



A State of Suspended Animation:

Current conditions and the economic and fiscal outlook
for the Commonwealth of Massachusetts

Testimony submitted to the Virtual Economic Roundtable
(Joint Committee on Ways and Means & the Executive Office of A&F)

prepared and delivered by:

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April 14, 2020



The COVID-19 pandemic affects our economy in a number of ways

Economic channels

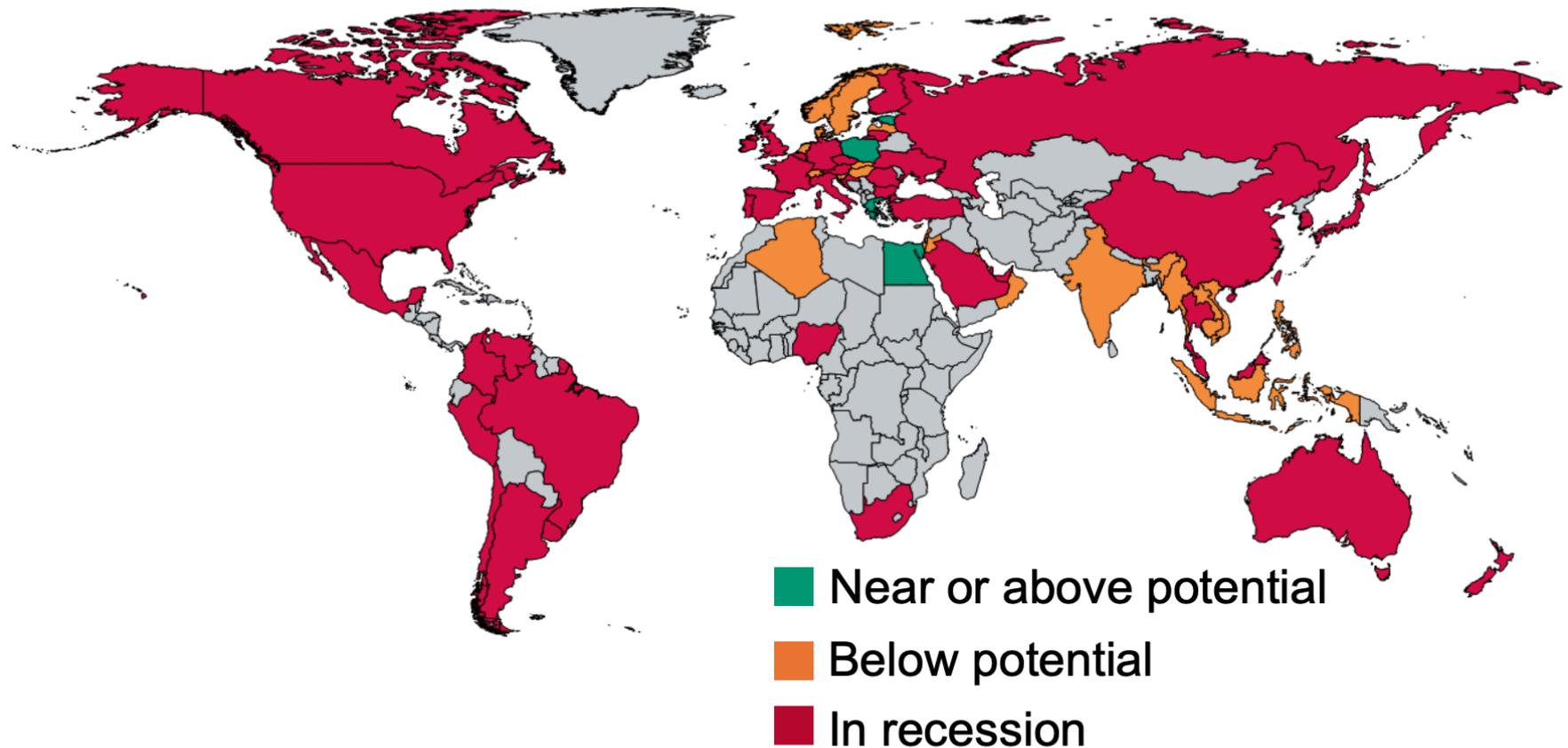
Containment measures	Supply	Demand
Quarantines	Factory closures	Loss of confidence
Travel bans and restrictions	Cutbacks in service provisions	Business and tourism travels
Closure of public places	Supply chain disruption	Education and entertainment services

