



Monday, August 31, 2020

5:30 PM

Civic Center Theater

CITY COUNCIL STUDY SESSION AGENDA

Pursuant to Phase 4 of Governor Pritzker's Executive Order, a maximum of 50 people will be allowed in the Civic Center Theater. An in-person meeting of all members of the City Council of the City of Decatur as well as in-person meetings of all members of other Boards and Commissions of the City of Decatur is not practical or prudent because of the COVID-19 pandemic.

I. Call to Order

1. Roll Call
2. Pledge of Allegiance

II. Study Session: Study Sessions are less formal meetings of the City Council called to discuss broad policy themes and obtain input from the governing body about proposals and initiatives that are still being developed. No formal votes are taken at Study Sessions, and no informal directions expressed at Study Sessions bind the City Council, or its individual members, to vote in a certain manner at a future City Council meeting. The Mayor will accept public comments at different times on the agenda topics below as council and staff discussions proceed. Members of the public should limit their remarks to three (3) minutes, unless granted additional time by the council.

1. Brush College/Faries Parkway Interchange Project Status Report
2. COVID-Related Financial and Budget Planning

III. Appearance of Citizens

Policy relative to Appearance of Citizens:

A 30-minute time period is provided for citizens to appear and express their views before the City Council. Each citizen speaking will be limited to one appearance of up to 3 minutes. No immediate response will be given by City Council or City staff members. Citizens are to give their documents (if any) to the Police Officer for distribution to the Council. When the Mayor determines that all persons wishing to speak in accordance with this policy have done so, members of the City Council and key staff may make comments.

IV. Recess to Closed Executive Session

Recess to Closed Executive Session under Open Meetings Act Section 2(c)(1) for the Purpose of Discussing the Appointment, Employment, Compensation,

Discipline, Performance, or Dismissal of Specific Employees of the Public Body.

V. Adjournment

ATTACHMENTS:

Description

Memorandum

BCR_Overall Paln

Council Presentation

Type

Cover Memo

Backup Material

Backup Material

August 27, 2020

TO: Mayor Julie Moore Wolfe & Members of the Decatur City Council

FROM: Scot Wrighton, City Manager
Matt Newell, Public Works Director

RE: Brush College/Faries Parkway Grade Separation Project

This project has been in the planning stages for several years and is one of the largest public infrastructure projects in the history of Decatur. An 11" x 17" map and aerial view of the proposed project is attached. The scope of the project includes a bridge elevating north and south bound Brush College Road traffic over Faries Parkway, the construction of an interchange, the relocation of an electric sub-station and several adjacent businesses, and adjustments to the rail lines of two Class One railroad companies with trackage adjacent to the intersection, and substantial land acquisition. Most of the project cost is paid through intergovernmental revenues; and when construction commences it will be managed by the State of Illinois.

The project is over-budget, so staff has sought ways to reduce costs and increase external funding to close the gap in advance of a planned bid letting in April 2021. The reason for placing this item on the City Council's Study Session agenda is to provide an update on the progress of this project, describe staff's plans for filling the budget gaps, and seek the governing body's inputs regarding the overall project as it gets closer to bid letting. Also, the City Council will need to make a decision about a substantial change order to the engineering services contract with AECOM to reflect changes in scope and work.

From an engineering standpoint, the project has progressed past the 60% design phase and is working toward a 95% design by late September or early October. The 60% plans allowed a more accurate project estimate to be prepared which pegged the estimated project construction costs to be \$42.48 million. This is a 67% increase over the initial project estimate, which was based on the original 2013 preliminary estimate of \$25.35 million (in 2013 dollars). Depending on how the city and the State resolve the issues below, the funding gap could be between \$10 and \$17 million.

While not an exhaustive list of each item, general reasons for the funding gap include:

1. The original estimate was prepared using the 2013 preliminary design as the base with very little change, as it was believed the estimated costs were conservative and still representative of the project. Using 2.5% per year, the estimated cost of inflation and cost escalations from the original estimate, the added costs due to inflation are approximately \$5.54 million. The total role of inflation will not be fully known until bids are opened, but the more accurate and detailed design estimate based on 60%

completed plans is responsible for the majority of the cost increases. This increase could be partially offset by “pandemic effect” and greater clarity in the engineering documents, and this research and re-analysis is still underway.

2. The retaining wall costs were significantly underestimated in the 2013 Project Design Report resulting in a \$3.2 million increase with the 60% design. This was largely due to lack of input from the Illinois Central RR back in 2013, and because no one knew exactly where a railroad retaining wall would be located with respect to public right of way and railroad property. In 2013, the designer intended to use a standard Mechanically Stabilized Earth (MSE) retaining wall design for the full length of the Illinois Central track, which is adjacent (parallel) to the entire west wall of the proposed bridge. This changed in the final design process to a railroad-mandated crash worthy retaining wall design which resulted in a significant cost increase. This was further changed by the railroad to requiring “T-wall” retaining wall design as noted in #3 below.
3. During the Design Report phase of the project, the Illinois Central RR was not engaging itself in the design process even though they received all the information and many questions. They have been much more involved during the current design process and have noted a requirement for significant retaining wall changes to a “T-wall” type retaining wall along their north-south rail which runs the full extent of the project. An MSE wall was in the original proposal. The retaining wall changes required by the ICRR have further increased the cost for the retaining wall by an estimated \$1.1 million.
4. An additional 540’ was added to the south end of the project to make the connection to the existing road smoother and geometrically acceptable. With the necessary retaining wall work, this added approximately \$3.6 million to the estimate with the additional pavement, retaining walls, drainage, etc. It should be noted that the original 2013 preliminary design was completed for an overall project that spanned nearly 2.2 miles from Faries Parkway to William Street, and was scaled down into 3 segments to make it more manageable. The exact south terminus for the Faries Parkway portion was approximated in the early estimate and during the design scope negotiations. As the design progressed it was determined that additional room was required to achieve the best tie-in to Brush College Road.
5. Mobilization costs are estimated to be \$2.5 million. These costs were not included in the original 2013 project estimate.
6. Additional environmental costs are estimated at \$0.8 million. This is additional work required for including building demolitions and general site clearing on the construction contract. In addition, IDOT’s requirements for testing and handling of contaminated material are more stringent today than they were back in 2013.
7. Lastly, there is a \$2 million project contingency which may or may not be needed.

The staff proposes to partially close the funding gap through:

1. The design engineer for the project, AECOM, has proposed refinements to the final design and to estimating assumptions that should reduce the total cost estimate.
2. The city is seeking the assistance of our State and Federal legislators to intervene with the Class One railroads regulators to change the railroads' excessive demands for improvement on and adjacent to their trackage or, alternatively, reconsider whether it is essential that portions of trackage be moved.
3. The city has petitioned the State for additional funding from Grade-Crossing Protection funds, Freight Funds, and other State sources.
4. The city will petition IDOT to reallocate \$1.5 million in funding approved for improvements to the Wood & MLK Jr. Drive intersection to the Brush College project.
5. The cost of the Ameren Substation relocation has been reduced (see below).

Project Funding Summary

The current status of project funding is provided in Table 1 below.

Table 1. Preliminary Project Estimates					
Project Phase	Total Estimated Cost	Proposed Freight Funds	Illinois Jobs Now! Funds	Proposed ICC Funds	Proposed City Funds (State MFT)
Right of Way Acquisition	\$5,132,000	\$3,040,000	\$2,000,000	\$0	\$92,000
Engineering**	\$3,959,667	\$2,400,000		\$1,559,667	
Utility Relocation**	\$4,150,000	\$2,760,000		\$1,390,000	
Construction Engineering	\$950,333			\$50,333	\$900,000
Construction	\$42,480,000	\$16,800,000		\$9,000,000	\$16,680,000
Totals	\$56,672,000	\$25,000,000	\$2,000,000	\$12,000,000	\$17,672,000

