ML STRATEGIES

The Sobering Truth behind COVID-19's Impact on Massachusetts' Annual Budget

April 20, 2020 | Blog | By **Steven A. Baddour**, **Daniel J. Connelly**, **Caitlin R. Beresin**, **Kaitlyn C. Sprague**, **Taylor C. Shepherd**

Economists create graphs, charts and projections on the economy daily, crafting commentary to explain the ebbs and flows of market success and failures based on a variety of factors. That is no longer the case as the nation battles the novel coronavirus ("COVID-19"). Economist's projections are at the mercy of the raging virus as many states enter "the surge", compromising health care systems, learning institutions and local economies nationwide. Though Massachusetts legislators previously held their annual revenue hearing at which they heard from various economic experts in academia, public policy and research to help understand the fiscal realities of the state, this process was restarted after COVID-19 to better understand changes to original revenue projections and additional impacts of the virus on the state's economy. This new information will help budget writers, already delayed in conducted the annual budget process, amend their recommendations and determine how to craft and debate a budget amidst a global pandemic.

On Tuesday, April 14th, the Chairs of the House and Senate Committees on Ways and Means, along with Secretary of the Executive Office of Administration and Finance convened a virtual economic roundtable to discuss the impacts of COVID-19 on the state's current and next fiscal year's budget. Many of the experts called together for this roundtable shared their expertise at the end of calendar year 2019 that has drastically changed, and each shared a sobering economic portrait for the remainder of FY20 and extending into the end of FY21. Massachusetts Taxpayers Foundation ("MTF") estimates FY21 tax revenue to fall $4.4 billion below the modest benchmark established in early calendar year 2020, while the Massachusetts Budget and Policy Center projects a more dramatic $5 to $5.7 billion range for potential drop in collections. These staggering figures will continue to be impacted by rising unemployment due to business and school closures across the state.

Nationally, Standard & Poor's ("S&P") anticipates 24 million people will be unemployed across the nation in the month of April. Though these national figures are alarming, the numbers projected by Massachusetts economic experts are even more concerning. Massachusetts relies heavily on health care and higher education sectors for consistent economic growth and employment opportunities, sectors that have withstood the tests of economic crises before without much vulnerability. The COVID-19 pandemic, however has proven these sectors are not invincible. School closures and canceled or postponed elective invasive procedures have greatly impacted education and health care systems in a way they have not experienced, even amidst the 2008-2009 recession. An economist at Northeastern University projects unemployed, furloughed and/or "on leave" workers will make up 20% of the state's workforce by June. This projection assumes that 45% of the workforce are essential workers and 35% are working from home. While 20% represents the most drastic scenario offered Tuesday, others project unemployment figures to rise anywhere from 14.7% (Beacon Hill Institute, "BHI") to 17.8% (MTF). Experts agree that once the economy reopens, a variety of factors will determine the shape and timeline of the recovery, which could take years.

Moody's Analytics ("Moody's") projects the Commonwealth to fare slightly better than other states' projections due to strong economic bases in health care and education. In their forecast, which represents a "best case scenario" portrait of the crisis, it is projected that US GDP may drop 17%, while projections for Massachusetts represent a 14 to 16% drop in GDP. Based on these projections, Moody's anticipates the economy recovering in a staged fashion, which will be depicted by a "W-shaped" recovery. However, MTF anticipates a "V-shaped" recovery in July due to the amount of consumers boosting the economy through reengagement with their community restaurants, bars and favorite retail establishments. Economists at Northeastern University also anticipate a recovery reminiscent of a "V-shape", but not until the end of calendar year 2021. The worry, however, shared by the majority of the economic experts surrounds the potentially for seasonality of the virus or a strong second wave. In the event of a second wave, experts project recovery shapes such as "U" representing a slower bounce back taking place in the fall, or worse as expressed by BHI, an "L-shape" similar to the recovery process following the 2008-2009 recession.

These are concerning economic times in the state of Massachusetts, proving that even the most aggressive economic triggers cannot salvage the wrath of COVID-19. Your team at ML Strategies remains hard at work to keep the lines of communication open with the Legislation and the Baker Administration to provide guidance and support through these uncertain times.

Authors



Steven A. Baddour, Executive Vice President & Director of Operations

Steve Baddour is a seasoned strategist and former Massachusetts State Senator and Assistant Attorney General with over three decades of experience in law, government, and public policy. His innovative approach to lobbying helps clients turn obstacles into opportunities by crafting tailored solutions that get results where others stall.



Daniel J. Connelly, Senior Vice President and Compliance Officer

Dan Connelly is a lawyer and lobbyist with over two decades of experience guiding clients through the legislative, regulatory, and political landscape. In addition, he counsels clients on lobbying registration and disclosure requirements, offering tailored guidance in complex compliance environments.

Caitlin Beresin

Kaitlyn Sprague



Taylor C. Shepherd, Vice President of Government Relations

Taylor Shepherd is a seasoned public policy professional with a proven track record of success in legislative and regulatory lobbying, strategy, and relationship building. With roots in the Massachusetts State House, she has developed a meticulous and strategic approach to navigating the complexities of the policymaking process.