Source: OECD



A global recession is a virtual certainty

2020 GDP growth forecast, COVID-19 Pandemic scenario



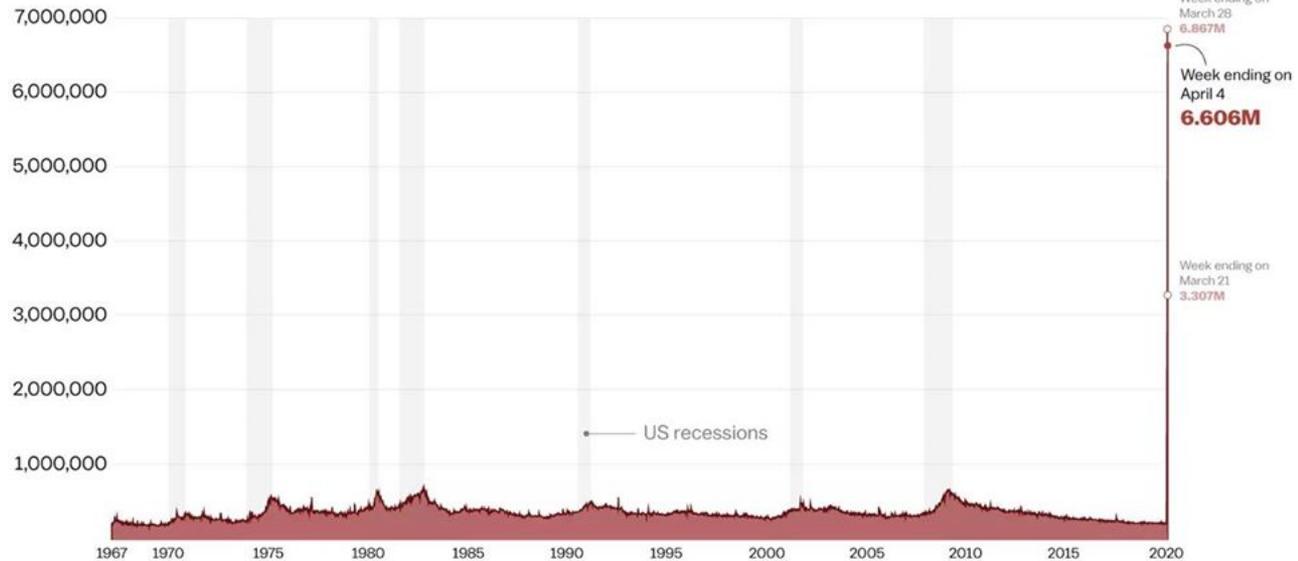


The national economy is expected to experience its sharpest contraction ever in Q2 2020

“**Gross domestic product** is expected to decline by more than 7 percent during the second quarter. If that happened, the decline in the *annualized* growth rate reported by the Bureau of Economic Analysis would be about 4X larger and would exceed 28 percent. Those declines could be much larger, however.”

An unprecedented rise in unemployment

Unemployment insurance claims by week



Source: US Department of Labor



-- Congressional Budget Office

<https://www.cbo.gov/publication/56314>



The depth & duration of the downturn will be a function of the effectiveness of our public health response