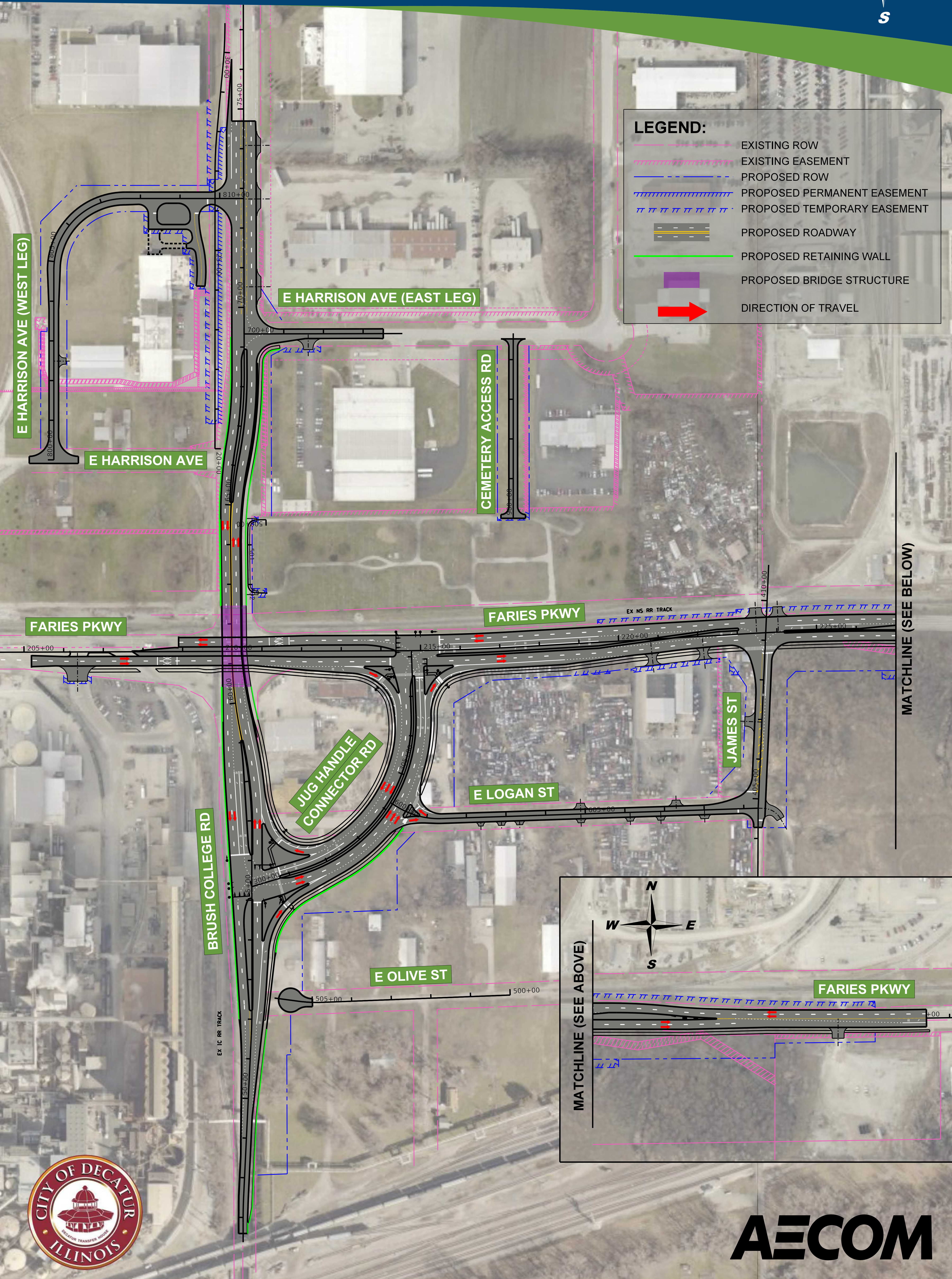
** Agreements are in place for these costs. The estimated Ameren substation relocation cost has been reduced by \$668,000.

Depending on the success of the above strategies, the city could consider deleting a planned relocation of the Illinois Central railroad tracks north of Faries Parkway to accommodate a right turn lane on Brush College Road at Harrison Avenue. This change was recently approved by IDOT which will result in a cost savings of nearly \$2 million.

The State of Illinois has been partially receptive to the city's requests to consider increasing the State and Federal funding sources that support this project; but much more work on several of the complex elements of this project remain to be resolved before a bid letting can occur.

So far the city and other governments have only expended funds for engineering and land acquisition. But with a tentative bid letting less than a year away, there is much work to do to ensure that all of the funding, right-of-way, railroad, utility, land acquisition and other project elements all come together.

Project Plan

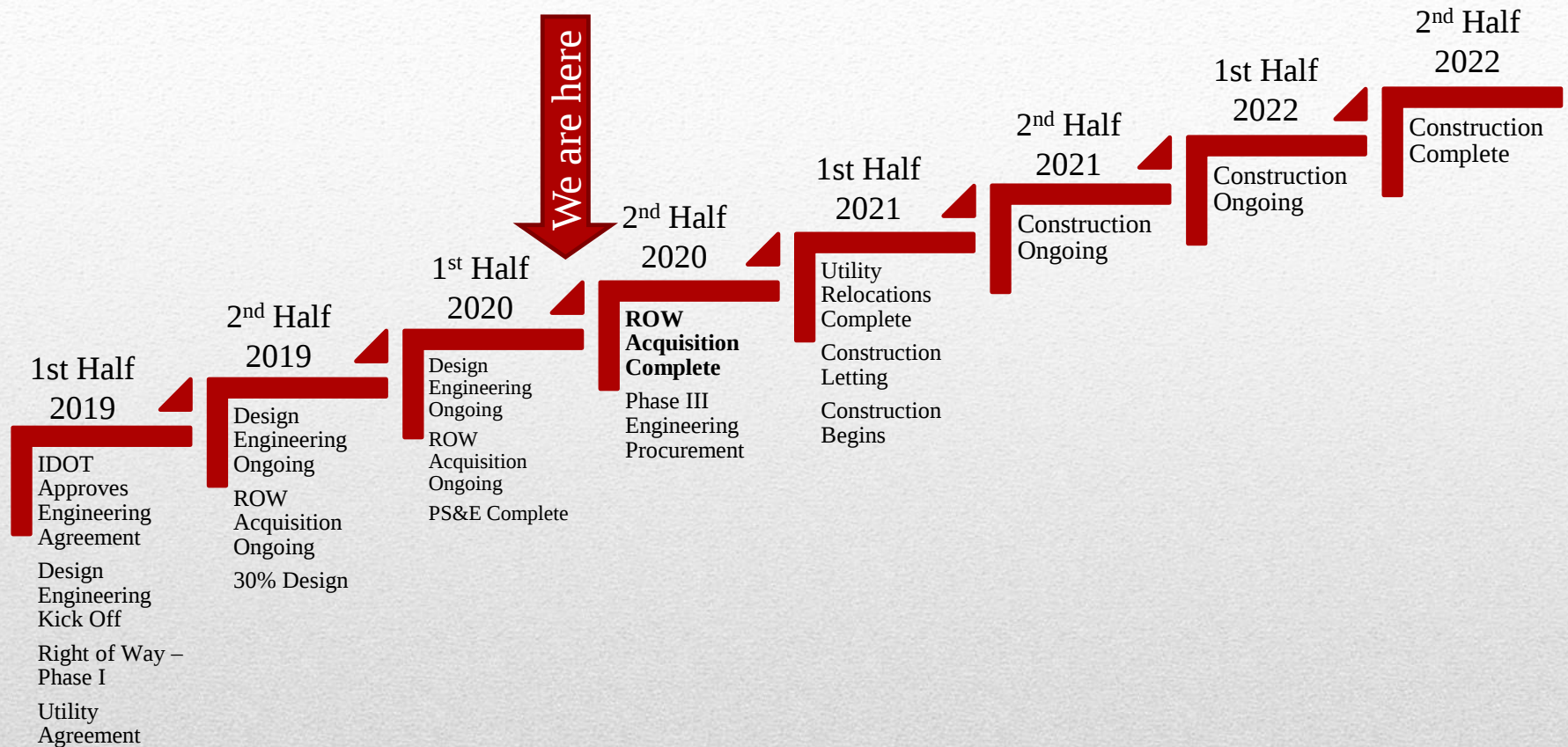




City of Decatur Brush College Road – Faries Parkway Project Cost increases

August 31, 2020

Presented by Dr. Ann Schneider, President of Ann L. Schneider and Associates



Brush College Road – Farries Parkway Schedule

Project Milestones

- Finding of No Significant Impact (FONSI) for the project was signed by FHWA on October 2, 2014
- Design engineering: 60% complete
- ROW
 - 6 of 7 whole takes complete or in agreement
 - $\approx$ 19 partial takes needed, X complete or in agreement
- Utility relocation engineered, scheduled

Brush College Road – Farries Parkway Update

3

Cost Item	30% Estimate	60% Estimate	Change
Phase II Engineering	\$2,500,000	\$3,959,667	\$1,459,667
Right of Way	\$6,400,000	\$5,132,000	(\$1,268,000)
Utility Relocation	\$3,600,000	\$4,150,000	\$550,000
Construction	\$25,800,000	\$42,480,000	\$16,680,000
Construction Engineering	\$1,600,000	\$950,333	(\$649,667)
Total	\$39,900,000	\$56,672,000	\$16,772,000

Brush College Road – Faries Parkway: Funding Gap

4

- Inflation adjustment (2.5% per annum from 2013 to YOE) - \$5.54 million
- Additional retaining wall at south end - \$3.5 million
- IC/CN related cost adjustments
 - Higher cost retaining wall required by RR - \$4.3 million
 - Additional RR relocation and grade crossing costs - \$410K
- Added Roadway/Drainage/Water Main/Lighting/Structural work due to added south end tie-ins - \$3.26 million
- Added environmental testing and handling - \$800k
- Mobilization costs - \$2.54 million
- Contingency - \$1.9 million
- Less cost savings from bridge span reduction – (\$5.12 million)

Brush College Road – Farries Parkway: Construction Cost Increases

5

- City has expressed interest to IDOT for additional funding through Illinois Competitive Freight Program (IDOT is considering reopening up to current grantees)– the amount and timing is to be determined – **previously awarded \$25 million**
- City applied to ICC for additional funding for grade separation structure (overpass) – **previously awarded \$12 million**
- City has requested AECOM research other design alternatives to reduce costs
- City has approached Congressional delegation for assistance with negotiating cost savings design elements with the IC/CN
- City is exploring alternative financing mechanisms that would leverage increased state motor fuel tax revenues from Rebuild Illinois

(Note that the City also used \$2 million previously awarded by the State [Illinois Jobs Now] toward this project)

Brush College Road – Farries Parkway: Addressing the Gap

6

SUBJECT: COVID-Related Financial and Budget Planning

ATTACHMENTS:

Description	Type
Memo	Cover Memo
Memo #2	Cover Memo
6 Charts on State Taxes and Spending	Backup Material
IPRIME Market Update	Backup Material
State Budget Watch	Backup Material

August 27, 2020

TO: Mayor Julie Moore Wolfe & Members of the City Council

FROM: Scot Wrighton, City Manager
Gregg Zientara, Chief Financial Officer/City Treasurer

RE: COVID-Related Financial and Budget Planning

BACKGROUND

On May 11, 2020, the City Council conducted a study session to analyze revenue trends impacting the FY 2020 municipal budget, and tentatively approved a 9-point strategy for keeping the city government solvent through 2020 without the need for any new tax increases on Decatur citizens and property owners, and without the need for compulsory staff layoffs. The council requested an update every two months—extending through compilation and approval of a new budget for FY 2021. Staff gave an extended “Treasurer’s Report” in July, as a part of the July 20th City Council meeting, but it was decided that a more detailed financial analysis would be postponed until August, when more data would be available.

