great

- May revenue projections were already very positive; FY2021, FY2022, and FY2023 General Fund revenues now exceed pre-COVID projections
- BREAKING NEWS: Both House Fiscal Agency and Senate Fiscal Agency are reporting GF/GP revenues for FY2021 are exceeding those May projections by around \$1.2 billion
- Result: State of Michigan will close FY2021 in September with a General Fund balance of somewhere close to \$4 billion; that's more than one-third of a full-year's worth of revenue

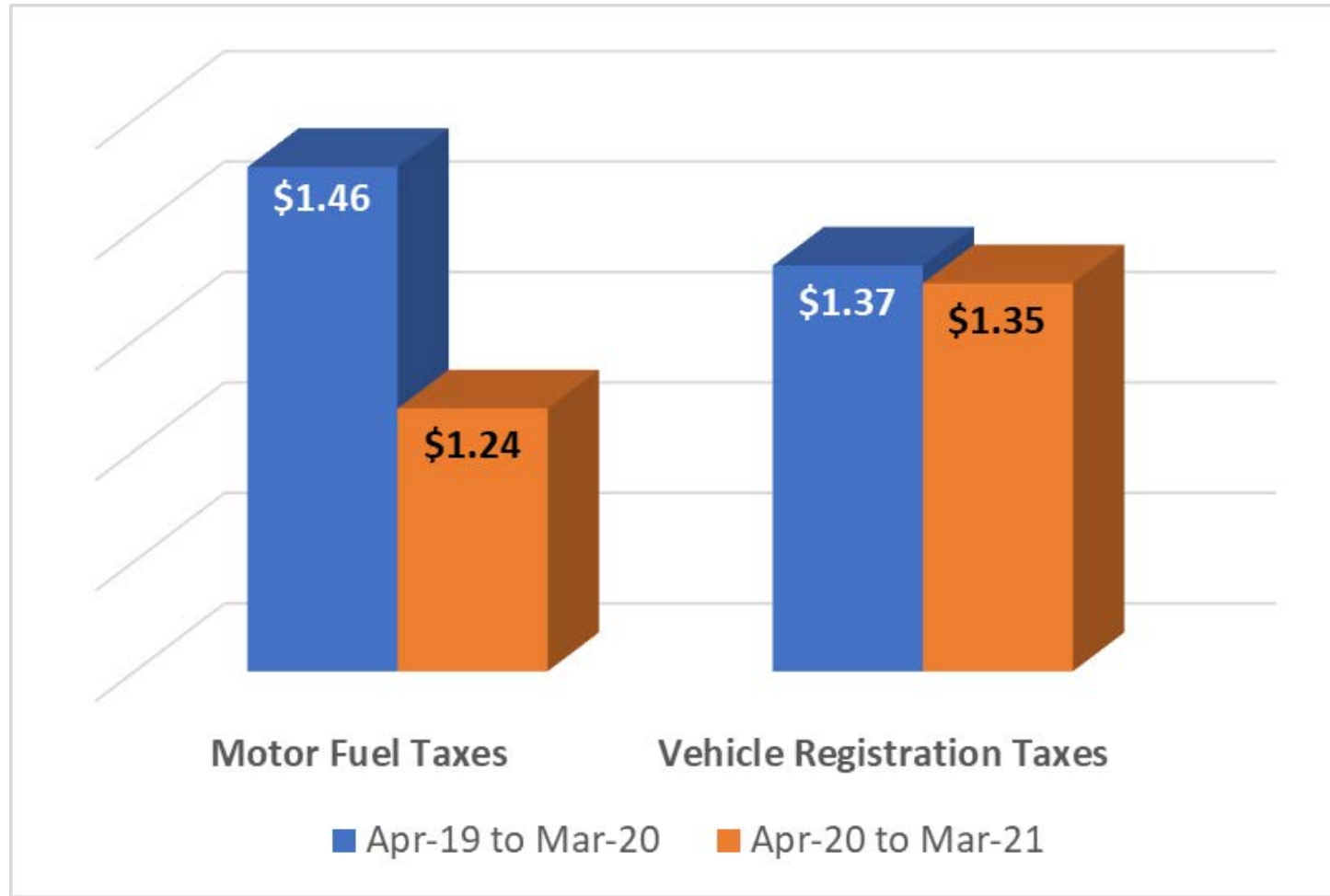
# Big Picture: Michigan Has a Lot of Revenue



Trivia Question: What segment of state revenues didn't boom during 2020?

# Motor Fuel and Vehicle Registration Revenues

(Billions of \$)



- Motor fuel collections down \$219M in the 12 months following the onset of COVID-19 from the previous year
- Vehicle registration fee revenue down about \$16M
- Total decline: \$235M

Source: MI Department of Transportation reports



# Inflation: Transportation Revenue's Best Friend?

## Recent Spike in Consumer Prices will Impact Gasoline Tax in January

- U.S. Consumer Price Index has jumped by 4.8 percent between December 2020 and July 2021; spike driven by a huge increase in vehicle prices as well as larger-than-normal increases in energy costs
  - Annual CPI inflation has averaged 1.5 to 2.0 percent for more than a decade
- The 2015 transportation deal pegged the state's 26.3 cent per gallon gasoline tax to the CPI inflation starting in January 2022; table below estimates the impact of the recent spike assuming almost no further increase in CPI during Fiscal Year 2022 (so a very conservative estimate for 2023)

### Projected Gasoline Tax Inflationary Adjustments

	<i>Old Inflation Trend</i>		<i>With Recent Spike</i>	
	<b>Rate</b>	<b>New Revenue</b>	<b>Rate</b>	<b>New Revenue</b>
2022	26.7	\$22 million	27.2	\$50 million
2023	27.1	\$44 million	27.9	\$88 million

