

The Federal Coronavirus Relief Act impact on Massachusetts

By Gregory Sullivan and Charles Chieppo

The good news is that Congress has passed the [Coronavirus Aid, Relief, and Economic Security Act](#), providing \$2.2 trillion in financial relief to laid-off workers, hospitals, and distressed industries. The bill provides an extra \$600 per week in unemployment benefits to each recipient for up to four months and extends benefits to previously ineligible categories of workers, including independent contractors, those with limited work history, and self-employed persons. It provides sliding-scale cash payments to hard-pressed taxpayers. It also provides full-funding for the first week of regular unemployment for states that waive their waiting period and extends benefits for an additional 13 weeks after the regular unemployment period ends, through December 31, 2020.

The bad news is that it provides little economic relief to Massachusetts state government, which faces plummeting revenue and increasing expenses. The Commonwealth relies heavily on revenue sources that are declining rapidly, including sales, income, corporate and capital gains taxes; MBTA fare collections; and pension fund returns. Meanwhile, it faces rising Medicaid expenses and skyrocketing unemployment claims. While the expanded unemployment benefits included in the relief legislation are critically important, the legislation did not address the ballooning costs to the state of paying the first 30 weeks of benefits for a flood of new unemployment claims.

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Further bad news came on Thursday when the U.S. Department of Labor announced that, [non-seasonally adjusted initial unemployment claims skyrocketed](#) in Massachusetts to [147,995](#) in the third week of March, up from [4,712](#) claims for the first week of March and [7,449](#) for the second week. Nationally, in the week ending March 21, the advance figure for seasonally-adjusted initial claims was 3,283,000, an increase of 3,001,000 from the previous week's level. [According to US DOL](#), "This marks the highest level of seasonally adjusted initial claims in the history of the seasonally adjusted series. The previous high was 695,000 in October of 1982." The peak for initial weekly claims during the Great Recession was [661,000](#).



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The COVID-19 virus has put state governments under financial duress. [According to Brookings Institution:](#)

Large scale social distancing will reduce consumer spending and workers' wages and, in turn, cause sales and income tax revenues to plummet. State tax revenues declined by more than \$120 billion—about 9 percent—during the Great Recession (Q2 2008–Q2 2009), for example. Rising unemployment will boost spending on unemployment insurance and make more people eligible for Medicaid, both of which state governments help finance. Lower tax revenue and increased demands for funding will impose severe strains on state and local budgets. [Recent legislation] raised the federal share of Medicaid by 6.2 percentage points—less than the increase during the Great Recession—and provide some help to state unemployment insurance programs. These increases, while helpful, are not nearly large enough to prevent states and localities from having to cut spending.

[Congress provides \\$150 billion](#) in the Coronavirus Aid, Relief, and Economic Security Act for state and city government expenditures incurred due to dealing with the coronavirus public health emergency. The fund will be allocated proportionally by population, and Massachusetts is expected to receive

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approximately \$2.67 billion. That won't put much of a dent in Massachusetts expected state budget shortfall. Governor Baker made [two pleas](#) to Congress last week asking for significant financial help. In New York, [Governor Cuomo asked](#), "What does it mean for New York state? It means \$3.8 billion. \$3.8 billion sounds like a lot of money, but we're looking at a revenue shortfall of [as much as] \$15 billion. This response to this virus has probably already cost us \$1 billion, and it will probably cost us several billion dol-

lars when we're done." [California Gov. Gavin Newsom underscored the](#) urgency this week, saying it was "absolutely incumbent" on House and Senate leaders to agree on a deal that sends states block grants to bolster their unemployment funds. [Katherine Landergeran and Katy Murphy of Politico](#) wrote on Monday, "Without enough direct aid, many states will be forced to take out federal loans to pay out claims."

Last Thursday, March 18, Congress passed legislation providing states with \$1 billion to help cope with the unemployment onslaught. Perhaps even more important than the dollar amount, the new law will allow all states to get zero-interest loans for the rest of this year to supplement their unemployment insurance (UI) trust funds. In addition, the March 18th legislation provides 100 percent federal funding, instead of 50

percent, when unemployment is high in a state and regular UI benefits are extended beyond the usual maximum of 26 weeks (or 30 weeks in Massachusetts' case). This provision is critical for states like Massachusetts that have poorly funded UI trust funds. No-interest loans were previously available only to the 29 states that, unlike the Commonwealth, have funds with a high solvency rating.

[Jon Hurst, president of the Retailers Association of Massachusetts](#), said he would like to see the federal government guarantee that unemployment insurance rates won't increase should the state need to borrow from the federal government to cover benefits.

Massachusetts' unemployment insurance fund is particularly susceptible to a sudden economic recession because the Commonwealth provides [the highest maximum weekly benefits in the nation, the longest benefit period in the nation, and the nation's highest percentage of unemployed workers](#) covered. In January 2020, average weekly benefits were about \$385 nationwide but, ranged from a low of \$213 in Mississippi to [\\$546 in Massachusetts](#).