In May, staff estimated that COVID-induced revenue losses to the city’s General Fund would be about \$5.4 million by the end of 2020. The internal and external variables change every month, so the projections change too. In June, staff revised this amount to an estimated \$5.6 million revenue shortfall. In July, staff revised this amount again to an estimated \$5.2 million revenue shortfall. These estimates did not include expected reductions in motor fuel taxes (MFT) due to reduced fuel sales, because MFT is not a General Fund revenue. Staff still believes the General Fund revenue shortfall will be between \$5.0 and \$5.5 million by the end of 2020.

CURRENT STATUS

An update on the progress of the 9-point financial strategy for FY 2020 follows this memo. While several components of the 9-point financial strategy remain to be fully implemented, it is now possible to report that efficiency and cost reduction measures implemented to date, along with grant reimbursements received (or to be received prior to December 31, 2020) are estimated to reduce originally budgeted expenses in the General Fund by between \$3.0 and \$3.3 million. This means that the net loss to the General Fund (the gap between locally financed expenditure reductions and revenue losses that must be charged to unrestricted cash reserves) will be approximately \$2.0 million—much less than the amount staff predicted would need to come from reserves back in May. I am grateful to the city’s department heads, division heads, and the AFSCME union for their creativity and flexibility in finding more places for savings than was first anticipated in May.

Some of our initial assumptions on pandemic revenue impact were pessimistic, while other revenue assumptions were optimistic; but in the aggregate the General Fund totals are tracking fairly close to the original projections. Of course, all projections are subject to the ever-changing circumstances of the national economy and reactions to the COVID pandemic, and how these developments ripple through retail sales volume, unemployment costs, the financial condition of the State of Illinois, consumer confidence, and local spending habits.

In order to mitigate the pandemic's negative impact on City revenues, staff implemented spending containment measures limiting expenditures (including staffing reductions through normal attrition and turnover); but we have still maintained basic service delivery without disruption or interruption—even if some service quality has been less than optimal during this period. The budget authorizes total staffing of 449; but this number has been reduced to 432, entirely through attrition and natural turnover. Because of this financial prudence and caution, no layoffs or involuntary furloughs will occur in 2020. In fact, even though total staffing is down, we have continued limited hiring as needs and service demands require.

Our current General Fund projections are as follows:

The City's General Fund cash reserves began FY 2020 at \$8.3 million, or 43 days cash reserve. By continuing to implement the 9-point financial plan, the city will draw down the General Fund cash reserve from \$8.3 million to about \$6.3 million at year's end—or a reserve of only a little over a month. It is recommended, however, that the City Council refrain from further cash reserve reductions. The purpose of the General Fund's cash reserve is to have a level of cash in reserve to enable the City to withstand unforeseen financial shocks. The 2020 pandemic was just such an unforeseen shock. After weathering the shock, the city should commit to eventually restoring reserves to the 60-day level envisioned in City Council policy, albeit in future years. Now that we are beginning to chart a recovery course, I believe we should not draw down more reserves, and instead should find ways to provide services within the new realities ('new normal') of reduced General Fund revenues.

LOOKING TO 2021 & BEYOND

To avoid further draw-downs from cash reserves in 2021, even more budget discipline may likely be required to balance the FY 2021 budget. This will be challenging because most financial forecasting indicates that revenues available to State and local governments in 2021 will be less than they have been in 2020. This means that the city of Decatur's \$5+ million dollar 2020 General Fund revenue shortfall could be even greater in 2021. Attached council packet materials include market projections from some of the same third-party sources cited in May (PMA Asset Management, Center on Budget and Policy Priorities, and Manulife Investment Management). These and other sources project further reductions in consumer spending, nonfarm payrolls, personal income, and funds available to States and local governments. The economic disruptions created by the pandemic hit the State of

Illinois with a \$2.7 billion shortfall in 2020; but this will grow to \$4.6 billion in 2021, according to the Center on Budget and Policy Priorities.

Current models suggest we will be well into 2022 before we can expect to see significant economic rebounds. Although the State of Illinois has resisted “robbing Peter to pay Paul” measures in the form of diversion of municipal funds to fill the State’s budget gaps in the current fiscal year, the State of Illinois (with almost no reserves) will likely look to local government revenue sources to shore-up State finances in 2021, as they have done in previous years when they ran out of money. It is impossible to know exactly how much shrinkage in the 2021 budget could be required, as faster or slower economic recoveries are difficult to predict, election-related market volatility is unknown, the economic impact of additional State-imposed business shut-downs is hard to quantify, there could be additional employment displacement, and other unknown variables that can all radically alter forecasts for the city’s 2021 financial plans.

Staff will continue to monitor all revenues and expenses, and continue to exercise careful control of expenditures, in order to limit the negative impact of the pandemic on the City General Fund. We have already begun looking for ways to reduce expenditures without reducing services by examining some of the following strategies for 2021:

1. Explore the use of an insurance pool to reduce workers compensation costs
2. Conduct a top-to-bottom analysis of the Central Garage and central fueling operations to see how both can be re-engineered to save costs
3. Obtain vehicles through a unique market-replacement lease contract to reduce overall vehicle acquisition costs
4. Use short-term bonding or other debt financing to smooth the financial impact of selected capital costs that cannot be deferred

Despite these and other economies and efficiencies that could be included in the 2021 budget, they may not be enough to balance the General Fund. It could be that the city will be able to get through 2021 with only modest belt-tightening; but it is also possible that 2021 will necessitate a fundamental re-examination of which municipal services can be reduced or curtailed in order to balance the budget. More than seventy-six percent (76%) of the General Fund goes to salaries and employee benefits.

It is too early to decide what services and funding levels should and should not be included in the 2021 budget (since staff has not yet provided the council with new 2021 revenue estimates, and we have not developed new spending plans). Council will **not** be asked on August 31 to make spending decisions about individual programs, projects, departments or subsidies—rather they will see all options in the context of the entire budget, including all revenues and all expenditures, later in the Fall when the recommended budget is distributed for council review.

Rarely have local governments had to approach their annual budgeting with so many funding variables in flux. But given the difficult task of crafting a new 2021 budget, it is not too soon to discuss a ***process*** for developing the new budget, and the general principles within which the governing body wants the new recommended budget constructed.

At the Monday night study session, it is requested that the City Council discuss:

1. Whether the financial course set forth in the 9-point plan and explained here as it pertains to the rest of FY 2020 is acceptable, or if the City Council wishes to amend it in some way; and
2. Whether the FY 2021 budget should be balanced using cash reserves, as FY 2020 has been balanced; and
3. Whether the city should, to the greatest extent possible, avoid tax increases in the FY 2021 budget; and
4. Whether the city should attempt to seek out service mergers and consolidations with other units of local government that could reduce the cost of government for all participating governments; and
5. Whether the FY 2021 budget should be prepared with different levels of potential service deliveries (for example, for 4%, 6%, 8%, and 10% General Fund reductions accordingly) so that the budget can be amended more readily based on changing conditions as FY 2021 proceeds; and
6. Whether the City Council would like to continue close monitoring of its financial conditions every other month in 2021, as it has done in 2020 since the start of the pandemic.

The City Council is at liberty, during the August 31 Study Session, to propose other budget process and development parameters. Staff will use these general principles, and the strategies contained in the council's June 2019 Strategic Planning document, to begin preparing the draft 2021 budget in September, with the expectation that a "City Manager's Recommended Budget" will be presented to the governing body in late October, for subsequent review during a series of council study sessions beginning in November. The final version of the budget should be formally adopted in December prior to the January 1st start of the new fiscal year.

May, 2020 Nine-Point Financial Gap-Closing Plan for FY 2020 (updates in red):

1. Refinance and restructure the city's long-term debt.
The city re-financed two debt issues from 2010 and 2013. The long-term savings accomplished from these transactions exceeded staff estimates, but none of the 2020 savings will accrue to the General Fund. The city saved more than \$1.9 million in future debt service payments, but most of these savings will accrue to the Water Fund. However, in future years this debt refinancing will reduce the General Fund's contribution to retiring downtown improvement bonds.
2. Anticipated relief funding from the State and Federal governments. The attached memo from Deputy City Manager Kindseth details the extent of the city's efforts to secure and obtain grant monies above and beyond those anticipated in the council-approved 2020 budget. The estimated total in special grant funds exceeds \$9.8 million. While this is impressive, more than 95% of these funds will go to Non-General Fund expenses, or to COVID add-ons to the General Fund that were not a part of the FY 2020 approved budget anyway. In May, staff estimated that the direct offsets to budgeted General Fund costs would be about \$250,000. We now believe that the net offset to 2020 budgeted expenses will be between \$300,000 and \$350,000. These intergovernmental calculations assume no funding from any future federal bailout for revenue gap losses paid directly to local governments. This political situation could change, but at this writing the U.S. Senate version of the next COVID Relief package includes no direct assistance to local governments for their revenue losses.
3. Establish an Employees' Clinic (& other measures) to reduce group health care costs. Not yet implemented; council action anticipated next month. 2020 General Fund projected savings of \$125,000 will likely be slightly less due to delay. Net projected savings in 2021 to the General Fund is \$350,000.
4. Eliminate/Restrict "non-essential" expenditures. This means aggregated and projected savings from cancelling some planned vehicle purchases, delayed software upgrades, non-replacement of certain staff positions vacated through normal attrition and retirements, training and travel cancellations, and other miscellaneous expenses. In May, staff projected aggregate savings by year's end at \$1,850,000. Now staff estimates total year-end savings between \$2.7 and \$3.0 million.
5. Temporarily reduce funding to police & fire pension funds. The city has historically funded its fire and police pensions at or above the 100% level, but the law requires that we fund no less than 90%. With the current year tax levy already set, these savings would mostly occur in 2021. No action has been taken on this strategy. If utilized, action would not be taken until the City Council enacts its annual tax levy ordinance in December. The City Council will have additional opportunities to update its financial projections prior to December and, on the basis of this additional information, can decide if it wishes to pursue this cost saving step later in the year.