Source: CRC analysis of US Bureau of Labor Statistics data

# American Rescue Plan Stimulus

One-Time Funding Could Help Meet One-Time Priorities

# Michigan's Allocation: \$11 Billion

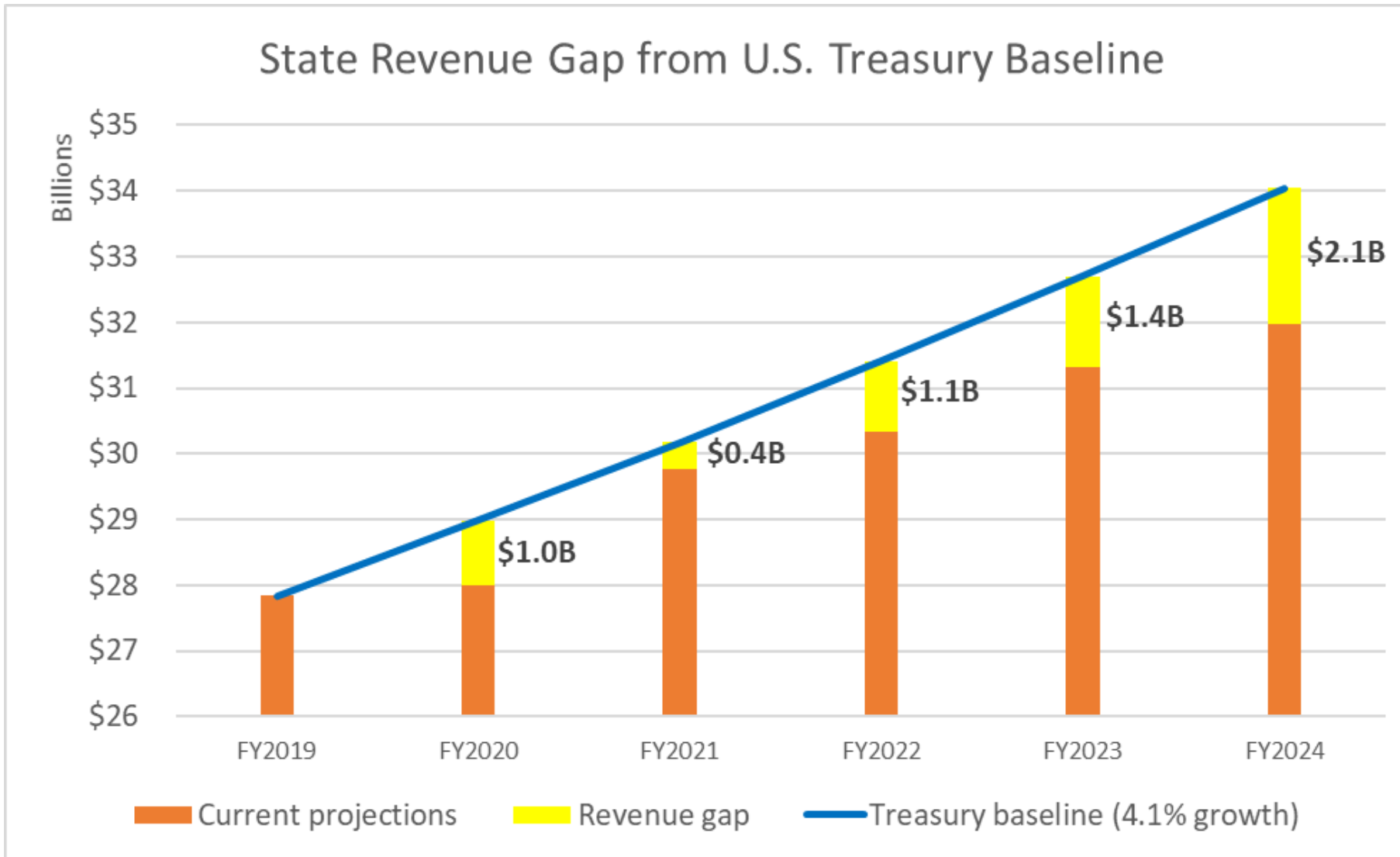
- **State of Michigan: \$6.5B**
- **Michigan Counties: \$1.9B**
  - Wayne County: \$339.8M
  - Ingham County: \$56.8M
  - Eaton County: \$21.4M
  - Clinton County: \$15.5M
- **Michigan Municipalities: \$2.5B**
  - City of Detroit: \$826.7M
  - City of Lansing: \$49.9M
  - City of East Lansing: \$12.2M
- **Capital Projects: \$250M available to State of Michigan**

Source: U.S Department of Treasury

# ARPA Funding: Uses and Timing

- First half of allocation this year; second half next year
- Funds available to obligate until December 31, 2024 to:
  - Respond to COVID-19 public health emergency or its negative economic impacts
  - Provide premium pay up to \$13/hour for workers performing essential work to protect the health and well-being of the public
  - **Provide government services to offset the reduction in revenue due to the COVID-19 emergency from the previously completed fiscal year before the pandemic (i.e., FY19)**
  - Make necessary investments in water/sewer/broadband infrastructure
  - *Prohibitions: can't offset tax cuts; no pension fund or rainy day fund deposits*

# “Revenue Loss” Estimates for Michigan



- Based on May revenue estimates, Michigan will have a lot of flexibility in using ARP funding for revenue backfill
- Some of this gap goes away when state revenues are revised upward as expected
- Either way, Michigan has a huge pot of available one-time revenue (for federal infrastructure match???)

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