As previously mentioned, the Commonwealth pays for a maximum of 30 weeks of unemployment benefits while no other state pays for more than 26. Its reciprocity rate—the percentage of unemployed people getting UI—is 57 percent, again the nation's highest. These generous policies may make Massachusetts a reassuring place for private sector workers when the economy is running on all cylinders, but it poses a serious challenge in the onset of a sudden recession.

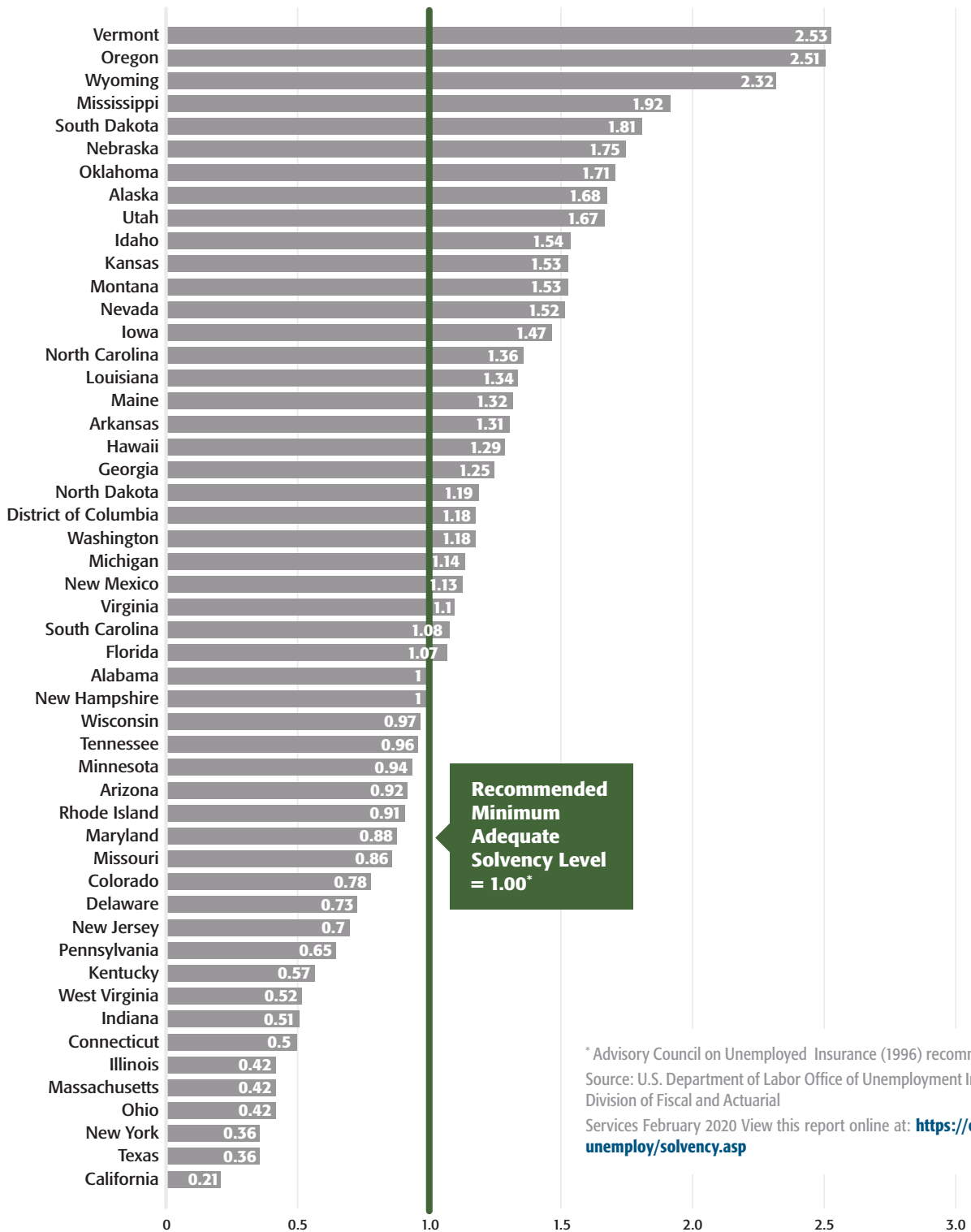
As Massachusetts confronts the economic pain of the COVID-19 pandemic and what looks like a very deep recession, we're fortunate that state legislators and the Baker administration had the foresight to restock the Commonwealth's Rainy-Day Fund. Over the last four years the fund's balance jumped by about 150 percent, [from around \\$1.3 billion to \\$3.3 billion](#).

Less fortunate is the fact that as Massachusetts girds for a massive jump in unemployment claims, the state's Unemployment Insurance Trust Fund ranks 47th among the states and D.C. As of January 1, the fund held just 42 percent of the minimum adequate solvency level recommended by the Advisory Council on Unemployment Insurance. [We are one of 22 states with UI trust funds that were already running low](#) before the virus began cutting its path of destruction through the U.S. economy.

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State Trust Fund Solvency

Average High Cost Multiple as of 1/1/2020



The bottom line is that states like Massachusetts are the big losers under the federal relief act because Congress failed to address the financial upheaval they currently face caused by the COVID-19 crisis. State governments are required to operate on a balanced budget each year and cannot deficit-spend like Congress can. It should return and finish the task by providing large block grants to the states.

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