Economic Impact Statement

Office of Legislative Oversight

Expedited Bill 16-20

Economic Development Fund – Public Health Emergency Grant Program – Established

SUMMARY

In one of its first actions to mitigate the economic recession caused by the coronavirus pandemic, the Montgomery County Council passed the "COVID-19 Economic Relief Act" (Expedited Bill No. 16-20, enacted on March 31 and effective as of April 3, 2020). The Office of Legislative Oversight (OLO) expects the Act to have a modest, positive impact on the economy in Montgomery County, Maryland.

BACKGROUND

The novel coronavirus pandemic has triggered a global recession of historic depths.[1] In its latest global forecast, IHS Markit states that "the COVID-19 recession will be deeper than the one following the global financial crisis in 2008-09," with global Gross Domestic Product (GDP) expected to drop 2.8% this year compared to the 1.7% drop in 2009.[2] In recent weeks, the United States has become the epicenter of the coronavirus pandemic.[3] The emergency mitigation measures taken at the state and local levels to slow the spread of the disease (closure of nonessential businesses and schools, stay-at-home orders, etc.) have severely restricted economic activity. These measures, combined with collapsing oil prices and stock market volatility, have caused a rapid and massive economic contraction in the U.S., which many economists expect to reach its nadir in the second quarter.[4] Having lost more than 700,000 jobs already,[5] economists expect the U.S. to shed millions more in the coming

[1] Martin Crutsinger, "IMF Head Says Global Economy Now in Recession," *ABC News*, March 27, 2020 https://abcnews.go.com/US/wireStory/imf-head-global-economy-now-recession-69843184 (accessed April 3, 2020).
[2] Elisabeth Waelbroeck-Rocha and Nariman Behravesh, "COVID-19 Recession to Be Deeper Than That of 2008-2009," *IHS Markit*, March 30, 2020 https://ihsmarkit.com/research-analysis/covid19-recession-to-be-deeper-than-that-of-20082009.html (accessed April 5, 2020).
[3] At the time of writing, the U.S. has the highest rate of COVID-19 daily deaths and number of cases. FT.com. "Coronavirus Tracked: The Latest Figures as the Pandemic Spreads," *Financial Times* https://www.ft.com/coronavirus-latest (accessed April 6, 2020).
[4] Estimates for the percent decline in second quarter GDP range anywhere from 5% to 34%. For several forecasts, see Jeff Cox, "Goldman Sees 15% Jobless Rate and 34% GDP Decline, Followed by the Fastest Recovery in History," CNBC, March 31, 2020 https://www.cnbc.com/2020/03/31/coronavirus-update-goldman-sees-15percent-jobless-rate-followed-by-record-rebound.html (accessed April 5, 2020); David Shulman, "U.S. Forecast: The Sum of All Fears," UCLA Anderson Forecast, March 2020 Interim Forecast, https://www.anderson.ucla.edu/centers/ucla-anderson-forecast/2020-recession/the-sum-of-all-fears (accessed April 5, 2020); and Waelbroeck-Rocha and Behravesh, "COVID-19 Recession".
[5] BLS.gov. The Employment Situation – March 2020. U.S. Bureau of Labor Statistics. April 3, 2020. https://www.bls.gov/news.release/empsit.nr0.htm?via=webuproar (accessed April 6, 2020).

months.[6] Meanwhile, millions of more Americans who are currently furloughed (i.e. on leave without pay) eagerly await their return to work.

