

## REMARKS OF TREASURER DEBORAH B. GOLDBERG

*Economic Roundtable  
Tuesday, April 14, 2020*

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*As prepared for delivery:*

Secretary Heffernan, Chairman Michlewitz, Chairman Rodrigues, and members of the Committee, thank you for convening this Economic Roundtable to discuss the challenges faced by our state and our communities.

We are in unprecedented times and I am hoping this overview of the areas within the Treasurer's Office will give you helpful information and insight into revenue predictions as you begin to grapple with and craft the state budget. These granular building blocks inform the larger economic picture at hand. While none of us can predict the future of our economy, know that my office is working overtime to adapt to the current crisis.

### ***Stabilization Fund, Rating Agencies, and Debt Issuance***

It goes without saying that, because of your efforts, the Rainy Day Fund has now reached approximately \$3.48 billion. It is at its highest balance since FY2008. Thank goodness, because certainly we are experiencing the kind of serious situation that Rainy Day Funds are meant to address.

And while we experienced a strong rally in the treasury market at the beginning of this year, those opportunities have simply disappeared. Now, selloffs of municipal debt by investors seeking liquidity, have driven up borrowing costs. As a result, total issuance of municipal bonds dropped off dramatically at the onset of the pandemic, declining from \$10-15 billion per week in February to virtually zero the week of March 16<sup>th</sup>.

We were scheduled to issue bonds that week, but pulled the deal due to market conditions. Fortunately, this was more of an opportunistic issuance of refunding bonds, rather than a necessary new money issuance.

Clearly, as a result of the spread of COVID-19, the growth forecast for the U.S. economy has been reduced dramatically. The impact on states and other

municipal issuers will be great and the rating agencies have begun reviewing not only individual issuers, but also the public finance sectors as a whole.

On April 1<sup>st</sup>, Standard & Poor's [*S&P*] announced a change to all of its U.S. public finance sector outlooks to negative. The agency noted the ensuing recession, rapid expenditure increases, and precipitous revenue declines as a major factor in its decision.

Moody's is also reviewing their public finance credits. They have expressed concern over the longer-term impact of the virus, revising the outlook to negative on U.S. public ports and nonprofit organizations, primarily cultural institutions. They also noted that delayed tax filing deadlines can expose governments without healthy reserves or access to near-term credit.

While widespread defaults are not expected, the rating agencies do anticipate heightened stress for certain issuers and credits. The pre-pandemic credit of an issuer will largely determine its ability to withstand this crisis and its eventual recovery. Certain states including New York, New Hampshire, Louisiana, Oklahoma and Alaska have already experienced revised outlooks from the rating agencies. Illinois was downgraded last week to BAA3.

The Federal Reserve Bank [*Fed*] has used its existing authority to backstop the municipal market, expanding a lending operation to accept municipal debt as collateral. This action provided much needed stabilization. The SIFMA Weekly Index reset at 0.74% last week [*April 8-15, 2020*] compared to 5.20% in mid-March. But, there is more to be done.

In my role, as President of the National Association of State Treasurers [*NAST*], our organization has enlisted a coalition of colleagues from across the country, including the National Association of State Auditors, Comptrollers and Treasurers [*NASACT*], Government Finance Officers Association [*GFOA*], and the broader Public Finance Network [*PFN*]. Together we were able to have helpful sections included in the recently enacted Coronavirus Aid, Relief and Economic Security Act [*CARES Act*] that provide significant investment in programs, at the Fed, that are designed to lend directly to businesses, states, and municipalities.

At the end of last week, the Federal Reserve announced the creation of the Municipal Liquidity Facility [*MLF*], which aims to help state and local governments better manage cash flow pressures. The facility will purchase up to \$500 billion of short-term notes directly from U.S. states. The term is

up to 24 months, but the pricing is not known yet. We are closely watching for further guidance on this facility.

On the state level, our Treasury's Debt Management team has continued to work closely with the Executive Office for Administration and Finance [A&F] as we project cashflows and short-term borrowing needs.

We are also in the final stages of locking in a \$1 billion plus working capital borrowing facility with a syndicate of our banking partners being led by Bank of America. This facility should be able to provide us with flexibility to drawdown funds when we need them during this period of deferred tax revenues. It will also provide us with security as we manage through the volatility in the capital markets, especially the short-term liquidity market, and our annual issuance of RANs.