6. Delay some planned capital expenses based on new decision matrix. The May study session included a matrix for deciding what capital projects can be considered for delay, and project list. Staff is using this matrix to delay or advance projects, but it does nothing for the General Fund in 2020. Savings from use of the matrix are already calculated into #4 above.
7. Other Modest Revenue Enhancements & Expenditure Reductions. The city staff is examining possible changes to vehicle leasing contracts, central garage operations, workers compensation insurance pooling, and other cost reductions. If approved by the City Council, most of the financial benefits will accrue to the 2021 fiscal year budget, with only small savings credited to 2020. No new revenue enhancements, besides those already included in the 2020 budget, are planned at this time.
8. & 9. Restricted reserves are for use in unplanned emergencies. In the May 2020 study session memo, it was tentatively proposed that up to \$3.0 million in a combination of unrestricted General Fund reserves, and reserves in the city's insurance and risk management funds be applied to covering the remaining gap between revenue losses and implemented expenditure reductions. The combined financial effect of the strategies implemented so far (mostly #2 and #4) means that the estimated amount required will decrease to approximately \$2.0 million.

OFFICE OF CITY MANAGER

August 10, 2020

TO: Honorable Mayor Julie Moore Wolfe and City Council Members

FROM: Scot Wrighton, City Manager
Jon, Kindseth, Deputy City Manager

SUBJECT: Discussion over increased revenue from unanticipated grants

BACKGROUND: The FY 2020 budget is likely going to be one of the most distorted budgets the City has had for many years. As was previously discussed, there has already been and we anticipate a continued disappointing trend in revenue receipts through the rest of this fiscal year. The purpose of this memo is to highlight the positive side of our budget uncertainty with discussion of significant grant monies received to help soften the loss in revenue. I say soften because to date none of the multiple funding sources that we have been able to secure really can be used for general fund revenue replacement.

The City has been apportioned just short of \$10 Million dollars that was unanticipated when the FY2020 budget was adopted. The bulk of this apportioned money has come from the federal CARES Act. It is important to note that the CARES act grants are reimbursable apportioned amounts, meaning we can get up to this amount reimbursed, if we incur the expenses within the specific timeframes and parameters of each specific issuing agency of CARES Act monies. The City has received or reasonably believes we will receive the following grant amounts or apportionments. This list below also does not include pass through grants like CDBG, HOME, or IHDA monies where the City simply serves as a conduit (except overhead) to get this to low/mod income residents. The list below is money that can be used by the City for our expenditures.

CARES Covid-19 Money

Transit Capital & Operations	\$6,168,000
City Covid-19 Expenses (CURE)	\$3,140,263
Police Department	\$99,423
Fire Department	\$30,918

Other Unbudgeted Grant Money

Air Pack replacement across entire department	\$271,091
2020 Census Grant	\$101,500

Total Grant Monies available	\$9,811,195
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The City has been apportioned \$6,168,000 of CARES money through the Federal Transit Administration. This funding is for operating assistance and capital expenses. The operational assistance monies have been spent towards, safety equipment such as (PPE) Personal Protective Equipment and sanitizing the buses and transit facilities during the COVID-19 pandemic. This money can also be used to offset our loss in fare revenue as we stopped collecting fares since March. On the capital side of this same grant we have proposed replacing two trolleys as well as other facility rehabilitation and retrofitting buses with protective barriers. This grant also been used to provide temporary supplemental pay to transit employees for their service during this pandemic. This grant is limited to transit operations of the City and largely has no impact on the City's General Fund. We anticipate spending 20-40% of this grant on facility improvements or technology needs which will reduce our operating costs in future years.

The CURE money is the state apportioned amount of money for City of Decatur to reimburse for unbudgeted Covid-19 expenses. This money can be used by any department or function within the City. This money cannot be used for revenue replacement. The City has spent approximately \$150K of this money since March. We anticipate spending the rest of this money by the end of the calendar year, with approximately 50% of it going to technology improvements (hardware & software). The remaining 50% will be split between personnel costs, testing site expenses, and other PPE expenses to be used across city departments. We anticipate 10-30% of this grant money used will offset general fund expenditures in the current, or future year's, budgets.

The remaining two CARES grants for police and fire were approved for specific budgeted needs for these departments, but largely follow the same parameters as the CURE grant above. These two grants will be used for primarily for PPE and technology needs, though the police department grant has 30% to be used for payroll overtime expenses. We hope that 10-20% of these two grants can offset the current or next year's expenditures.

The Airpack grant will replace all of our air packs across the fire department, which have a life span of approximately 10 years. This reduces the replacement cost for the next 10 years, though doesn't have much impact on the budget, as this replacement was not yet budgeted for.

The 2020 Census grant has been used primarily for promotional advertisement and event giveaways for the census. We have advertised on virtually every type of medium, but more importantly we did so in a way that benefitted our local economy. We provided grant money directly to 8 nonprofits throughout Macon County, like United Way and Oasis. The City partnered with the foodbanks to provide assistance to multiple food drives, including the one this Saturday. We have partnered with the Library to improve their curbside pickup using Census grant. We anticipate 10-15% of this grant to offset budgeted payroll expenses from the year's general fund budget.

All of these grants make a significant source of unanticipated revenue to the City, though each one has distinctive set of time frames and rules of eligible expenses. Staff is

navigating each one of these independently and utilizing these on the basis of which one expires first as some like, the transit grant can be utilized through 2024. The goal of all of these grants is to spend the money as prudently as possible to maximize future potential savings or efficiencies, after of course the immediate needs are met. We believe collectively all of these grants, except the transit portion, will generate current year and future year expenditure reductions.

BUDGET/TIME IMPLICATIONS: We anticipate these grants to offset some of the increased expenditures and soften the significant loss in budgeted revenue.



For Tax Day 2020, 6 Charts on State Taxes and Spending

BLOG POST | JULY 13, 2020 AT 11:15 AM | BY WESLEY THARPE

Tax Day, which is July 15 this year due to COVID-19, marks an opportunity to look at the pandemic's impact on state budgets and consider the crucial role that state tax and spending choices play in people's lives — such as helping keep residents healthy, providing basic shelter and quality schools, and reducing barriers that block some people, particularly people of color and other historically excluded groups, from enjoying the nation's full promise.

State and local tax revenues have crashed in recent months due to massive layoffs, business shutdowns, and social distancing measures to fight the virus. Policymakers also face unexpected costs including emergency public health measures, such as ventilators and increased hospital capacity. We estimate that state budget shortfalls will total about \$555 billion over fiscal years 2020 to 2022, a sharper drop than even the worst years of the Great Recession of a decade ago — *not including* the added costs to fight COVID-19. Because states must balance their budgets even in recessions, they must fill those shortfalls through some combination of budget cuts, revenue increases, and one-time funds, including reserves and federal aid.

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars



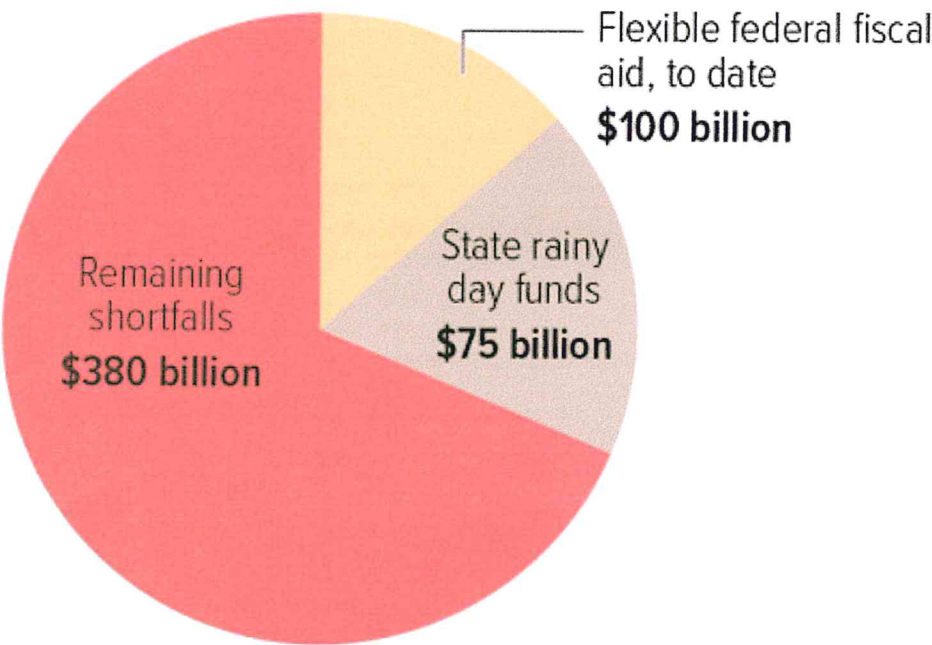
* Estimated based on CBPP calculations

Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

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At the start of this fiscal crisis, federal policymakers provided some initial aid to state and local governments. The Families First Coronavirus Response Act of March included about \$40 billion in federal matching funds for Medicaid, while the CARES Act, also of March, included \$30 billion for education plus \$150 billion in direct grants. Yet the scope of the crisis far exceeds these initial lifelines. Due to overly restrictive and sometimes conflicting guidelines on using the funds, states can only use about \$100 billion of the federal aid to offset revenue shortfalls and limit cuts in services. States can (and should) further limit the damage by drawing down their “rainy day” reserves, but even if they spent them completely, enormous shortfalls would remain.