Like the nation at large, Montgomery County and all jurisdictions in the surrounding region are in an economic tailspin. With the entire Washington metropolitan area under stay-at-home orders and nonessential businesses closed, economic activity has been reduced to a trickle. Crucially, unlike previous recessions, the presence of the federal government will offer little insulation from the economic effects of the coronavirus pandemic. As Jeannette Chapman, director of the Stephen S. Fuller Institute, explains,

> In a typical recession, the federal government is a stabilizer for the region by being a consistent, or growing, source of income for a significant share of local business and households. In turn, these federally dependent businesses and households spend money at other local businesses, supporting secondary activities even during a business cycle downturn. In this downturn, households and business will reduce expenditures at local businesses even if their incomes are unchanged as households, business, and governments implement strategies to flatten the curve of the pandemic.[7]

The inability of the federal government to insulate the region from the recession is illustrated in the March unemployment figures. From March 7 to March 21, unemployment claims in Montgomery County skyrocketed from 195 to 3,941, an increase of 1,439%. This figure is remarkably close to the 1,456% increase in unemployment claims across the country.[8] However, the presence of the federal government will strengthen the region's economic recovery. According to Chapman, "The source of funding and the workforce of the federal government and federal contractors will be less affected by the disruption, making it easier for both the businesses and the associated households to resume normal operations."[9]

In one of its first emergency measures to mitigate the economic tailspin, the Montgomery County Council enacted the "COVID-19 Economic Relief Act" on March 31. The Act, which is now in effect, will provide up to $20 million in financial assistance for local businesses and nonprofits impacted by the

[6] Like projections for GDP decline, estimates for job loss vary considerably. See, for example, Josh Bivens, "Even With Already-Passed Relief and Recovery Measures, Job Losses From the Coronavirus Shock Could Easily Exceed 20 million," Economic Policy Institute, April 6, 2020 https://www.epi.org/blog/even-with-already-passed-relief-and-recovery-measures-job-losses-from-the-coronavirus-shock-could-easily-exceed-20-million/ (accessed April 6, 2020); and Shulman, "Sum of All Fears."
[7] "The Effect of the Coronavirus Pandemic on the Washington Region's Economy," Stephen S. Fuller Institute, March 18, 2020 https://sfullerinstitute.gmu.edu/2020/03/18/coronavirus/#_ftn1 (accessed April 2, 2020).
[8] Stephanie Bryant and Leslie Rubin. Historic Unemployment Data and Impact of Novel Coronavirus on Unemployment. Memorandum. Office of Legislative Oversight. Montgomery County Council. March 27, 2020.
[9] Chapman, "Effect of the Coronavirus Pandemic."

coronavirus pandemic.[10] With the passage of the Act, the Director of the Department of Finance has been charged with creating and administering a new Public Health Emergency Grant Program within the existing Economic Development Fund.[11] The grant program will accept applications from local for-profit and non-profit businesses.[12] As defined in Expedited Bill 16-20, "local business" refers to for-profit or non-profit entities that have (i) their principal place of business in the County[13] and (ii) 100 or fewer full-time-equivalent employees.[14] To be eligible for the grant program, local businesses must demonstrate "significant financial losses caused directly or indirectly" by the pandemic.[15] For businesses determined to be eligible under this program, the Economic Development Fund may grant up to $75,000 for financial losses incurred during the emergency declaration *and* up to $2,500 for the costs of purchasing technology to facilitate employee teleworking.[16]

INFORMATION, ASSUMPTIONS and METHODOLOGIES

No one can be certain about the *depth* or *duration* of the unfolding economic recession. This uncertainty is evidenced by the wide variation in forecasts on declines in GDP and other key indicators in the second quarter (see footnotes 4 and 6), as well as varying expert opinion on when the eventual recovery will take place. For example, Goldman Sachs economists predict a "V"-shaped recovery, in which the economy quickly rebounds in the third quarter.[17] Meanwhile, other economists predict a much longer "U"-shaped recovery, especially if the current pandemic triggers a financial crisis.[18]

Given the great uncertainty about the depth and duration of the pandemic and related recession, OLO believes it is unwise to quantify the impacts of the Public Health Emergency Grant Program on the County economy through the use of multipliers or other methods. Instead, OLO bases its expectations on

