

Senate Appropriations Chair Jim Stamas / Kelley Cawthorne Client Meeting

Thursday, April 23rd, 1:00 p.m.

Chairman Stamas:

- COVID-19 is currently posing the biggest challenge to the economy
- The Department of Treasury is predicting a \$1-3 billion loss in revenue for FY 20 and expecting an additional loss of revenue for FY 21
- Loss of revenue challenges:
 - o We are 7 months into the budget year, and 10 months into the school budget year. It is coming to be a larger challenge for schools since they are 10 months in.
 - o When it comes to a dollar range, I have told my appropriation members to focus on a \$2.2-\$2.3 billion loss in revenue. However, it could either be more or less than that. Maybe closer to a \$2 billion loss.
 - o The close to \$2 billion loss will be split between the General Fund and School Aid Fund
 - The split will most likely be 50/50 but could be slightly more one way or the other. The larger loss will go to GF instead of school aid (U of M – source), but Sen. Stamas believes school aid will receive a larger hit.
 - I think schools will take a larger hit due to the decrease in sales tax.
- This is going to be a challenge, but as I look at all your faces, many of you have been through this before in 2009/2010. We face these things and get through them. The difference now is that in 2009 we had six (6) years to prepare for the revenue losses, and with this crisis we have only had three (3) months to prepare. In January and February, no one was looking at the budget and preparing for this. The economy was previously running well.
- We had hoped to report the budget out of subcommittees on the 23rd, but that is no longer possible.
- I have asked my members to look at cuts we can make in FY 20 & FY 21. As well as make a priority list. We want to minimize the impact as much as possible.
- Due to the delay in the committee process, this gives you the opportunity to reach out to appropriation subcommittee chairs.
 - o Help them set their priorities;
 - o Offer advice;
 - o Potentially provide valuable resolutions;
 - o Also, feel free to share your advice or your ideas with myself (Sen. Stamas).
- Revenue Estimating Conference May 15th:
 - o The information released during the Revenue Estimating Conference is normally gathered from March through the beginning of April.
 - o This information is used to help give a better outlook.
 - o However, the end of March is when the economy turned, so the information will not be as relevant.

- Payments and tax deadlines have been postponed, so it is hard to tell how big of a revenue loss we have.
- Currently, all federal dollars are required to be used for the COVID-19 response, but we are waiting for further guidance on this, especially when it comes to Medicaid, from the Federal government. We had many services already in place that have been called upon more since this crisis, and it is unclear if COVID dollars can only be applied to new cases. This lack of guidance is causing some delay.
- Budget Process/Plan
 - Still scheduling and are setting dates for subcommittees to meet
 - July 1st is when we are statutorily required to have a budget, therefore the process will have to be accelerated.
 - A negative reduction in the current year budget is likely to come, but no specific items have been talked about yet.
 - We just started talking about a possible timeline so if you ask that, I don't have one for you.
 - There will likely be a negative Executive Order from the Governor rather than a negative supplemental from the legislature.
 - Myself (Sen. Stamas), House Appropriations Chair Hernandez, and State Budget Director Kolb have been just starting to talk about what that Executive Order will look like and how it will impact the state.
- Negative Executive Order versus Negative Supplemental
 - Negative Executive Order comes from the Governor and a negative supplemental comes from the legislature
 - The legislature's appropriation committees in both chambers will have the opportunity to accept or reject the Governor's order
 - If we did a negative supplemental, it would be subject to line item vetoes by the Governor.

Q1: This is somewhat off-topic, but the big news of the day is that the legislature is meeting tomorrow. From what I have read, there will be a concurrent resolution introduced that will create a joint select committee that will be used to evaluate the government's response to the COVID-19 crisis. It is rare for the legislature to meet on a Friday, let alone while there is a stay-at-home-order in place. Could I get your thoughts on this?