Federal Aid to Date and State Rainy Day Funds Won't Close Large State Shortfalls

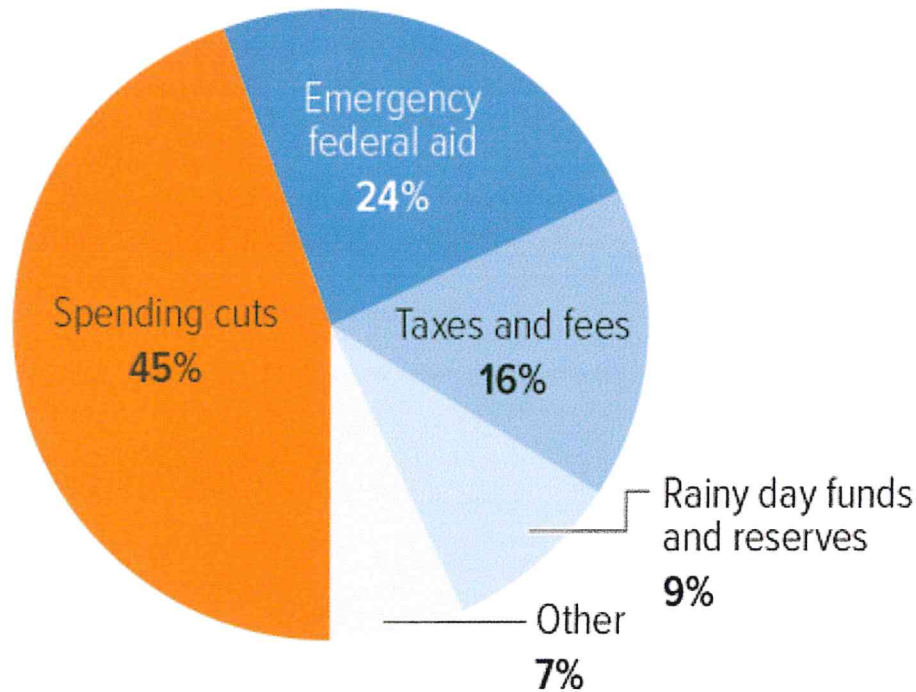


Note: Flexible federal fiscal aid refers to aid through the Families First Act and the CARES Act.
Source: CBPP calculations

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In the Great Recession, states relied disproportionately on budget cuts to close their shortfalls, and they'll almost certainly follow a similar path without more federal aid. State and local governments are already starting to cut services and furlough or lay off teachers, emergency responders, and other public workers. Many of those job losses will become permanent if federal policymakers don't step in.

States Relied Most on Spending Cuts to Balance Their Budgets During the Great Recession



Source: CBPP calculations. Figure covers state fiscal years 2008-12.

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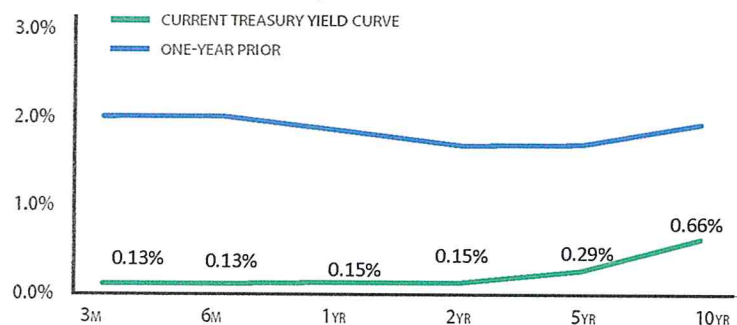
More than half of state spending nationwide goes to education and health care, so cuts due to COVID-19 will surely harm these services significantly. Large cuts there would cause both immediate and lasting harm, especially for children, working families, and at-risk groups. When schools are adequately funded, they can better implement reforms — like expanding early learning and reducing class sizes — that improve educational and earnings outcomes, especially for children of color and those in economically struggling communities. State support for health services, whether for affordable health coverage through Medicaid and the Children's Health Insurance Program, mental health or other services, or support for local public health departments, helps keep people safe and healthy. States and localities also help support other public investments that promote people's health indirectly, such as affordable housing and safe drinking water.

IPRIME MARKET UPDATE

Prepared by PMA Asset Management, LLC

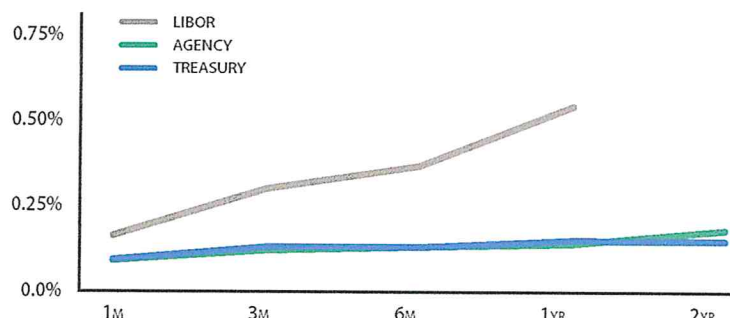
JULY 2020

Historical Treasury Yield Curve



Source: Bloomberg Finance L.P. 6/30/20

Indicative Rates



Source: Bloomberg Finance L.P. 6/30/20. Rates do not reflect transaction fees.

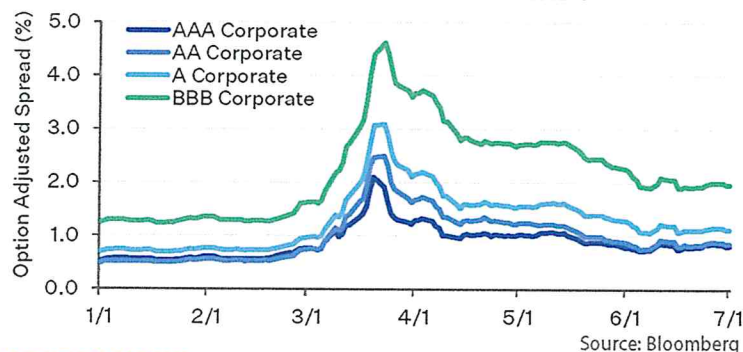
FEATURED MARKET DATA

Corporate Spreads Tighten

Bond markets showed continuing signs of improvement in June as corporate spreads (the difference in yields between corporate bond indices and Treasury yields) declined for investment grade bonds. Equity and bond markets generally continued "risk on" trends as stocks and corporate bond prices rose. We continue to believe this is driven less by fundamentals than by the extraordinary stimulus measures put in place over the past two recessions. We believe fundamentals will become more important and we have seen corporate spreads inch up in the second half of June due in part to growing concerns that markets may be overvalued.

Source: Bloomberg, PMA Asset Management

BLOOMBERG BARCLAYS CORPORATE SPREADS



Source: Bloomberg

RECENT NEWS

Consumer Spending Plummets

On June 16, the Federal Reserve launched a program first announced in March to buy highly rated corporate bonds in the secondary market. Fed officials have said the goal of the buying is to maintain liquidity in the market for corporate debt, so that issuers are able to access capital following a deep market disruption in March due to the pandemic. To avoid criticism that it might favor a specific industry, the Fed said it would seek to mimic a broad market index. At a Senate hearing following the program's launch, Fed Chairman Powell was questioned about whether the purchases were still necessary, since the corporate bond market has largely recovered. Powell said the Fed had to follow through on its plan.

Source: Bloomberg, www.fortune.com

U.S. Economic Indicators

Event	Event Date	Period	Survey	Actual	Prior / Revised (R)
Retail Sales Ex. Auto (MoM)	06/16/20	MAY	8.4%	17.7%	-14.7% (R)
Existing Home Sales (MoM)	06/22/20	MAY	-5.6%	-9.7%	-17.8%
Markit US Services PMI	06/23/20	JUN	48.0	46.7	37.5
Personal Income	06/26/20	MAY	-6.0%	-4.2%	10.8% (R)
Personal Spending	06/26/20	MAY	9.3%	8.2%	-12.6% (R)
Consumer Confidence	06/30/20	JUN	91.5	98.1	85.9 (R)
ISM Manufacturing	07/01/20	JUN	49.8	52.6	43.1
Change in Nonfarm Payrolls	07/02/20	JUN	3,230K	4,800K	2.7M (R)
Unemployment Rate	07/02/20	JUN	12.5%	11.1%	13.3%

Source: Bloomberg Finance L.P. 7/2/20. Glossary terms on page 2.