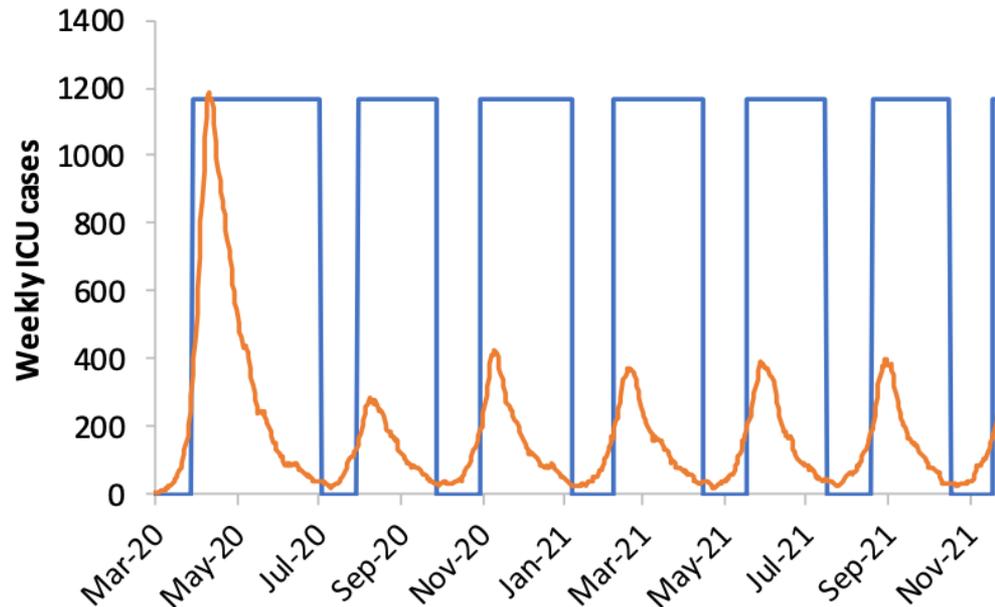


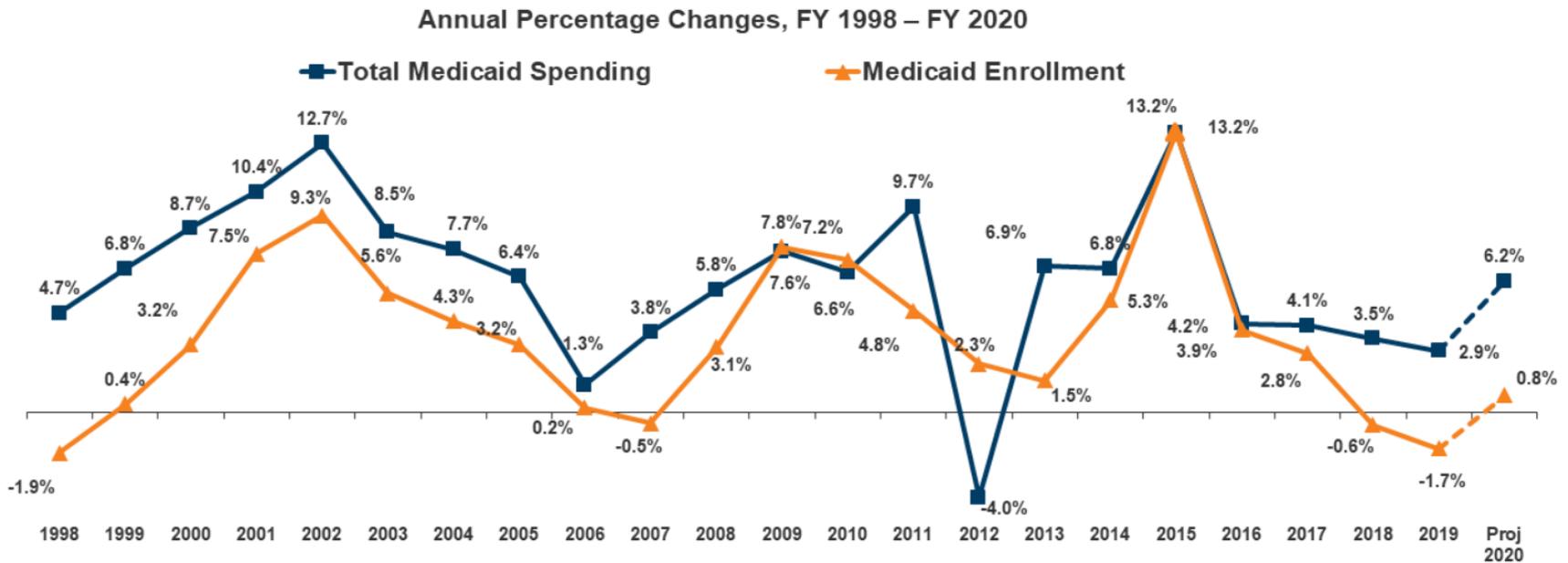
Figure 4: Illustration of adaptive triggering of suppression strategies in GB, for $R_0=2.2$, a policy of all four interventions considered, an “on” trigger of 100 ICU cases in a week and an “off” trigger of 50 ICU cases. The policy is in force approximate 2/3 of the time. Only social distancing and school/university closure are triggered; other policies remain in force throughout. Weekly ICU incidence is shown in orange, policy triggering in blue.



The demand for state resources can be expected to rise substantially in coming months

Figure 1

Percent change in Medicaid spending and enrollment, state fiscal years 1998-2020



NOTE: Spending growth percentages refer to state fiscal year (FY).

SOURCE: FY 2019-2020 spending data and FY 2020 enrollment data are derived from the KFF survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2019; historic data from various sources including: Medicaid Enrollment June 2013 Data Snapshot, KCMU, January 2014. FY 2014-2018 are based on KFF analysis of CMS, Medicaid & CHIP Monthly Applications, Eligibility Determinations, and Enrollment Reports and from KFF Analysis of CMS Form 64 Data.