[10] Montgomery County Council. Council Approves Emergency Relief Package for Local Employers and Vulnerable Residents. Press Release. March 31, 2020 https://www2.montgomerycountymd.gov/mcgportalapps/Press_Detail.aspx?Item_ID=25094&Dept=1 (accessed April 1, 2020).
[11] Montgomery County Council. Expedited Bill 16-20 Economic Development Fund - Public Health Emergency Grant Program – Established. March 24, 2020. 2; and Montgomery County Council. Memorandum. Robert H. Drummer. Agenda Item 3.5. March 23, 2020. 2.
[12] County Council. Bill 16-20. 1.
[13] Montgomery County Code defines principal place of business in the county as "A regular course of business commerce in the County by a business, along with any of the following: (1) The business has its physical business location(s) only in the County; or (2) The business has physical business locations both in and outside of the County, and the County-based location(s) account for over 50% of the business's total number of employees, or over 50% of the business's gross sales." Montgomery County Code § 11B-2.4.72 [hereinafter "MCC"].
[14] County Council. Bill 16-20. 1.
[15] Ibid.
[16] Ibid. 1-2.
[17] Cox, "Goldman Sees."
[18] Carmen M. Reinhart and Kenneth Rogoff, "The Coronavirus Debt Threat," *Wall Street Journal*, March 26, 2020 https://www.wsj.com/articles/the-coronavirus-debt-threat-11585262515 (accessed April 3, 2020).

staff judgment and, more importantly, draws attention to variables that the Council should monitor in order to assess the impacts of the program and the overall state of the economy in the County and broader region.

VARIABLES

Indicators that are released in a timely manner are most useful for monitoring purposes. To assess the state of the County economy, OLO recommends that the Council monitor the following indicators:

- **Quarterly changes in GDP for Maryland, Virginia, the District of Columbia.**[19] While County GDP would be an appropriate measure of the overall strength of the economy, the most recent county-level data from the Bureau of Economic Analysis (BEA) is for 2018.[20] A more timely option is the state-level GDP data BEA releases much closer to real time.
- **Washington Coincident Index** and **Washington Leading Index**. These indices are prepared by the Stephen S. Fuller Institute, which is a leading source of expert analysis on the Washington metropolitan area economy. The Coincident Index measures "the current state of the metropolitan area economy based on a combination of regional indicators, including wage and salary employment, consumer confidence, retail sales, and domestic passenger volume." The Leading Index "forecasts the performance of the metropolitan area economy six to eight months in advance based on a combination of regional indicators, including unemployment, consumer expectations, retail spending, and residential building permits."[21] The Institute updates and reports these indices monthly.
- **Monthly Unemployment Rates for the County**[22] and **Weekly Unemployment Insurance Claims for the County**.[23]
- **Wage Rates for the Region**.[24]
- **Number of Businesses in the County**.[25]
- **Sales and Use Tax Receipts in the County**.[26] To our knowledge, the best way to capture changes in sales in the County is tax receipt data.

[19] BEA.gov. GDP By State. U.S. Bureau of Economic Analysis https://www.bea.gov/data/gdp/gdp-state (accessed April 7, 2020).
[20] BEA.gov. Local Area Gross Domestic Product, 2018. U.S. Bureau of Economic Analysis. https://www.bea.gov/data/gdp/gdp-county-metro-and-other-areas (accessed April 7, 2020).
[21] Sfullerinstitute.gmu.edu. Economy Watch https://sfullerinstitute.gmu.edu/economy-watch/ (accessed on April 7, 2020).
[22] DLLR.state.md.us. Local Area Unemployment Statistics. Maryland Department of Labor https://www.dllr.state.md.us/lmi/laus/.
[23] DLLR.state.md.us. Unemployment Insurance Initial Claims by County. Maryland Department of Labor https://www.dllr.state.md.us/employment/uicounty.shtml
[24] BLS.gov. U.S. Bureau of Labor Statistics https://www.bls.gov/oes/current/oes_47900.htm
[25] Quarterly Census of Employment and Wages (QCEW) data for Maryland. Maryland Department of Labor.
[26] Marylandtaxes.gov. Sales and Use Tax Comparative Revenue. Maryland Office of the Comptroller https://www.marylandtaxes.gov/reports/sales-and-use.php

