



THE FLORIDA SENATE
SENATOR BILL GALVANO
President

MEMORANDUM

TO: All Senators
FROM: Bill Galvano
SUBJECT: Fiscal Updates Related to COVID 19
DATE: April 16, 2020

Yesterday you received an updated Florida Senate COVID-19 Constituent Resources Guide, a catalogue of services available to constituents, businesses, and communities impacted by COVID-19. While our first priority during this unprecedented public health emergency is serving our constituents, my goal is also to continue to provide you with information and analysis from our professional staff related to economic and other public policy impacts of coronavirus as they become available.

I cannot help, as I review this information, to reflect on the hundreds of thousands of our constituents, including first responders, health care operators and health care workers, business owners and employees, educators, and students who are so willingly sacrificing so much to protect our most vulnerable citizens. Information in the coming weeks and months will reveal the full impact of this sacrifice on our constituents and economy.

While the situation is very serious, I remain confident in Florida's ability to recover, not because I am overly-optimistic, but because I have witnessed the resilience of Floridians and am confident in the fiscal decisions we have made, and will make, as a state. We must remain committed to making fact-based decisions as we enter this period of transition. We must focus on strategies to help our fellow Floridians recover, while incorporating new strategies to protect the most vulnerable. To that end, I hope you find the following updates helpful.

Unemployment Compensation/Reemployment Assistance Data and Information

The March unemployment rate will be released tomorrow, Friday, April 17. It is based on survey data from the week of March 12, just as COVID-19 was first being declared a global pandemic. To provide further context, the statewide order regarding essential services and activities was issued on April 1, 2020. This means that a large portion of the Florida economy was still operating in relatively normal circumstances in mid-March. In this regard, the March unemployment rate embodies only a limited number of the people who will ultimately be

affected by the impact of Coronavirus. The rate for March does not reflect the current condition of unemployment that exists today.

The February unemployment rate was 2.8 percent, and there were 291,000 jobless Floridians out of a labor force of 10.4 million. The April unemployment rate, which will give us a more complete perspective of the workforce impacts associated with mitigation of the spread of coronavirus, will be published mid-May.

Reemployment Assistance Data as of April 9, 2020

Initial Claims Filed Week Ending March 14 – 6,463
Initial Claims Filed Week Ending March 21 – 74,313
Initial Claims Filed Week Ending March 28 – 228,484
Initial Claims Filed Week Ending April 4 – 169,885
Initial Claims Filed Week Ending April 11 – 181,293
Total Initial Claims 5 Weeks – 660,438

Reemployment Assistance Benefits Timeframe and Anticipated Methods of Payment

- Payment is generally paid by debit card (EBT); however, constituents may provide bank account information through the CONNECT system to receive electronic deposit (EFT).
- However, payment for the first week a Floridian is unemployed, made available under the Governor's Executive Order, will be made by check.
- The payment for the additional \$600 per week (maximum) in Federal Emergency Funds payment will also be made by check.

As you are aware, Governor DeSantis has expressed support for retroactive payments, as have I. We will continue to monitor this issue closely with the Executive Branch.

National Economic Outlooks

As mentioned in the fiscal update memorandum dated April 2, 2020, the late March 2020 outlook from Moody's Analytics forecasted a national recession. They have since revised that forecast, and that update has been analyzed by our economists. The recently released IHS Markit forecast for April also includes a national recession. The durations, depth and recovery assumptions are different. I have included brief summaries, prepared by professional staff, for your reference below.

The catalysts for both forecasts are the COVID-19 crisis, turmoil in equity markets, and the decrease in global oil prices. While lower oil and gas prices are good for consumers, from the perspective of economists, the lower energy investments and production negatively impact the national economy.

April 16, 2020

Page 3

Moody's Forecast

Moody's forecast shows a decline in US GDP of 8.3% at an annualized rate in the first quarter (January, February, March) and 34.3% at an annualized rate in the second quarter (April, May, June). Aided by the fiscal stimulus and the assumption that COVID-19 infections peak in May and begin to abate by July, GDP growth is forecast to bounce back in the second half of the calendar year, beginning with 15.7% growth in the third quarter (July, August, September). This is followed by 1.1% growth in the fourth quarter (October, November, December).

IHS Markit Forecast

IHS's forecast shows a decline in US GDP of 3.5% at an annualized rate in the first quarter (January, February, March) and 26.5% at an annualized rate in the second quarter (April, May, June). The third quarter (July, August and September) remains negative, but improved. The forecast does not expect GDP growth to turn positive until the fourth quarter, reflecting the view that activity will not begin to change materially until new US cases of COVID-19 are significantly driven down. At that point, IHS believes it may take some time for consumers and businesses to resume spending and investing in earnest. The forecast includes the effects from the recently passed CARES Act, but sees that more as a "preservation package" than an outright stimulus.

Unemployment Rate Forecast

Moody's forecast assumes a significant increase in the unemployment rate during the second quarter, averaging 12.5% for the quarter, while IHS Markit sees a peak unemployment rate of 10.3% in the fourth quarter.