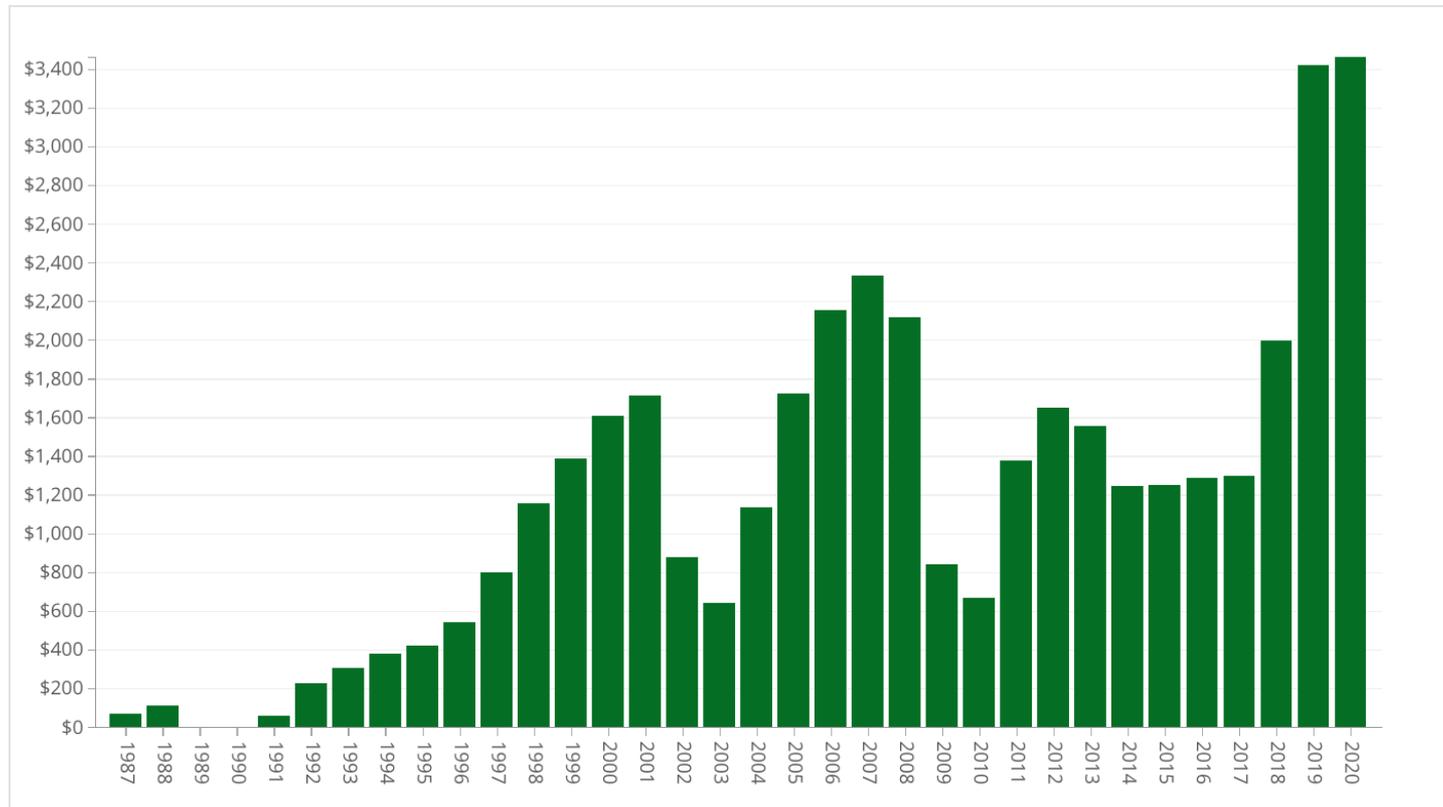




The rainy-day fund provides a near-term but insufficient fiscal buffer for what lies ahead

Fiscal Year-End and Current Stabilization Fund Balances (In \$ Millions)

(FY2020 Balance is as of January 6, 2020)





Our UI trust fund is inadequately capitalized for long-term unemployment at current levels

MASSACHUSETTS

State Trust Fund Status

1) UI Trust Fund Balance as of 1/1/2020:	\$1,725,208,489	2) Interest Earned for 2019:	\$37,045,069
3) Outstanding Title XII Advance as of 1/1/2020:	\$0	4) Title XII Interest Owed for FY2019:	\$0
5) Total Title XII Advances Since 12/31/2007:	\$1,454,827,895	6) Max. Amount of Outstanding Advances:	\$387,313,005
7) Title XII Advances Per Cov. Employee:	\$0.00	8) Date of Maximum Outstanding Amount:	4/30/2010
9) Title XII Advances as % of Cov. Wages:	0.00%	10) Non Title XII Debt Issued Since 2010:	\$0
		11) Est. Amt. of Non-Title XII Debt Outstanding ¹ :	\$0