- **Human Mobility in the County** and **Change in Seated Diners in the Region**.[27] Economists are concerned that the economic recovery could be undercut by the residual fear and anxiety that reduces consumer demand even after "social distancing" measures have been lifted.[28] Using human mobility data, Unacast has created a publicly available scorecard for social distancing. Tracking changes in mobility in the County will indicate whether residents continue to engage in social distancing due to residual fears after the pandemic passes. Another way to monitor residual fears would be to track year-over-year changes in seated diners at restaurants in DC and Maryland, which is data made publicly available by OpenTable.[29]

OLO also recommends that the Council monitor the residents, workers, and industries most impacted by COVID-19 and its related economic downturn. These include low-income, minority, and immigrant residents, and all nonessential businesses, especially the small businesses, that have been closed. Moreover, the recession is being driven primarily by the decrease in discretionary consumer spending. Industries that rely heavily on discretionary spending include: leisure & hospitality, retail, and other service industries (e.g., personal care and maintenance).[30] Indeed, OLO expects that most Public Health Emergency Grant Program recipients will be small, local businesses in these industries.

IMPACTS

Businesses, Non-Profits, Other Private Organizations

Workforce, operating costs, property values, capital investment, taxation policy, economic development, competitiveness, etc.

Given the depth of the recession, OLO believes that the Public Health Emergency Grant Program will have a modest, positive impact on private organizations in the County.

OLO believes the impact will be "modest" because of the limited reach of the $20 million grant program. Prior to the pandemic, approximately 32,468 for-profit businesses with fewer than 100 employees operated in the County, which compromise 98% of all businesses in the County.[31] According to Nonprofit Montgomery, 5,356 nonprofits operate in the County.[32] (Note: Nonprofit Montgomery does not disaggregate nonprofits by size.) Based on these figures, OLO assumes that up to 37,824 businesses could be eligible for

[27] Unacast.com. Social Distancing Scoreboard. Unacast https://www.unacast.com/covid19/social-distancing-scoreboard
[28] Peter S. Goodman, "Why the Global Recession Could Last a Long Time," *New York Times*, April 1, 2020 https://www.nytimes.com/2020/04/01/business/economy/coronavirus-recession.html (accessed April 2, 2020).
[29] OpenTable.com. The State of the Restaurant Industry. OpenTable https://www.opentable.com/state-of-industry
[30] Chapman, "Effect of Coronavirus Pandemic."
[31] Quarterly Census of Employment and Wages (QCEW) data for Maryland. Maryland Department of Labor.
[32] Nonprofitmoco.org. Nonprofit Facts https://www.nonprofitmoco.org/about-us/nonprofit-facts/ (accessed on April 7, 2020).

the Public Health Emergency Grant Program. Assuming the full amount will be allocated to each grant recipient business ($77,500), the program will provide financial assistance to 258 businesses, which is less than 1% of all potentially eligible businesses.

Despite the limited reach, the grants will have a positive impact on the businesses that receive them. As stipulated in the Act, financial assistance will be used for "employee wages and benefits, taxes, debt, rent, or other operating losses," as well as for the cost of hardware and software for employee teleworking.[33] Thus, businesses and their workers will benefit from support in the areas of employee compensation and operating costs. Importantly, however, even these grants may not save businesses teetering on the edge of closure, especially if the emergency orders remain in place well into the summer or are reimposed in the fall in the event of a second wave of COVID-19.

Beyond benefiting businesses in the areas of workforce and operating costs, the grant program will have little to no impact on the other indicators prioritized by the Council. Economic development, competitiveness, property values, and capital investments will be influenced by the trajectory of the recession and federal relief measures far more than the grant program.

Residents

Employment, property values, taxes paid, etc.

OLO expects that the Public Health Emergency Grant Program will have a slight positive impact on residents in the County. The financial assistance will benefit the households of owners and workers of the businesses that receive grants. To a small extent, these benefits will mitigate the overall decrease in output and earnings in the County created by the recession.

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[33] County Council. Bill 16-20. 3.

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) drafted this economic impact statement.