Moody's Stress Test Analysis

You may also be aware of a new analysis published by Moody's Analytics earlier this week providing a stress test analysis of states and the downside implications of various recession scenarios. Our state economists are carefully reviewing this study along with the other forecasts being produced at the national level. While providing some interesting analysis that will help inform our state's analysis, the stress test report by its own admission warns it is only "intended to help measure the magnitude of fiscal stress that states will experience" and is "not a direct reflection of a state's ability to weather that stress." The study excludes from its analysis all of the traditional reserves available to the state and the state specific impact of recently passed federal legislation. Until Florida has complete data to produce reliable estimates, this study and others provide helpful insight but not the specific information necessary for precise decision making.

Key Upcoming Dates:

- On April 25, 2020, the General Revenue Collection Report for March will be released. Sales Tax collections will reflect activity that occurred in February, only one week of

April 16, 2020

Page 4

which was affected by Coronavirus. Of note, some retailers are reporting that February sales were in-line with expectations.

- On May 11th, the second post-Coronavirus series will be released from IHS Markit and Moody's Analytics. (About the same time, preliminary data for April General Revenue will be available.) This date also marks the passage of 10 weeks since the first confirmed cases in Florida.
- May 25, 2020 – General Revenue Collection Report for April with Sales Tax Activity from March, all of which was affected at an increasing extent as the month progressed.
- June 25, 2020 – General Revenue Collection Report for May with Sales Tax Activity from April.
- On July 7th, Gross Domestic Product by State will be released for the First Quarter, 2020. This data will include January, February and March.

CARES ACT: Health Care Emergency Relief Funds

As you are aware, Florida currently has significant hospital bed capacity available for patients who require hospitalization due to COVID-19. Unfortunately, maintaining emergency capacity to accommodate COVID-19 patients has resulted in significant revenue loss related to most outpatient procedures being cancelled, as well as significant reductions in inpatient stays. Additionally, many hospitals experienced significant costs preparing for COVID-19, including purchasing Personal Protective Equipment (PPE) and ventilators, and the establishment of drive through testing facilities. Hospitals also incurred costs associated with training staff on infection control procedures and proper techniques for caring for patients during this pandemic.

The federal CARES Act provides \$100 billion for hospitals and health care providers across the country. Federal Health and Human Services is distributing \$30 billion to hospitals and physicians with the majority going to hospitals. Funds will be provided as direct grants, allocated based on provider Medicare billings. Other providers who receive little, if any, Medicare funding, including children's hospitals, nursing homes and pediatricians will receive funding following the initial \$30 billion allocation.

These federal funds provided directly to hospitals and health care providers are separate from the additional federal funds that will be distributed to the state due to the increase in the federal match for Medicaid.

CARES ACT: Governor's Emergency Relief Funds

Under the CARES Act, Governor DeSantis will receive an estimated \$174 million in discretionary funds that can be allocated as emergency support grants to school districts and institutions of higher education (IHEs) that have been most significantly impacted by the coronavirus. Governor DeSantis has tasked Commissioner Corcoran with developing a plan for allocating these funds.

CARES ACT: K-12 Education Emergency Relief Funds

Under the CARES Act, Florida will receive an estimated \$770 million in grant funds to support K-12 education. The funds are allocated to the states based on the proportion of funds received under Title I, Part A (Title I) of the Elementary and Secondary Education Act (ESEA) in the most recent year. Under the Act, 90% (\$693 million) of the funding is intended for local school districts, and 10% (\$77 million) for emergency needs as determined by the State Department of Education.

CARES ACT: Higher Education Emergency Relief Funds

I have attached charts which demonstrate how we anticipate CARES Act funding will be distributed to Florida's state universities, state colleges, and Historically Black Colleges and Universities.

Under the CARES Act, Florida institutions of higher education (IHEs) will receive an estimated \$792 million in emergency relief to help respond to the coronavirus. The U.S. Department of Education will distribute these funds directly to IHEs through a funding formula that is based primarily on an institution's share of Pell Grant recipients. Institutions must use at least 50% of their funds to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to coronavirus (including eligible expenses under a student's cost of attendance, such as food, housing, course materials, technology, health care, and child care). Institutions may use the remaining funds to defray other expenses or costs associated with the coronavirus outbreak, such as lost revenue and technology costs associated with a transition to distance education courses and programs.

The CARES Act also provides the following relief for student financial aid recipients and student loan borrowers:

- Loan and Grant Duration Limits: The law exempts semesters that students cannot complete due to COVID-19 from the maximum period during which students may receive Federal Subsidized Direct Loans or Pell Grants.
- Borrower Relief: The law suspends payments and interest accruals on Federal Direct Loans and Federal Family Education Loans through September 30, 2020, as well as collection activity on such loans.

I will continue to pass along specific subject matter updates related to the CARES Act as they become available.

Thank you again for your commitment to our great state and your service to our constituents as we all work to weather this unprecedented time in our state's history.