State Trust Fund Solvency

12) Trust Fund Balance Compared to Yearly Benefit Costs



13) Solvency Level - Using Average High Cost Multiple²



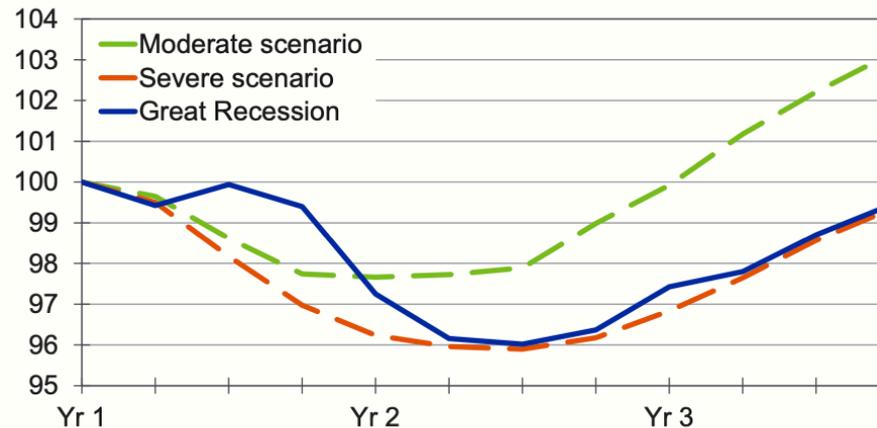
Source: US Department of Labor



Moody's most recent fiscal stress test reveals the scale of the fiscal challenge facing the Commonwealth