A: Yes, we are meeting tomorrow at 10:00 a.m., and we will be following the strict protocols we did before. We have to have our temperatures checked and will be maintaining an appropriate distance from one another. The resolution is coming from the House, Speaker Chatfield, so I do not have a lot of information on it. I imagine that they are doing this based on events that happened earlier this week, involving the company in Grand Rapids, and how dollars have been spent so far. Federal dollars have been coming into Michigan and being released by the Governor. The legislature gave the Governor a 90-day authority which gives her an 'open checkbook' for these federal dollars so her hands would not be tied. That does limit some oversight on how they are spent, and we have been limited in what we are able to do.

Q2: The article I read mentioned that there will be 5 legislators from each chamber on this committee. Do you know who they will be?

A: I have not received that information, and do not know who will be serving on the committee. I don't know if the Senate has assigned members at this point.

Q3: So, I am guessing you will not be one of the members on this committee?

A: They have not asked me. I already have the budget to deal with, so I would probably not want to be on it. I chaired the oversight committee for Flint previously. I imagine that since the resolution is coming out of the House, they have already chosen their 5 members, but I do not think the Senate has picked theirs yet.

Q4: The Stay-at-home Order expires on midnight on April 30th, what do you see life looking like starting May 1st and beyond?

A: My humble opinion is that we look at grocery stores, hospitals, and manufacturers still open right now and see that it is possible to maintain safe work places and standards. I believe we are ready to start progressing toward that. The Senate Majority Leader put together a five-stage plan for reopening the economy and there is a webpage that explains that in more detail (www.misenategop.com/OpenMISafely/). I was personally disappointed with the last Executive Order that extended the stay-at-home order, and if it stays where it is at, I will be hesitant to agree to an extension. If we have some modifications, which the Governor has been hinting that the next order will be different, I will be more likely to agree to that. The plan for reopening the economy may be released as early as tomorrow, but I do not know that as a fact. It is a Lansing rumor.

Q5: You mentioned some of this in your remarks, about the reduction of the current year budget and a possible negative Executive order or negative supplemental. As you know, in the school aid act, there is a provision that provides for the payments to be reduced, a proration, if the school aid fund comes out of balance. What do you think the likelihood is of that happening - a proration coming from the administration for school aid?

A: I would not rule it out at this point. Our hope is to focus on other ways to fix it. If the School Aid Fund sees a \$1 billion loss out of the \$2.2 billion loss in revenue, we are hoping that the Governor's balanced sheet of vetoes and implementation of spending freeze will help with that by about \$200-\$300 million dollars – probably closer to \$200 million. However, that still means the School Aid Fund will see just under a \$1 billion loss. A proration has not specifically been talked about yet, but I would not rule it out.

Q6: There has been talk about using the budget stabilization (rainy-day) fund with over \$1 billion-dollar balance. What would be your parameters or guidelines for how you would access and use that money in the rainy-day fund?

A: The current statute only allows us to use 25% of the budget stabilization fund in a given fiscal year, and if we need to go past that it would require a 2/3^{ds} vote. I do not think that fund will be a long-term fix. It should be a last resort fill or fix, not a primary one. We are being forced to make

tough decisions about the use of that fund, but we do not want to use more than 25% of it. Also, that 25% could be applied to both this fiscal year and the next.

Q7: The Income Tax filing deadline has been moved to July 15th, but the budget is supposed to be passed by July 1st. Won't this make it difficult to view how income tax revenues are going to impact General Fund dollars? Please provide your thoughts on that given the crisis that was extended to July 15.

A: You are correct, that does pose a challenge. As I said, the next Revenue Estimating Conference is on May 15th, and their information usually only goes until April 1st. Most of the information will not be helpful and make this process more challenging. There has been talk about potentially have another Revenue Estimating Conference if the economy comes back online and it looks like additional information could help us make better calls. Right now, we just have to focus on the July 1st budget deadline. Also, it is an election year, and not passing the budget by July 1st makes things worse for everyone. I hope we will get better information at some point.

Q8: What advice would you give to clients who rely on state funding? Also, do you envision a different committee meeting process in the future? For example, doing the meetings using technology (i.e. Zoom or Facebook Live) to bridge the gap between the legislature and the public?