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Glossary of Terms

Term	What is it:
Building Permits	Records the number of permits for future housing construction.
Capacity Utilization	Tracks the extent to which capacity is being used in the production of goods and services.
Change in Nonfarm Payrolls	This indicator measures the change in the number of employees on business and government payrolls.
Chicago Fed National Activity Index	A nationwide measure of economic activity and inflation pressures. An index value of zero indicates that the national economy is expanding at its historical trend rate of growth.
Consumer Confidence	Index examines how consumers feel about jobs, the economy and spending.
Consumer Price Index (CPI)	Measures the average change in retail prices over time for a basket consisting of more than 200 categories of assorted goods and services paid directly by consumers.
Core Consumer Price Index (Core CPI)	This measure of CPI excludes food and energy costs.
Durable Goods Orders	A measure of new orders placed with domestic manufacturers for durable goods, which are items that last three years or more.
Existing Home Sales	Measures monthly sales of previously owned single-family homes.
GDP Annualized QoQ	Measures the annualized quarterly growth of the final market value of all goods and services produced within a country. GDP is the foremost report on how fast or slow the economy is growing.
Housing Starts	Records the number of new housing units started during a period.
Index of Leading Economic Indicators (LEI)	An index designed to predict the direction of the economy.
Initial Jobless Claims	Tracks new filings for unemployment insurance benefits.
ISM Manufacturing	Measures manufacturing activity based on a monthly survey of purchasing managers.
MBA Mortgage Applications	The Mortgage Bankers Association's weekly mortgage application survey includes home loan application activity for conventional and government loans for home purchases and refinances.
Mortgage Delinquencies	A measure of the percent of total conventional and government loans which are at least one payment past due, but not in the process of foreclosure.
Personal Consumption Expenditure (PCE)	The Federal Reserve's preferred measure of inflation tracks overall price changes for goods and services. Core PCE excludes food and energy.
Personal Income and Spending	Index records the income Americans receive, how much they spend, and what they save.
Retail Sales	Tracks the sale of new and used goods for personal or household consumption.
Retail Sales Ex. Auto	Retail sales excluding motor vehicles and parts.
S&P Case-Shiller Home Price Index	Tracks the value of single-family housing within the U.S. There are multiple indexes including the 20-City Composite.
Unemployment Rate	The U-3 unemployment rates tracks the percentage of the civilian workforce that is unemployed.

Source: Bloomberg, The Secrets of Economic Indicators by Bernard Baumohl; PMA Asset Management, LLC

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SPECIAL
SERIES

STATE BUDGET WATCH

States Grappling With Hit to Tax Collections

REPORT | UPDATED JULY 29, 2020

COVID-19 has triggered a severe state budget crisis. While the full magnitude of this crisis is not yet clear, state revenues are declining precipitously and costs are rising sharply with many businesses closed and tens of millions of people newly unemployed. Due to the economy's rapid decline, official state revenue projections generally do not yet fully reflect the unprecedented fiscal impact of the coronavirus pandemic. In many cases, states do not even know how much their revenues have *already* fallen, in part because they've extended deadlines for filing sales and income tax payments that otherwise would have been due in recent months. Executive and legislative fiscal offices in many states are analyzing new economic projections and producing initial estimates of the damage before state legislatures meet in regular or special sessions to address shortfalls. Some states have released initial or preliminary estimates. (See Table 1.)

"STATE REVENUES ARE DECLINING PRECIPITOUSLY AND COSTS ARE RISING SHARPLY WITH MANY BUSINESSES CLOSED AND TENS OF MILLIONS OF PEOPLE NEWLY UNEMPLOYED." 

Early Estimates Show Substantial Shortfalls for 2020, 2021

CBPP estimates that state budget shortfalls will ultimately reach almost 10 percent in the 2020 fiscal year (which ended on June 30 in most states) and over 20 percent in the current fiscal year (2021) based on recent economic projections.

States' initial revenue projections give a first look at some of the damage the pandemic-induced downturn could cause to state budgets, though they do not show states' increased costs from fighting the virus and from rising demand for state services. The wide range of projected revenue impacts reflects the uncertainty that states face, and the variety of methods states are using to begin to assess the damage. (In some cases, states are still relying on data available *before* the crisis.)

Most states have just begun a new fiscal year that will extend through June 2021. State revenue estimators

are likely proceeding cautiously with these initial estimates, because of the consequences the revenue declines will have as states work to balance their budgets. Policymakers will want to be more certain about the scale of expected revenue drops before making large and harmful budget cuts. Current economic forecasts strongly suggest, however, that as the full scale of the downturn becomes clearer, revenue projections will fall further. In addition, gas taxes, vehicle registration fees, and other revenues that are deposited into separate funds (like transportation funds) are also declining.

States faced an immediate crisis in fiscal year 2020, which just ended. The full extent of the 2020 shortfalls won't be known for a few weeks but the pandemic took a toll on revenues. To balance their budgets — as required — states made cuts, tapped reserves, or found enough revenue to close these shortfalls in just three months, an extremely short period to find such large amounts of revenue. For example, for the fiscal year that just ended:

- Kansas estimated an \$816 million drop in revenues.
- Arizona expected revenues to drop by \$864 million.
- Arkansas expected \$353 million less in revenue, with \$193 million due to the income tax filing extension to July 15 and the remainder due to lower collections.

State estimates show that revenues for the current fiscal year, which began on July 1 for most states, could fall as much as or more than they did in the worst year of the Great Recession and remain depressed in following years. New York and Colorado, for example, project revenue drops of 17 percent or more if the recession is deep.

- California expects revenues to decline by \$32 billion in 2021 alone, according to the Department of Finance. The revenue declines in fiscal years 2020 and 2021, combined with COVID-19 costs and increased need for other state services, far outstripped the balance in the state's substantial rainy day fund.
- New York's tax revenues will fall by \$13 billion in 2021 and by \$16 billion in 2022, according to the state's Division of Budget.
- Colorado's revenues could drop by as much as \$2.6 billion in 2021 and \$1.7 billion in 2022, according to the Legislative Council.

Another group of states face a double threat. States with a high concentration of oil-related industries are seeing a decline in economic activity and tax collections due to plunging oil prices on top of COVID-19-related effects and the recession. For example, Alaska is projecting an \$882 million decline in revenues in the current fiscal year, and New Mexico could see a \$2 billion drop.

States are drawing on their rainy day funds and other budget reserves to address these shortfalls but, as in the last recession, those reserves will be far from adequate. And states will worsen the recession if they respond to this fiscal crisis by laying off employees, scaling back government contracts for businesses, and cutting public services and other forms of spending.

Damaging cuts have already begun. In Georgia, policymakers approved a 10 percent cut for 2021, including a nearly \$1 billion cut for K-12 public schools and cuts to programs for children and adults with developmental disabilities, among others. Maryland's governor has proposed nearly \$1.5 billion in cuts; some have already taken effect, including large cuts to colleges and universities. Florida's governor vetoed \$1 billion in spending that lawmakers approved before the crisis and ordered agencies to look for up to 6 percent more in cuts. The

state also cut money for community colleges and services related to behavioral health, including opioid and other substance use treatment services, crisis intervention services, and services for people experiencing homelessness.

Given the economy’s rapid decline and the extraordinary damage being done to state, tribal, and local budgets, federal policymakers will need to provide more help to states and families affected by the crisis.

Tracking Estimated State Revenue Shortfalls

We’ve collected the preliminary estimated revenue declines we’re aware of in the table below. We’ll update this list as states continue to revise their revenue estimates for the upcoming fiscal year. In all cases these are *preliminary* estimates that will be updated as more is known about the impact of the COVID-19 pandemic on the economy and tax collections.

TABLE 1

COVID-19 Pandemic Expected to Cause Sharp Revenue Drops in States

Preliminary Estimates of Declines in General Fund Tax Revenues

State	Fiscal Year	Decline	Decline as percent of pre-COVID-19 revenue projections
Alaska	2020	\$612 million	11 percent
Alaska	2021	\$882 million	15 percent
Alaska	2022	\$797 million	14 percent
Arizona	2020	\$864 million	8 percent
Arizona	2021	\$873 million	7 percent
Arizona	2022	\$663 million	5 percent
Arkansas	2020	\$353 million	6 percent
Arkansas	2020	\$113 million	2 percent
Arkansas	2021	\$206 million	3 percent
California	2020	\$0.7 billion	7 percent

California	2020	\$9.7 billion	7 percent
California	2021	\$26 billion–\$32.2 billion	17–21 percent
Colorado	2020	\$968 million	7 percent
Colorado	2021	\$2.6 billion	20 percent
Colorado	2022	\$1.7 billion	12 percent
Connecticut	2020	\$942 million	5 percent
Connecticut	2021	\$2.2 billion	11 percent
Connecticut	2022	\$2.3 billion	12 percent
Delaware	2020	\$246 million	5 percent
Delaware	2021	\$283 million	6 percent
Delaware	2022	\$396 million	8 percent
Florida	2020	\$1.9 billion	6 percent
Georgia*	2021	\$2.5 billion	9 percent
Hawai‘i	2020	\$792 million	11 percent
Hawai‘i	2021	\$1.9 billion	24 percent
Hawai‘i	2022	\$1.4 billion	18 percent
Idaho	2021	\$349–\$585 million	9–14 percent
Illinois	2020	\$2.7 billion	7 percent
Illinois	2021	\$4.6 billion	12 percent
Indiana	2020	\$1.4 billion	8 percent
Indiana*	2021	\$2.0 billion	12 percent
Iowa	2020	\$150 million	2 percent
Iowa	2021	\$360 million	4 percent

Kansas	2020	\$816 million	11 percent
Kansas	2021	\$549 million	7 percent
Kentucky	2020	\$585 million	5 percent
Kentucky half year*	2021	\$718 million– \$1.1 billion	12–19 percent
Louisiana	2020	\$293 million	3 percent
Louisiana	2021	\$970 million	10 percent
Maryland	2020	\$925 million– \$1.1 billion	5–6 percent
Maryland	2021	\$2.1–\$2.6 billion	11–14 percent
Maryland	2022	\$2.6–\$4.0 billion	13–20 percent
Massachusetts	2020	\$3.8–\$4.5 billion	13–15 percent
Massachusetts	2021	\$4.2–\$7.2 billion	14–23 percent
Michigan	2020	\$3.2 billion	13 percent
Michigan	2021	\$3 billion	12 percent
Michigan	2022	\$2.1 billion	8 percent
Minnesota	2020	\$610 million	3 percent
Minnesota	2021	\$3 billion	12 percent
Mississippi	2020	\$344 million	6 percent
Mississippi	2021	\$275 million	5 percent
Missouri	2020	\$864 million	9 percent
Missouri	2021	\$1 billion	10 percent