Chart 5: Alternative Scenarios

U.S. real GDP, prerecession peak=100



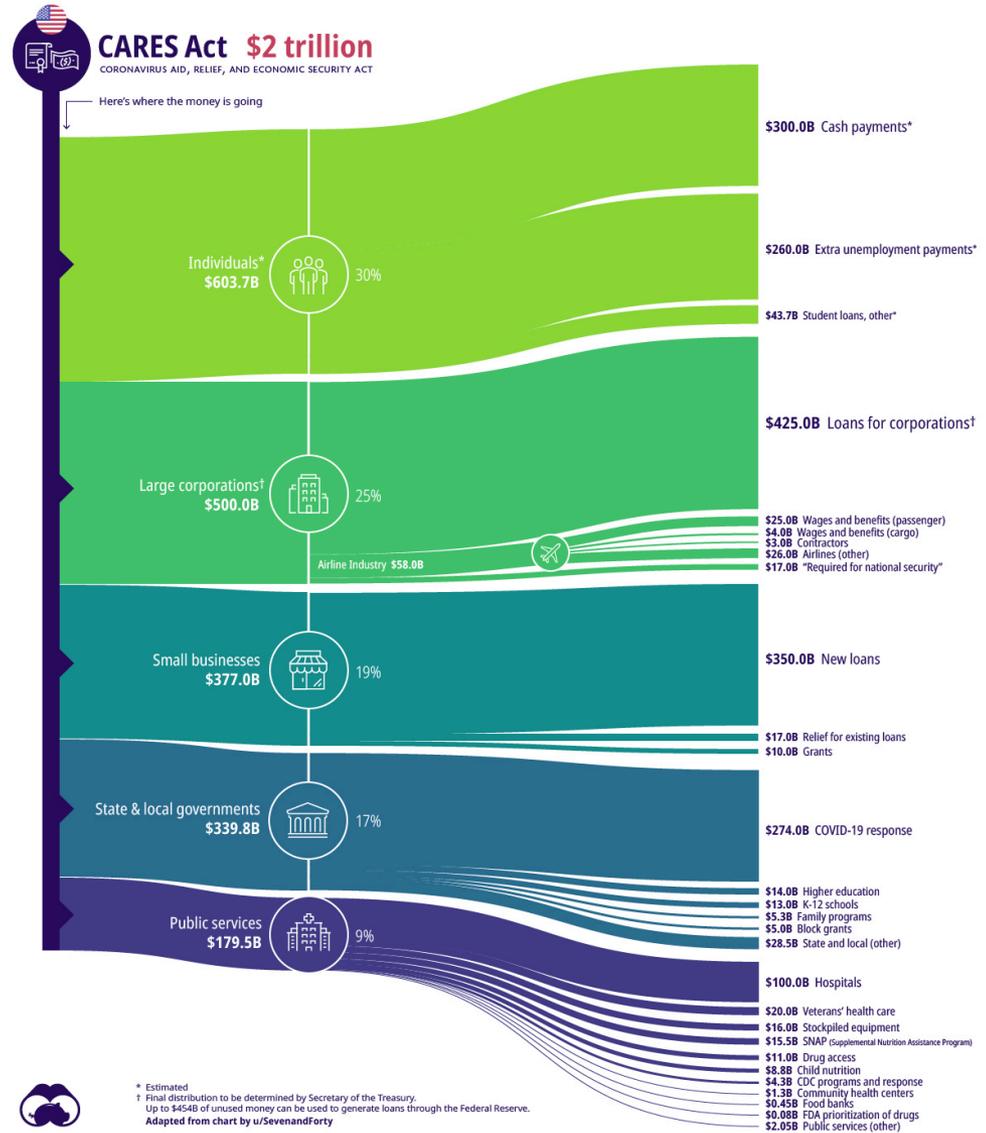
Sources: BEA, Moody's Analytics

	Tax Revenue Shortfall (%)	Tax Revenue Shortfall (\$ mil)	Medicaid Spending Increase (%)	Medicaid Spending Increase (\$ mil)	Combined fiscal shock (%)	Combined fiscal shock (\$)
Moderate Recession	-8.3%	\$ (3,777.29)	1.1%	\$ 516.56	-9.4%	\$ (4,293.85)
Severe Recession	-11.8%	\$ (5,373.34)	1.3%	\$ 593.80	-13.1%	\$ (5,967.14)

Source: <https://www.moodyanalytics.com/-/media/article/2019/stress-testing-states-2019.pdf>



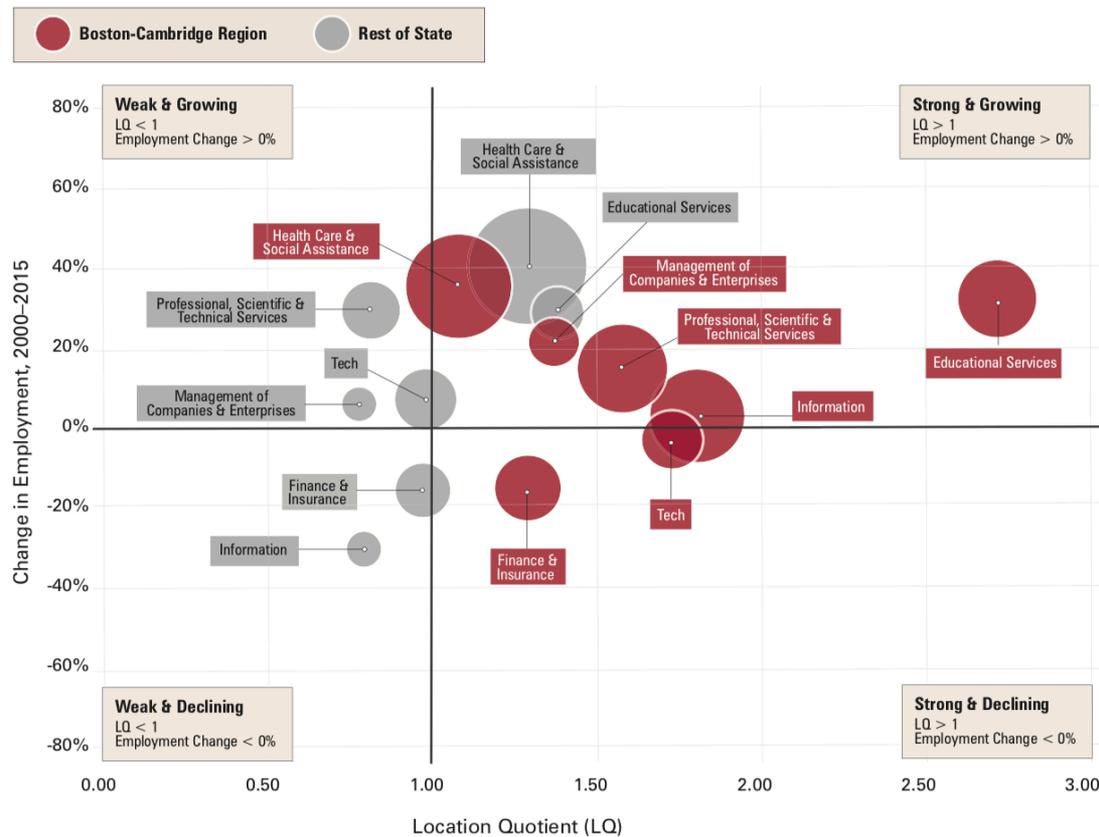
The recently enacted Cares Act helps but, substantial additional federal aid will be needed soon





