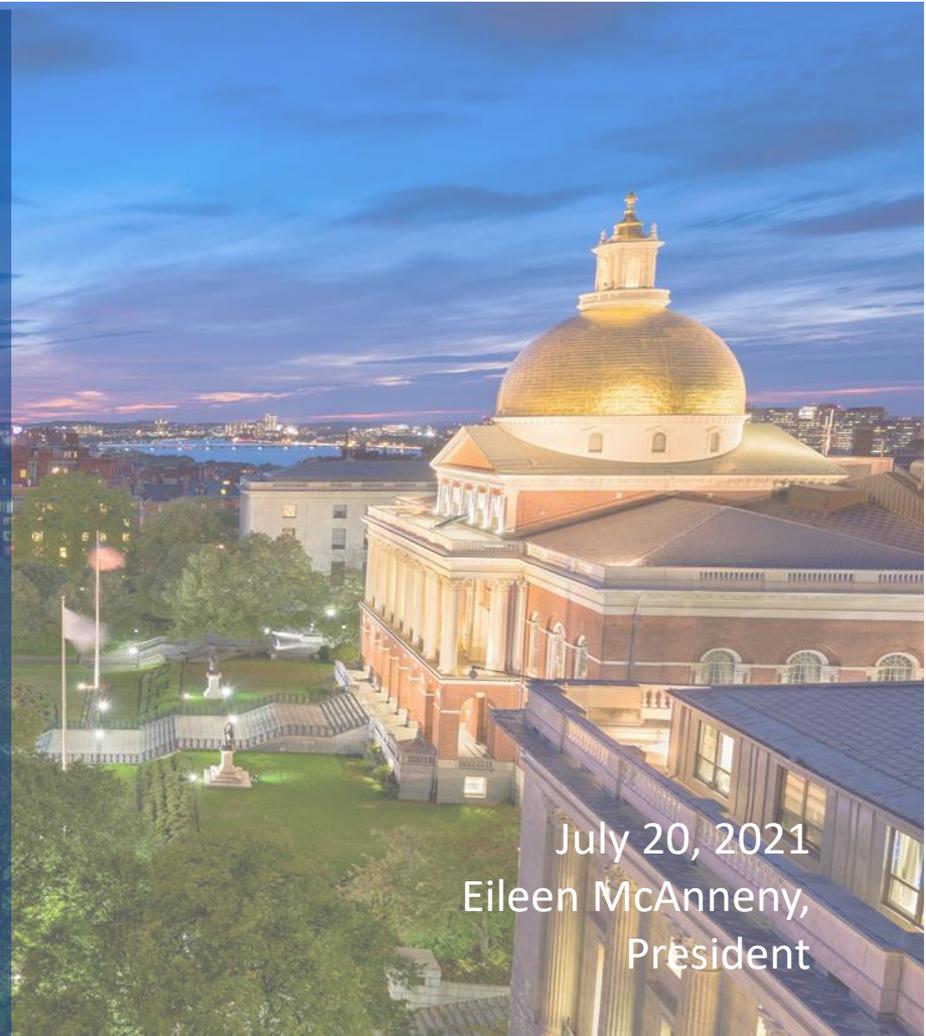




Massachusetts
Taxpayers Foundation

MTF
Testimony to
House &
Senate
Committees
on Ways and
Means



July 20, 2021
Eileen McAnney,
President

About MTF

Founded in 1932, the Massachusetts Taxpayers Foundation (MTF) is a non-profit, non-partisan public policy organization focused on state and local fiscal, tax and economic policies.

MTF's record of high quality research and non-partisan analysis has earned the organization broad credibility on Beacon Hill and across the Commonwealth.

Our mission is to provide accurate, unbiased research with thoughtful recommendations that strengthen the state's finances and economy to foster the long-term well-being of the Commonwealth and economic opportunity for all.



Outline

- I. Assessing the fiscal landscape
- II. Lessons from other states
- III. MTF principles for Fiscal Recovery Fund use
 - Fiscal framework
 - Policy & programmatic priorities
- IV. MTF next steps

The Fiscal Landscape

- Unprecedented federal support over the next 3-5 years
- FY2021 and FY2022 state revenues will provide ample budget surpluses, but future revenue trends are uncertain
- Sizable long-term spending obligations (SOA, Infrastructure and Pension/OPEB)
- Notable disparities in ability of all people, businesses, communities and regions to thrive

Lessons From Other States – Setting the Stage

- Many states used fiscal recovery funds (FRF) to balance their budgets – not the case for MA
 - California using \$7.3B in FRF to offset budget costs
 - Florida using \$2B to offset transportation funding losses
- Legislative calendars/processes drives timelines
 - 38 states are no longer in regular session
 - Minnesota, Colorado developed initial FRF plans for the end of their legislative sessions
- FRFs have to be viewed in larger budget context

Lessons from Other States – Fiscal Approach

- Determine categorical spending first
 - Colorado has separated FRF into categories (i.e. workforce, mental health)
- Use dual approach - grow small existing programs and simultaneously consider longer-term strategies
 - Initial focus on building existing programs
 - Creating process to think through transformative investments
- Identify investments that have long-term fiscal benefit
 - Beneficial programs with significant start-up costs
 - Addressing maintenance backlogs
 - Tackling skills/service gaps that provide lasting benefits
- Avoiding a fiscal cliff by not growing ongoing operating expenses