A: As far as committee meetings, there have been initial conversations on how to deliver safe committee hearings sooner rather than later. Especially within the small appropriation subcommittees, which we could put in a large room and have spread out. There is potential to stream them and receive questions and testimony over the internet, but that has not been defined yet. It is definitely in the realm of possibilities. Regarding what I would recommend for your clients, obviously one fantastic way, is what we are doing right now. I would hope to continue to have these calls with your clients and would also recommend that they reach out to subcommittee chairs and members. It may be a zoom meeting or phone call but would strongly encourage them to do that. As I said, many of you have been through this before, and may be able to offer ideas for how to best navigate the difficult choices we will have to make. You want to offer these ideas with as little impact as possible, but it is important to be realistic when doing so. Everyone thinks that their funding should not be cut and to just cut the next person's funding, but you should offer ways you can reduce state funding while minimizing the impact on your services. I would also recommend speaking to U.S. Congress men and women, because \$3.5 billion will be coming to Michigan and there will likely be more coming in the future. It seems there is currently a reluctance to focus on local funding from the Federal government, but I hope schools get helped by some of this money since they are so far into their year. Just because the legislature is not meeting, that does not mean we are not still relying on information and input from you about the vital services you provide.

Q9: You spoke about federal funding and how it is important to reach out to U.S. Senators. Do you see the federal government relaxing restrictions on this funding in the future? Do you think flexibility will be coming soon?

A: I have heard both sides of this argument and am somewhat concerned about the politics involved in it. You might as well throw the dice on this. I know there are conversations happening about possible flexibility coming, but I am not a big Federal Government person. I have talked to Rep. Moolenaar, and he has been involved in this discussion. Some would prefer to wait and see the state's economic impact on state and local revenue before throwing money at it. Also, another point, our Senate Fiscal Agency has been doing a great job of updating their information about federal dollars and clarification on Executive Orders. I would recommend looking at their website, www.michigan.gov/sfa.

Q10: Can you explain the difference between FEMA and stimulus dollars? How will the money be used to backfill revenue losses?

A: The State Budget Office and the Governor have been pushing for using those dollars to backfill losses in other areas, but I am reluctant to change it from using these dollars for the COVID-19 response. We need the Federal Government to give us clarification first on how we can use these dollars to help schools and local governments. Many businesses have been helping with the COVID-19 response without knowing if they will be reimbursed for their efforts. Many of these are small businesses. FEMA dollars pose a challenge, because they require a 25% General Fund match, so that draws down dollars we have to offset revenue losses. We have already asked for a waiver for the 25% match, and I would support us getting that waiver.

Q11: As you mentioned, many clients have expanded resources during this crisis, especially the education sector, how will they be helped?

A: I know that some federal dollars have went to higher education, half of which went to students to offset tuition or to be used as future credit. However, that does not necessarily help universities or colleges. The other half of the money is tied to the COVID-19 response and they have not gotten overly-specific. I am aware of this issue, but we have not received clarification from the Federal Government on how we can use these dollars to help.

Q12: Sen. Mitch McConnell has recommended letting states go into bankruptcy. Why might that be a good idea?

A: (chuckles) Well, I do not think that is a good idea... I have been focused on working with my members and subcommittee chairs and have left that decision up to Senate Fiscal Agency and Senate Policy. I do not think it is a good idea, because I believe it will damage the national economy by allowing something like that to happen. That affects retirement and a whole lot of other issues. While Sen. McConnell may have said it as a political statement, quite frankly that idea scares the crap out of me.

Q13: Regarding federal stimulus dollars, you gave the Governor a 90-day authority for the spending of these dollars. Once the 90-days expires, how do you plan to help distribute and determine who receives these dollars for this year and going forward?

A: I am hoping that after the 90-days is over, we will be on our way out of this, and will be able to help get these dollars to those who did work on the COVID-19 response. We hope to work with you and your clients to get these dollars out, but it will depend on the guidance we receive.

If you are not currently on the Governor's list to receive federal dollars, you are going to want that to change. We need to look at how we can effectively get these out. We need to strengthen discussions about what our priorities are and what the costs are going to be. We are going to have to work together to get through this.

Q14: You mentioned using the budget stabilization fund to balance the budget. How much is in that fund?

A: Approximately \$1.2 billion.