

November 2, 2020

The Honorable Robert A. DeLeo
Speaker of the House of Representatives
Room 356, State House
24 Beacon Street
Boston, MA 02133

The Honorable Karen Spilka
President, Massachusetts Senate
Room 332, State House
24 Beacon Street
Boston, MA 02133

RE: Guiding Principles for Revenues and the Recovery

Dear President Spilka and Speaker DeLeo:

The following business organizations offer this document to lawmakers as a framework¹ for approaching the state's fiscal challenges in order to position the state for long-term growth. The pandemic caused an unprecedented economic decline in terms of its scope and sudden onslaught. The uniqueness of this crisis requires a cautionary approach to policymaking to ensure there are no unintended consequences or long-term impediments to growth. The only path to a sustainable recovery is to create a climate for job creation and economic opportunity for all. This document is provided in acknowledgement that it will take our collective efforts to restore our economy and represents a synopsis of the current economic environment that we hope will provide lawmakers with the information necessary to inform critical policy choices in the days ahead.

Overview of the Economy

The Covid-19 pandemic has wreaked havoc on the global economy and Massachusetts is not immune. Thousands of small businesses have closed, hundreds of thousands of people are out of work, the economy is teetering on recession, and racial and socio-economic gaps are growing wider. All of this has contributed to great uncertainty and significant deficits in the state's operating budget. In response, Massachusetts policy makers have been laser focused on economic recovery, embracing a restrained, thoughtful, data centered approach rather than reacting too quickly without regard for the long-term consequences of their actions. This approach is sound and continued restraint is warranted until there is greater clarity on potential federal government actions and the health and economic impacts of the pandemic have stabilized.

¹ This framework is drawn from a presentation that the Massachusetts Taxpayers Foundation made to the Senate Revenue Working group on October 13. The full presentation can be found here:
https://www.masstaxpayers.org/sites/default/files/publications/2020-10/Revenues%20and%20Recovery_0_1.pdf

Employers of all sizes, across the Commonwealth, are wary of the fragile economy, growing and crippling cost pressures, and the very real impacts of remote work on both employee and employer behavior. In this environment of great uncertainty, significant changes to tax policy will exacerbate these considerations and slow the recovery that we are collectively working so hard to achieve. Following is a summary of the challenging business environment employers are facing to provide context for policy deliberations, as well as some ideas for moving forward without tax increases in order to better position the state for economic recovery.

Cost Pressures on Business

Unemployment Insurance (UI) Trust Fund: The UI Trust Fund is projected to have a \$5 billion deficit by end of 2022. UI Premiums are expected to increase \$319 per employee in 2021...a 60% increase to employers.

Health Insurance: The Division of Insurance announced average health insurance premium increases of 8% for 2021, which translates into an annual increase of \$648 for individual coverage (\$8,808 annual cost) and \$1,788 for family coverage (\$24,084 annual cost).

Paid Family and Medical Leave: This program will cost employers \$1B when fully implemented, offering 12 to 26 weeks of paid family leave and 20 weeks of paid medical leave. In addition to the cost of the program, employers have to assume the additional cost of filling positions while their employees are out on leave.

Minimum Wage: The minimum wage is scheduled to increase by \$0.75 to \$13.50 from \$12.75 for hourly workers and \$.060 to \$5.55 from \$4.95 for tipped employees effective January 1, 2021. Employers will pay an additional \$1,560 per full-time worker making minimum wage come January, 2021.

Pandemic Related Costs: Such as PPE, technology investments & slowed business development.

The Increasing Cost of a Job

The cost of a job increases in January of 2021. In times of high unemployment, this is consequential.

An employer with 50 full-time employees with average annual salaries of \$25,625 (minimum wage) will see an increase in their operating costs of more than \$142K:

UI	=	\$15,950
Health Insurance*	=	\$48,720
Minimum Wage	=	\$78,000
Total:		\$142,670

*assumes half of employees take individual health insurance plans and half receive family coverage with employer paying 80% of premium

Fragile Economy

Massachusetts is experiencing record high unemployment, record closure of businesses in retail, restaurants and hospitality, and what promises to be a prolonged period of sluggish economic performance until after a treatment and vaccine are developed. Economic circumstances are more fragile than the fiscal situation, with potential long-term negative repercussions.