Lessons from Other States – Policy Priorities

Area	Example
Workforce	Certification, apprenticeship programs
Economic relief	UI trust fund, sector support
Housing	Production, homebuyer assistance
Mental health/health care	Substance use program expansion
Infrastructure	Safe water programs
Education/child care	Transition grants for providers, parent fees
Disparate impact	Food security expansion, at-risk youth programming

MTF Principles for Using FRFs

- These funds represent an unprecedented, one-time infusion of federal dollars that must be used wisely.
- This money should position all residents and regions of the Commonwealth for long-term economic prosperity.
- Need to balance immediate investments that jumpstart the economy with transformational investments that position MA for long-term growth.
- Use of FRFs must be (1) part of a comprehensive, strategic fiscal framework and (2) in furtherance of priorities that support long-term economic vitality.

Fiscal Framework Overview

- Ensure spending is sustainable
- Allocate funds among priority areas, while leaving resources for post-pandemic challenges
- Coordinate FRF's with other resources to maximize flexibility & impact
- Leverage and incent use of local funds with state matching programs to advance shared priorities
- Ramp up existing programs with proven track records
- Rely on experts from within and without government to develop spending plan for 2022 - 2026
- Create long-term fiscal forecasting and evaluation units

MTF Principles for Using FRFs

• Sustainability

- Prioritize one-time investments
- Invest in programs that benefit from time-limited expansion (workforce training, MassHealth reimbursement rates)
- Make capital investments whose ongoing maintenance can be supported with future revenues
- Make investments that result in long-term benefit/savings
 - NM work on higher education faculty endowments tied to workforce needs
- Develop a multi-year, fiscal forecast, common in other states, to inform decision-making

MTF Principles for Using FRFs

Evidence and Evaluation

- Key theme in Treasury's guidance on compliance & oversight
- Using evidence-based programs, and evaluating their effectiveness is key to maximizing impact
- MA lags behind national leaders in using evidence-based programming and evaluation
- Create independent process for regular programmatic evaluation and evidence-based policy development to comply with Treasury guidance and improve outcomes

MTF Principles for Using FRFs—

Coordinate Resource Use

- FRF resources should fit into a larger fiscal picture:
 - State budget
 - Municipal and county FRF funds
 - Other federal pandemic response programs
- Use a portion of FY 2021 and FY 2022 surpluses to augment and complement FRF resources that have restrictions
- Establish state/local FRF matching programs to incent effective local and regional use and coordinate priority spending (public health, transportation, education)
- Create an ongoing, transparent process to coordinate all sources of federal funds

MTF Principles for Using FRFs

Adopt the “Colorado Model”

- FRF award allocated among several policy categories. Within each category, some funds were spent immediately and other funds were set aside for future needs
- Short-term/long-term spending approach
 - Colorado has focused on expanding existing programs in this first year for immediate impact, while setting aside significant funds for a longer-term planning approach
- This approach recognizes our economy and society are in transition and may require changing course

Policy & Program Priorities Overview

- Goal: Effective investment in an equitable recovery and economic growth for all regions of the state
- Priority areas (aligned with FRF spending categories):
 - Economic recovery
 - Workforce development
 - Barriers to prosperity
 - Infrastructure

Post-Pandemic Economic Recovery

- Lots of uncertainty exists about the pandemic and how it will shape our future economy.
- Any recovery plan must:
 - Provides economic opportunity for all
 - Consider how the pandemic has effected industry sectors differently, (i.e. the accelerated use of technology in retail, hospitality, banking, healthcare) and what policies must be updated to respond to these changes
 - Recognize the changing nature of work and its downstream impacts
 - Acknowledge the state's changing demographics
 - Address barriers to job creation, such as high UI assessments, and uncompetitive cost structures for employers and employees

Workforce Development

- Scale-up programs that can help connect potential workforce to areas of need:
 - Career Technical Institutes
 - Workforce Competitiveness Trust Fund
 - Rapid reemployment grants
 - Early College
 - ESL & adult education
- Set aside resources and create a planning process for how best to spend funds for 2022-2026
 - Build upon recommendations from the Workforce Solutions Group, the Business Coalition on Skills and other experts

Barriers to Prosperity

- Priority areas:
 - Mental health
 - Public health
 - Food & housing insecurity
 - Disparately impacted communities
 - Regional equity
- Same playbook as workforce
 - Scale up current programs
 - Recent mental health workforce pilots
 - Build on work of special commission local & regional public health
 - At-risk youth programming
 - Regionalization grants
 - Create capacity for a 2-5 year strategy

Infrastructure

- Expand clean/safe water capital project funding
- Increase affordable housing stock and ownership opportunities
- Amplify ESSER funding for public health capital improvements at schools
- Ensure that our workforce, students, elderly have access to affordable, high-speed internet

MTF Next Steps

- Publish detailed fiscal framework and policy/programmatic priorities
- Hold forums to examine key ARPA issues
- Monitor and analyze evolving federal rules and guidance on Fiscal Recovery Funds
- Track trends in other states
- Examine policy landscape in detail for early education, transportation, racial disparities and other priorities