State	Year	Amount	Percent
Montana*	2021	\$380 million	15 percent
Nevada	2020	\$509 million	12 percent
Nevada	2021	\$1.2 billion	26 percent
New Jersey	2020	\$2.8 billion	7 percent
New Jersey	2021	\$7.3 billion	18 percent
New Hampshire	2020	\$125–\$199 million	5–8 percent
New Hampshire	2021	\$229–\$395 million	9–15 percent
New Mexico	2020	\$439 million	6 percent
New Mexico	2021	\$2 billion	25 percent
New Mexico	2022	\$1.7 billion	22 percent
New York*	2021	\$13.3 billion	15 percent
New York*	2022	\$16 billion	17 percent
North Carolina	2020	\$1.6 billion	7 percent
North Carolina	2021	\$2.6 billion	10 percent
Ohio	2021	\$2.3 billion	9 percent
Oklahoma	2020	\$447 million	7 percent
Oklahoma	2021	\$1.4 billion	16 percent
Oregon	2020	\$630 million	6 percent
Oregon	2021	\$1.3 billion	12 percent
Oregon	2022	\$1.7 billion	14 percent
Pennsylvania	2020	\$3.5 billion	10 percent
Pennsylvania	2021	\$1.2 billion	3 percent

Puerto Rico	2020	\$900 million	8 percent
Rhode Island	2020	\$281 million	7 percent
Rhode Island	2021	\$516 million	12 percent
South Carolina	2020	\$507 million	5 percent
South Carolina	2021	\$702 million	7 percent
Tennessee	2020	\$654 million	5 percent
Tennessee	2021	\$1.4 billion	10 percent
Texas	2020	\$4.4 billion	8 percent
Texas	2021	\$8.8 billion	15 percent
Utah	2020	\$93 million	1 percent
Utah	2021	\$757 million	9 percent
Vermont*	2020	\$41 million	3 percent
Vermont	2021	\$218 million	14 percent
Virginia	2020	\$236 million	1 percent
Virginia	2021	\$1 billion	4 percent
Virginia	2022	\$1 billion	4 percent
Washington	2020	\$1.1 billion	4 percent
Washington	2021	\$3.4 billion	13 percent
Washington	2022	\$2.3 billion	8 percent
Washington, D.C.	2020	\$722 million	9 percent
Washington, D.C.	2021	\$774 million	9 percent
Washington, D.C.	2022	\$606 million	7 percent

 **Manulife** Investment Management

 **Manulife** Investment Management

July 24, 2020

The three stages of the global economic recovery



Key takeaways

- The global economic recovery isn't likely to form a single alphabet—rather, it'll be a fusion of several letters, unfolding over three stages, with the first phase of the recovery most likely to be characterized by a risk-on mentality.
- We expect the recovery to lose steam during the second stage as headwinds to growth begin to gather pace; November's U.S. presidential election and volatile

relations between Washington and Beijing are likely to dominate market sentiment.

- In the longer term, we expect a gradual move toward regionalization as countries try to wean their economic dependence on both the United States and China.

Defying easy categorization: understanding the shape of the global economic recovery

It's time to discard the notion that the shape of a single alphabet—be it the letter “V,” “U,” or “L”—can represent the profile of the coming recovery. Instead, it might be more instructive to think about what lies ahead as a three-stage recovery, each with its own set of key themes, bringing about different kinds of opportunities and risks.

The three stages of recovery

Phase 1: the rapid rebound	Phase 2: the stall out	Phase 3: the new normal
Now to ~September	September to year-end 2021	From 2022 onward
☐ Upbeat economic data ☐ Release of pent-up consumer demand provides some support to the retail sector ☐ Extraordinary level of monetary easing ☐ Record level of fiscal transfers to households	☐ Economic uplift from income support moderates ☐ Reduced operating capacity due to social distancing requirements hurts business income ☐ Unemployment in certain segments of the economy remains stubbornly high ☐ Geopolitical risks come to the fore	☐ Structural changes amplified by the COVID-19 outbreak are brought forward ☐ The shift toward deglobalization becomes observable ☐ Calls for austerity grow louder

Source: Manulife Investment Management, June 2020. For illustrative purposes only.

Phase 1: the rapid rebound

(mid-April to August/September)

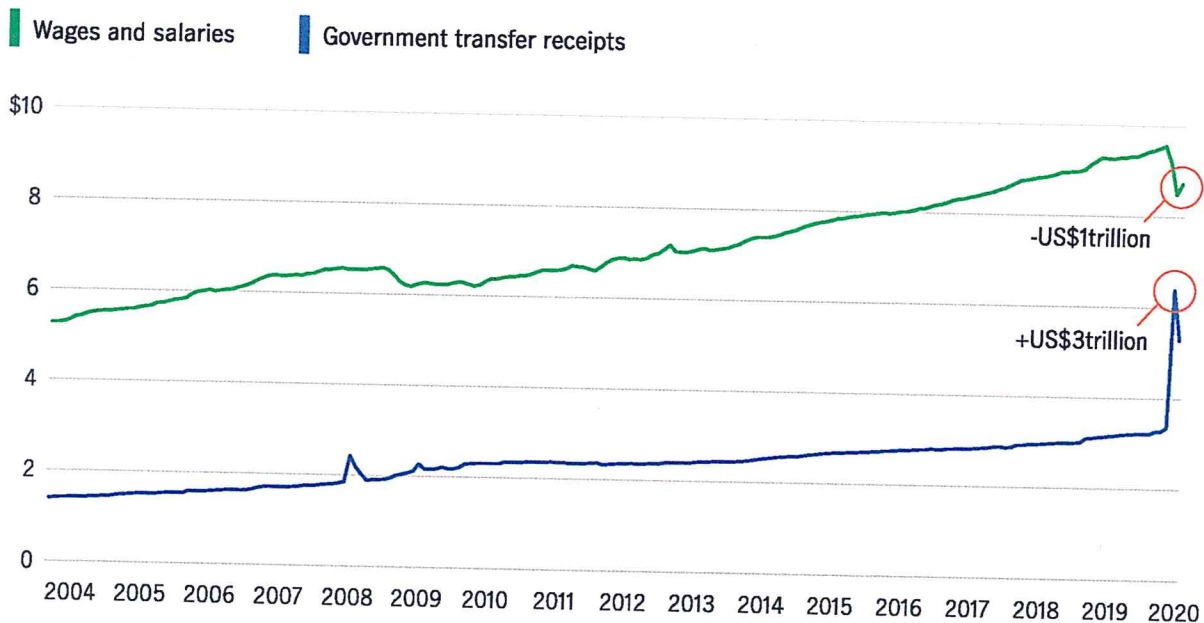
Government spending and extremely loose monetary easing underpins economic recovery

The set of global high frequency data that we've been following tells us that the first phase of the recovery began in mid-April. This would explain why we've been seeing some rather extraordinarily positive economic data—at least on a week-on-week, month-on-month basis—since May.

During this first phase of recovery, we expect growth to rebound strongly, recouping between 60% to 70% of lost economic output accrued between March and April this year. Essentially, we believe this phase to bear a close resemblance to the kind of economic rebound we typically see when an economy emerges from a natural disaster, as opposed to a traditional recession. Indeed, it'll initially look like a “V-shape” recovery. Specifically, we expect global manufacturing data to rebound forcefully and expect Purchasing Managers' Indexes in many countries to return to expansionary territory during the summer months.

In our view, many economists are underestimating the ferocity of this initial V-shaped rebound because the existing macro narrative underappreciates the impact of the fiscal policies that have been implemented, while simultaneously places too much emphasis on challenges that'll only arrive later in the year. Let's take household income as an example: In the United States alone, government transfers to households in April came up to around US\$3 trillion, significantly higher than the US\$1 trillion of lost wages and salaries that was recorded. As a result, U.S. household income actually *rose* by around US\$2 trillion during the period. These federal transfers, along with reasonably resilient consumer confidence about the future, have gone a long way to cushioning the impact of the rising level of unemployment.

The COVID-19 shock to U.S. households: wages and salaries fall, but government transfers soar



Source: Bloomberg, Macrobond, as of June 17, 2020.

Separately, few would disagree that decisive policy actions from central banks globally in March have prevented a deeper global financial crisis from developing. Extraordinarily low rates—while not great for savers—are providing critical support for cyclical activities (e.g., U.S. housing, global credit activity), and lowering debt servicing costs for households and businesses. Finally, a relatively weaker U.S. dollar and a stabilization in oil prices are also likely to play an important part in this rapid recovery phase.

"During this first phase of recovery, we expect growth to rebound strongly, recouping between 60% to 70% of lost economic output accrued between

March and April this year."

Market implications

While there'll inevitably be bumps in the road, we expect the next few months to be predominantly characterized by a risk-on mentality. As central banks continue to try to actively pin down the front-end of the yield curve, even as inflation and growth expectations rise, it's likely that yield curves in global developed markets will steepen. Meanwhile, mounting concerns about the growing twin deficits in the United States and a chronic shortage of the U.S. dollar (USD) could keep a lid on dollar strength.

Risks to our views:

- A rise in COVID-19 infections, or evidence that the virus is mutating in a significant way
- A near-term worsening in U.S.-China trade relations and/or other geopolitical risks
- A premature withdrawal of fiscal/monetary support (unlikely, but a risk nonetheless)

Phase 2: the stall out

(August/September through to year-end-2021)

Economic growth loses steam as fiscal spending winds down

If we were to liken the recovery to a feature length movie, this would be the part where the zippy musical montage ends, and the protagonists begin to uncover the challenges that they must overcome.