“Eds and Meds” have long been the backbone of the Massachusetts economy

Figure 7. Sector Concentrations by Region, 2015
Sector strength in the Boston-Cambridge region and the rest of the state

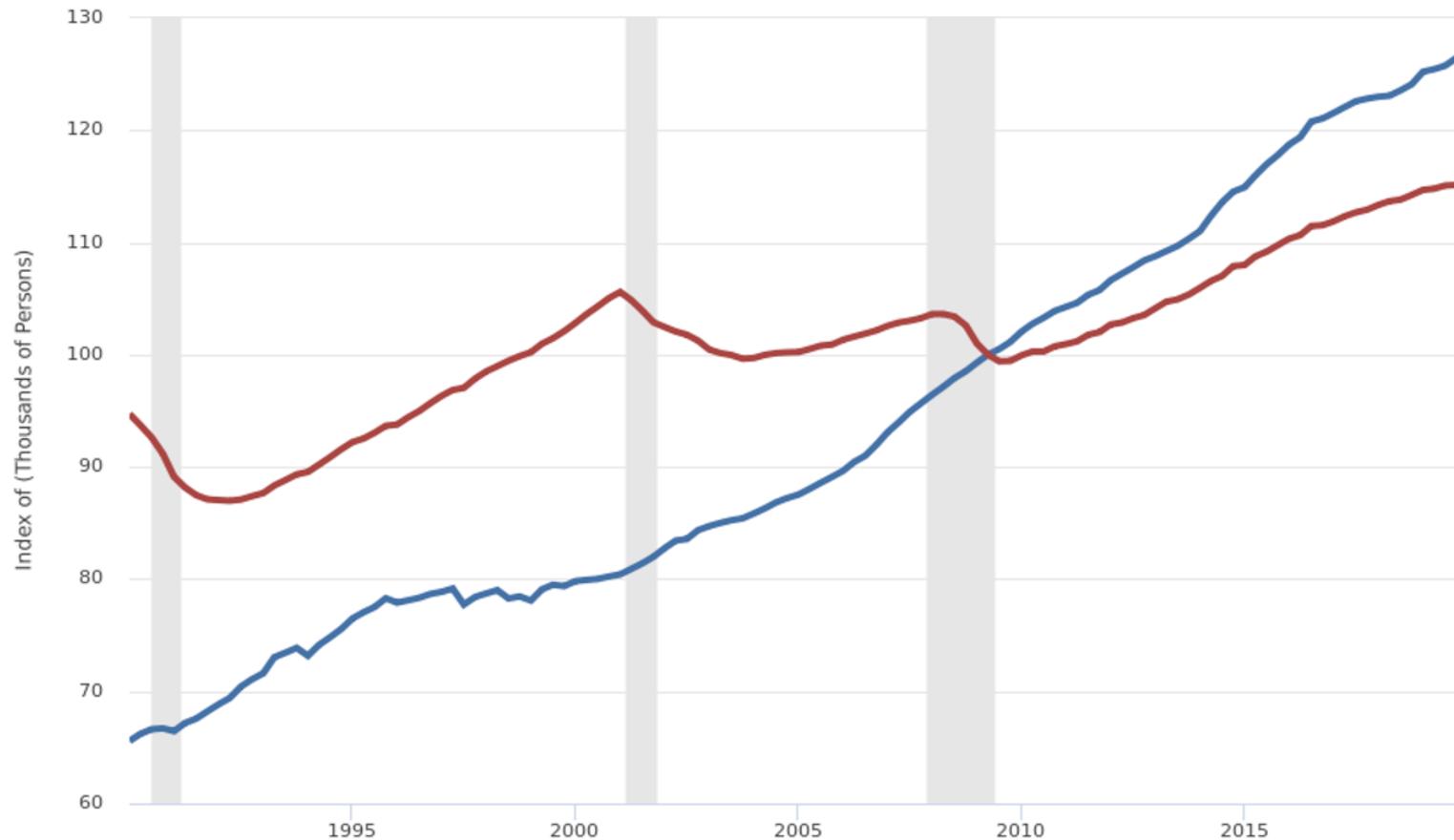


Source: U.S. Census, County Business Patterns; UMDI analysis. Circle size represents the share of that industry's employment relative to the total employment in that geography in 2015. The concept for the identification of clusters was adapted from PlanSmart NJ's report *What Will It Take to Support New Jersey's Industry Clusters?* (April 2013), p. 18 http://www.plansmartnj.org/wp-content/uploads/2013/05/IndustryClusterFinalReport4_30.pdf.