- ✓ According to the Springfield Chamber of Commerce, nearly 25% of businesses expect to close due to the pandemic and nearly a third expect significant impact on their financials. This mirrors the statewide statistics of a 25% decline in the number of small businesses and a 32% decline in revenues for small businesses since January 2020 per the Opportunity Insights Tracker as reported by the Greater Boston Chamber of Commerce.
- ✓ The Associated Industries of Massachusetts Business Confidence Index has had seven consecutive months of negative outlook.
- ✓ The Massachusetts Taxpayers Foundation predicts a long, slow job recovery, predicting it will take years to return to the job levels of February, 2020.
- ✓ According to NAIOP, aggregate commercial real estate sales are down 68%.
- ✓ According to the American Hotel and Lodging Association, the Massachusetts hotel industry has lost 15,454 or 38% of its 40,562 hotel jobs. Boston’s hotel market experienced the sharpest decline in continental US, second only to Oahu.
- ✓ The Massachusetts Restaurant Association reports a 20% closure rate for restaurants (more than 3,000) and a 38% reduction in employment count.
- ✓ According to the Greater Boston Chamber of Commerce, low wage earners are most impacted by pandemic: Employment decreased by 21% for those making less than \$27k, by 71% for those making less than \$60k, and by 2% for those making less than \$60k.

The fragility of the economy requires a go-slow approach to new taxes on business.

Increased Opportunities to Relocate

Covid-19 is fundamentally changing the nature of regional, national and global competitiveness. The ability of employers and employees to locate anywhere makes them more sensitive to costs of living and doing business. Remote working could lead to greater job loss, and a slower recovery with implications for the state’s future competitiveness. According to a survey of more than 100 employers led by the Massachusetts Competitive Partnership:

“Rather than bring talent to the opportunity, we are now able to bring the opportunity to the talent.”

Massachusetts Employer

- ✓ 60% are considering moving or allowing for more work to be done remotely out-of-state
- ✓ 54 percent of respondents said they are considering reducing their overall office footprint in Massachusetts

The barriers to exit for Massachusetts employers and employees has never been lower.

Solutions

Budget-makers should consider all available tools for addressing the current fiscal shortfall, including: federal assistance for individuals and businesses; Stabilization Fund withdrawal; borrowing or refinancing current debt; spending cuts; and new revenue sources. Although not feasible for FY2021, public officials should pursue innovative and more cost effective ways of delivering services and administering public programs, as every business and organization has had to do in response to the pandemic.

"You don't raise taxes during a recession."

Barack Obama, 2011

Given cost pressures on business, the fragile economy, and increased opportunities for employees and employers to relocate, coupled with the great uncertainty surrounding financial assistance from the federal government, raising taxes at this time would be akin to shooting at a moving target with the potential for dramatic long term impacts for the Massachusetts economy.

Sincerely,

American Council of Engineering Companies of Massachusetts
Associated Industries of Massachusetts
Associated General Contractors of Massachusetts
Associated Subcontractors of Massachusetts
Greater Boston Real Estate Board
Homebuilders and Remodelers Association of Massachusetts
Life Insurance Association of Massachusetts
Massachusetts Bankers Association
Massachusetts Chemistry and Technology Alliance
Massachusetts Food Association
Massachusetts High Technology Council
Massachusetts Package Store Association
Massachusetts Restaurant Association
Massachusetts Society of Certified Public Accountants
NAIOP
National Federation of Independent Businesses
New England Cable and Telecommunications Association
Retailers Association of Massachusetts
The Massachusetts Taxpayers Foundation

Blackstone Valley Chamber of Commerce
Nashoba Valley Chamber of Commerce
Neponset River Regional Chamber of Commerce
Newton-Needham Chamber of Commerce
Orleans Chamber of Commerce
Springfield Regional Chamber of Commerce
Worcester Regional Chamber of Commerce