As optimistic as we are about the initial economic rebound, we have significant

concerns about the second half of 2020, when the stellar month-on-month/quarter-on-quarter improvements begin to fizzle out. Our expectation is that investor focus will shift from accepting improving second-derivative changes as positive news to comparing economic prints to pre-crisis levels.

This period will likely mark a waning of fiscal support to both households and businesses, although it's unclear to what degree these support measures will be withdrawn.

What's particularly concerning is that until such time when COVID-19 vaccines are widely available, some form of social distancing measures will be inevitable. This implies that many businesses will experience a sizable reduction in their operating capacity, which can lead to reduced revenue streams, lower manpower requirements, and ultimately, reduced profitability. In our view, corporate defaults could well tick up (again) during this period. Crucially, the risks that seemed to have dissipated during the first phase of the recovery could not only reemerge, but become amplified during this stall-out phase.

This period will also likely mark a waning of fiscal support to both households and businesses, although it's unclear to what degree these support measures will be withdrawn. Crucially, this is also the period where authorized deferred payments on mortgages and credit cards could come due. This could raise delinquency levels and might necessitate debt write offs that could easily turn into an additional headwind.

Although monetary policy will likely remain extremely accommodative during this time, we expect its ability to revive growth and stimulate the financial markets to wane. In our view, the stall out is likely to be a challenging period for central banks

globally because, in all likelihood, this could be the period when they'll be confronted with weak inflationary pressures and an ugly unemployment picture but have few remaining tools to address them.

"Crucially, the risks that seemed to have dissipated during the first phase of the recovery could not only reemerge, but become amplified during this stall-out phase."

Worryingly, we expect unemployment and *underemployment*, which will likely still remain at elevated levels, to begin to increasingly weigh on U.S. consumer activity, the dominant engine behind U.S. growth. Consensus estimates for U.S. unemployment by the fourth quarter of 2021 are still at 9.5%, almost 6 percentage points higher than pre-COVID-19 levels.¹

Evidence from Asian-Pacific economies, which are several weeks ahead of most Western developed markets in their recovery, suggests that consumer confidence—which has yet to hit a trough—won't recover as quickly as manufacturing activity. There's no reason to assume that the experience in the rest of the world will be any different.

Lest we forget, the U.S. presidential election—a key risk event for the markets—is scheduled to take place during this recovery phase. Regardless of its outcome, we expect U.S.-China trade tensions to worsen over the medium term. This is likely to exert pressure on broad risk assets as well as the emerging-market complex. In addition, concerns related to Brexit and EU solidarity are also likely to come to the fore around this time, exacerbating the discomfort that investors are likely to experience during the stall-out period.

Market implications

This period is likely to be defined by a massive amount of market uncertainty, which could, in turn, suggest that there may be a greater emphasis on *quality* assets. In our view, broad risk markets are likely to remain rangebound or suffer declines. A slight improvement in the inflation picture—although admittedly weak—and bloated central bank balance sheets could set the stage for gold to do well during this period. In our view, the U.S. yield curve will continue to steepen during the stall out, although at a more moderate pace than during the first phase of the recovery.

Risks to our views:

- Whether the stall-out phase will out or underperform our base case expectations will depend on the developments on the fiscal policy front, which is, in turn, associated with the outcome of the U.S. presidential election.
- Should vaccines for COVID-19 become broadly available earlier than expected, we could see a reacceleration in growth that would lift us out of the stall-out phase rapidly. Conversely, a second wave of COVID-19 outbreak that spells the return of lockdown measures could potentially turn the stall out to a “double-dip.”

Phase 3: the new normal

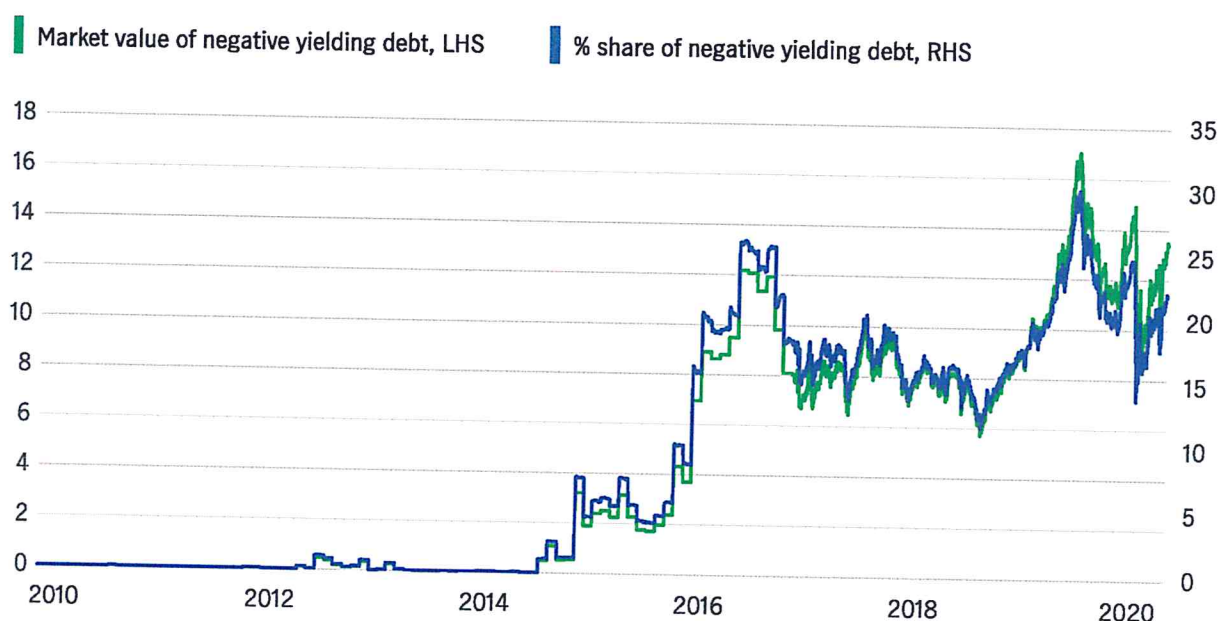
(From 2022 onward)

Deglobalization, potential changes to tax structures, and a frantic search for yield

In the last few months, there’s certainly been no shortage of commentary on likely structural changes to the global economy in a post-COVID-19 world. In our view, the coronavirus outbreak mainly acted as an accelerant on developments that were already taking place, and there are three themes in particular that we believe warrant investor attention.

1. Deglobalization will likely accelerate as companies see value in establishing domestic supply chains while governments push for a greater decoupling from the United States and China. It's also plausible that countries could choose to devote attention to strengthening the supply chain for food and medical supplies so they can be better prepared to deal with a crisis of a similar nature in the future. Ultimately, this could lead to some moderate inflationary pressures, and make the idea of regionalism more appealing through strengthening existing trading blocs, or shaping the creation of new ones.
2. By this time, many countries are likely to find that their fiscal positions are in a terrible shape—possibly the worst ever—as a result of the huge increase in official spending to support the economy. We expect there'll be calls for fiscal austerity, but also increasingly, redistributive policies. While these may not necessarily materialize in the next two years, markets will need to contend with the huge amount of official sector debt that has been racked up, potentially reframing how we view these debt burden. In addition, there could be important changes to tax structures on both the personal and corporate level.
3. Interest rates are likely to remain at *or below* 0% for the foreseeable future: Indeed, we don't expect any major central bank to raise interest rates until at *least* 2025. This will, in our view, usher in the next chapter of the “search for yield” narrative, a development that could push investors further out on the risk spectrum, swapping traditional government bonds for higher-yielding alternative assets.

Share of global investment-grade bonds that are negatively yielding



Source: Macrobond, Bloomberg, as of June 18, 2020. LHS refers to left-hand side; RHS refers to right-hand side. The Bloomberg Barclays Global Aggregate Bond Index tracks the performance of global investment-grade debt in fixed-rate treasury, government-related, corporate, and securitized bond markets. It is not possible to invest directly in an index.

Market implications

During this stage of the recovery, we expect broad USD weakness to persist, although to a lesser extent than the U.S. twin deficits alone would suggest—a chronic shortage of USD in the global financial system will likely keep a floor under the currency.² In our view, excessively low interest rates could enhance equities' appeal to investors, even if on a relative basis. Meanwhile, international equities could perform better than their U.S. peers assuming the historical inverse correlation between USD strength and the asset class remains unchanged. Within the credit space, a renewed search for yield could make high-yield assets and emerging-market debt more attractive to investors.

Risks to our views

While not part of our base case, there are several risks that could darken the global

economic outlook:

- The return of balance of payments crises in emerging markets
- A rise in zombie firms as a result of ultraloose monetary policy
- Valuation concerns in the credit space

That said, there are also upside risks in the longer term that investors should be mindful of. Should governments worldwide choose to ramp up fiscal spending through initiatives that are appropriately targeted at productivity-enhancing investments successful implementation could boost productivity and therefore growth, supporting broad risk markets and a sustainable, longer-term recovery.

Conclusion

The COVID-19 outbreak has brought unprecedented uncertainty and confusion to the financial markets. From an economic perspective, decisive policy action has so far helped to avert a global financial crisis—an achievement in itself. Crucially, the first phase of the recovery has, in our view, bought us a little time to reevaluate the way we think about risks and rewards, giving us an opportunity to identify the most appropriate way to navigate the next two phases of the recovery which will be, in all likelihood, a little bumpier.

¹ Bloomberg, as of June 18, 2020. ² For more background on U.S. dollar shortage in the global financial system, please refer to [“This Is the One Thing That Might Save the World From Financial Collapse,”](#) *New York Times*, March 20, 2020.

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