

MASSACHUSETTS
HIGH TECHNOLOGY COUNCIL

Dedicated to Growth... Committed to Action



To: Secretary Michael Heffernan, Executive Office of Administration & Finance
Senator Michael Rodrigues, Chair, Senate Committee on Ways & Means
Representative Aaron Michlewitz, Chair, House Committee on Ways & Means

From: Mark J. Gallagher, Vice President, Policy & Government Affairs, Mass. High Tech Council

Date: October 7, 2020

Subject: Hearing on Fiscal and Economic Outlook

As you convene today's hearing on the Commonwealth's fiscal and economic outlook, the Massachusetts High Technology Council extends its appreciation and support for your ongoing efforts to understand and resolve in a methodical and prudent manner the critically important state budgeting decisions before you. As outlined below, the Council remains committed to partnering with you and your colleagues to identify and advance policy options that can help the Commonwealth manage and meet its fiscal needs, while avoiding policies that would stifle, not support, sustained economic recovery.

Continue the Cautious Approach

With continued uncertainty as to the size and scope of actual FY21 budget and revenue gaps and the ongoing lack of clarity on federal relief for states, the Council urges you to remain patient, disciplined and data-driven in your approach, particularly over the next 90 days.

To date, policymakers have wisely resisted calls to swiftly enact new and increased taxes based on troubling, but unconfirmable, worst-case scenarios of plummeting state tax revenues and gaping budget holes that (according to some advocates) can only be filled with increases to nearly every major tax the Commonwealth collects.

The fiscal challenges you and your colleagues face are no doubt real. But so too are the additional fiscal tools available to you and the prospects for significant additional federal fiscal relief. Just as real are the challenges faced by so many of the Commonwealth's employers, from the smallest to the largest.

The Council urges you to continue to delay action on any major fiscal and tax policy decisions until after the November 3 national election results are known, so that a more accurate assessment of the prospects for federal relief can be developed and acted upon. To do otherwise would risk making decisions with far-reaching impact in order to address potential budget gaps and revenue needs we cannot yet determine accurately.

Furthermore, delaying (to the maximum extent possible) tax and fiscal policy choices until the 192nd General Court convenes in January 2021 would also provide impacted taxpayers and citizens of the Commonwealth with greater comfort that key tax and economic decisions are not being made in a rare "lame-duck" legislative session and will provide budget makers with a clearer picture of actual revenue collections for FY20.

Wait for Clarity on Federal Relief

Throughout the summer and early fall, policymakers, stakeholders, and many advocates wisely and consistently acknowledged that without greater clarity about federal relief for states and localities, accurately assessing the Commonwealth's fiscal and revenue needs was simply impossible. That fact remains true today and, in light of announcements from the White House last evening, it is increasingly evident that greater clarity may be impossible until after the November 3 national election, notwithstanding legislative activity in Washington as recently as yesterday.

Fortunately, the federal government's appetite and capacity for providing additional fiscal relief to the states does not appear to have been exhausted. HEROES Act legislation passed by the US House just yesterday includes [nearly \\$450 billion in aid](#) for states and localities. The first HEROES Act passed by the US House in May included nearly \$1 trillion in relief for states and localities, including [more than \\$11 billion in aid for Massachusetts](#) to use over the next 2 years. Depending on national election results, potential federal aid to Massachusetts at levels that would significantly or completely alleviate state revenue impacts from COVID-19 may become an increasingly realistic possibility.

Moving forward before outcomes on federal relief are more certain would risk making fiscal and tax policy decisions with far-reaching implications in response to potential budget gaps and revenue needs we simply cannot yet ascertain.

Don't Snuff Out the Sparks of Recovery

With the Massachusetts economy struggling to recover from an unprecedented contraction, raising taxes on any employer or individual is the last option any legislator or leader interested in fostering a sustained economic recovery should consider at this time. Temporary revenue raising options may ultimately be necessary and could attract significant support from business leaders--including the Council--provided they are coupled with a combination of prudent and forward-looking approaches that include the use of all available fiscal tools, including federal aid, state "rainy day" funds, state borrowing, public procurement reforms and controls on state spending. But no tax increase should be considered or adopted unless and until a clear need is established and other available options have been optimized and exhausted.

Since January, Massachusetts lost more than 400,000 jobs and unemployment hovers above 11%, having peaked in June at 17.7%, the highest rate of any state in the nation. The pandemic has been particularly hard on small employers as well as woman- and minority-owned businesses. From January to July, revenues for Massachusetts small business fell 32.9%, a drop nearly twice as steep as the national average. More than 90% of respondents to a Black Economic Council of Massachusetts survey reported a somewhat to severe negative financial impact due to the COVID-19 pandemic.

Employers of all sizes face daunting COVID-19-related challenges that are generational in scope and complexity. These challenges come on the heels of billions of dollars in new employer costs associated with paid family leave mandates, minimum wage increases, and private health insurance premium increases. At the same time, employers face a looming multi-billion dollar increase in unemployment insurance premium taxes for 2021 and beyond and the continued advance of a graduated income tax proposal that would be permanently embedded in the state constitution.

With remote work loosening ties between employment and physical locations, “barriers to exit” for employees and individuals have been lowered. More than ever, the type of world-class talent and global-leading innovation economy employers that Massachusetts has thrived on historically, can be anywhere. Respondents to an August survey of more than 100 Massachusetts employers conducted by estimated that 47% of their workforces will continue to work remotely even after a treatment for COVID-19 has been developed, more than double the percentage before the pandemic and 60% of companies reported they are considering moving or allowing more work to be done remotely outside of Massachusetts.

As the Commonwealth’s employers and individuals make decisions about how and where they can survive and thrive in the months, years and decades to come, they will be looking to their state government for signals and signs of hope and partnership.

Regardless of any budget gap the Commonwealth might ultimately face, before raising tax burdens on any employer or individual policymakers should:

- Ascertain with greater clarity the post-election prospects for federal relief;
- Accurately assess and measure actual budget/revenue gaps net of known/likely federal aid;
- Optimize all opportunities to utilize federal relief and borrowing facilities;
- Strategically leverage the \$3.5B Commonwealth Stabilization Fund;
- Limit state spending growth to the maximum extent possible (*Publicly reported estimates of the FY21 budget gap ranging from \$1.6 billion to \$6 billion are based on proposed FY21 spending that would increase by >3% above FY20 levels. Freezing spending at FY20 levels for just half of the ~\$41 billion state budget could produce FY21 cost savings of more than \$500 million. Importantly, state spending has increased by more than 15% since FY15, built on state tax revenues that grew at more than 3X the rate of inflation over the past decade.*)

Advancing tax increases as a “first option” response would be a highly effective way to send precisely the wrong message to the Commonwealth’s employers as they look for relief and a path forward to survival and sustainability in the wake of COVID-19.

While states like New Jersey and Illinois continue to pursue the type of high tax policies that inflicted damage to their state economies for decades before the pandemic, history has shown Massachusetts

the folly of such policy choices. Conversely, Massachusetts has learned what works and for years experienced the development of an innovation ecosystem and an expansion of opportunity that were the envy of the world. That sustained expansion drove state tax revenues to grow at three times the rate of inflation and supported historic increases in public spending and billion-dollar state budget surpluses each of the past two fiscal years.

As you and your colleagues continue to consider these critically important decisions on the Commonwealth's state finances and economic future, we urge you to continue to proceed with caution; pay heed to key drivers that we know and-as importantly- those we don't yet; and seek to respond constructively to the precarious economic circumstances so many employers and citizens of the Commonwealth find themselves in through no fault of their own.