Health and Human Services have been stalwart countercyclical employment stabilizers historically

FRED  — (All Employees: Health Care and Social Assistance in Massachusetts), Q2 2009=100
— (All Employees: Total Nonfarm in Massachusetts), Q2 2009=100



Shaded areas indicate U.S. recessions

Sources: BLS, St. Louis Fed

myf.red/g/qDIJ



Reduction in elective surgeries and non-COVID-19 services creates large financial problems



“Hospitals rely on these services not just to sustain a stable revenue base, but to help offset the cost to provide other essential health care services to the community. In fact, non emergent services may equate to 30 to 60 percent of a hospital’s revenue base, and some projections suggest that a hospital could see 75 to 100 percent of these services eliminated during the pandemic. These revenue losses alone will have a significant financial impact, and many hospitals will struggle to survive economically as the pandemic progresses.”

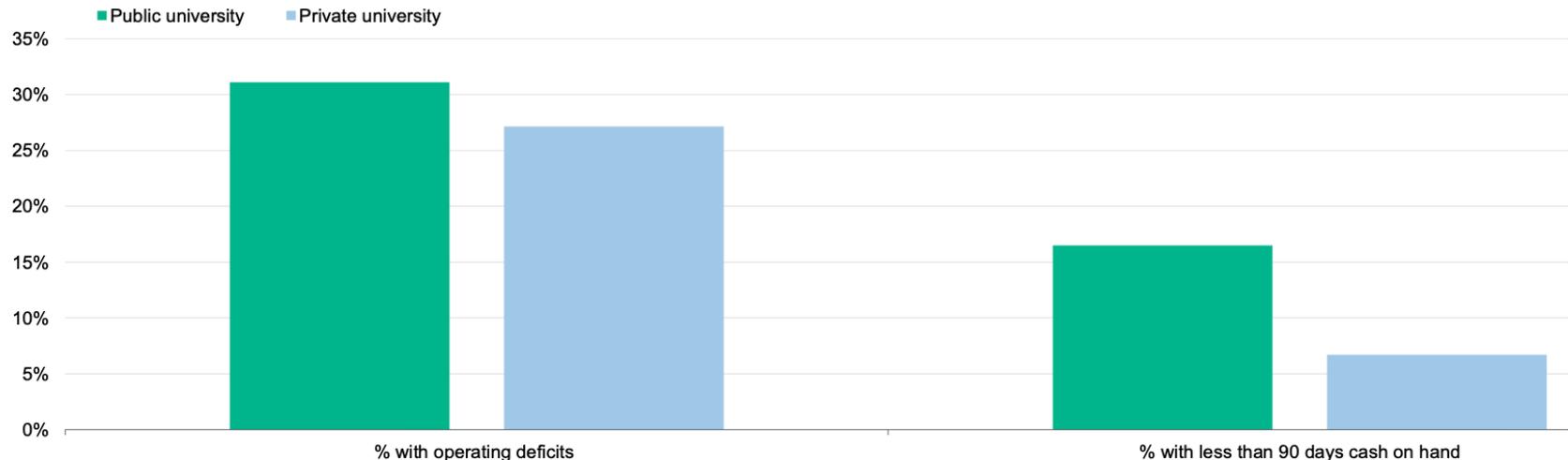
-- Charles Kahn, CEO, Federation of American Hospitals



Many higher educational institutions are very financially vulnerable

“While the duration and full financial impact of the current crisis is unknown, universities' response to the outbreak will immediately reduce revenue and drive expenses higher. For fiscal 2021, universities face unprecedented enrollment uncertainty, risks to multiple revenue streams, and potential material erosion in their balance sheets.” -- Moody's Investor Service

Universities with thin operating performance and lower liquidity have less flexibility to respond to the outbreak
% of each sector with operating deficits or thin liquidity



Based on most recent available financial statements, fiscal 2019 for most, but fiscal 2018 in some cases
Source: Moody's Investors Service



Policymaking for an economy in suspended animation

Public health comes first

- Take whatever action is needed to “bend the curve” to allow caseloads to be manageable given the capacity of our healthcare system.
- Expand system capacity to prepare for the very real possibility of subsequent waves of the virus in coming months.

Prioritize human needs

- The pace of the recovery will depend critically on the extent of the damage done to household and business balance sheets. The further they are permitted to fall, the longer it will take them to recover.

Protect key assets and institutions

- Massachusetts has long relied on its world-class healthcare and educational institutions to fuel our innovation economy and to buffer the economic consequences of previous recessions. This time it appears it will be different absent strategic intervention and support.

Substantial additional federal assistance will be indispensable to minimizing avoidable social and economic suffering



Questions?

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