We are anxiously awaiting the approval of pending legislation that authorizes the Commonwealth's borrowing flexibility to manage deferred revenue this fiscal year and repay it in the next fiscal year. Thank you for your leadership on this important and timely measure.

### ***Cash Management***

I also want to assure you that the Treasury Cash Management Department is working around the clock, literally, to make sure that essential resources are available and can be dispensed at a moment's notice. This has been particularly critical, as the state has had to compete in securing the equipment and supplies necessary to fight this pandemic.

Payments that would normally take days are happening in a matter of hours. You have all heard about the demand of N95s, medical gowns and equipment. The suppliers want their money quickly or they will move on to someone else. Working with the Operational Services Division (OSD) and State Comptroller's Office, along with our bank, Peoples United, cash management has been able to directly wire transfer the money into accounts after confirming banking information. Over the last three weeks, that has resulted in over \$190 million of transfers. This week and for the foreseeable future, we will work with our partners in government by doing our part in getting much needed equipment to those on the front lines fighting this virus.

I am incredibly proud of our team consistently getting the job done under such difficult circumstances.

## ***Pension Fund***

The global pandemic has created an unprecedented level of volatility and uncertainty in the world financial markets. As Chair of the PRIM Board that manages our approximately \$70+ billion pension fund, I recognize the concerns and hardships that public employees, retirees and their families are experiencing as a result of these events. I want to assure stakeholders that PRIM is fully operational and well-positioned to navigate these volatile markets. I also want to make clear that the Fund is not facing any liquidity stress as a result of the recent market volatility.

The PRIM investment portfolio is a carefully constructed, broadly diversified one that we have designed to perform well over the long-term. The current asset allocation reflects an investment philosophy that has consistently performed strongly in both up, and perhaps more importantly, down markets.

Over the last decade, during a soaring bull market, PRIM systematically de-risked the portfolio to better prepare for market environments like this one. Over the last five years, PRIM has gradually reduced its Global Equity allocation [*from a midpoint of 50% to 39%*] and implemented risk mitigating strategies like long-duration U.S. Treasuries, which returned 30% in the quarter ending March 31<sup>st</sup> alone.

We are much better prepared in 2020 to withstand this market than during the last market crisis in 2008-2009. I expect to receive quarterly performance results later this month, which I will share as soon as possible.

PRIM is a long-term investor and our portfolio is carefully constructed to outperform in all markets. During this crisis, PRIM will continue to monitor and manage the portfolio with prudence and care.

## ***Massachusetts State Lottery***

Turning now to the Massachusetts State Lottery, through February of this fiscal year the Lottery experienced a slight dip in revenue due primarily to a combined \$95.6 million decrease in Mega Millions and Powerball sales in the first eight months of Fiscal Year 2020. Increased instant ticket and Keno sales helped stave off further losses.

The revenue picture has now changed significantly. Over 1,800 of our 7,500 Lottery agents are closed for business. Even those agents that are open have chosen to limit or even eliminate Lottery sales as a result of staff shortages.

Sales of all Lottery products are down significantly across the board. Total sales last week were down almost 33% [-32.7%] from sales for the same week last year. So far in the month of April, sales of Keno, one of our best performing products, have dropped by over 53% [-53.36%], when compared to April of last year. Similarly, instant ticket sales for the month of April are down by almost 29% [-28.6%], compared to this time in April last year. ***Recent weekly sales of instant tickets have plummeted to their lowest amount in at least the last 15 years.***

While working to maintain revenue, the Lottery mobilized quickly to ensure the safety of our employees, customers, and agents. In accordance with the Governor's directives, we closed our claims centers to the public and implemented a telecommuting plan for employees. Winners looking to cash tickets at this time can access a printable claim form made available on the Lottery's website. Prize checks up to \$50,000 will be sent by mail.

This pandemic has dramatically exposed the limitations and vulnerabilities of the Lottery's all-cash, in person business model. We have managed this crisis to the best of our abilities, within the limits of the Lottery's statutory constraints.

The ability to process cashless payments and to sell our products online would have undoubtedly helped to mitigate our losses. We have seen first-time players [*first-time depositors*], overall sales, and online revenue increases in states that offer online purchasing options.

New Hampshire saw first-time players increase by 38% from February to March, with online lottery revenue for the same period increasing by 10%. Looking at Michigan's more mature online lottery, their first-time players increased by 123%, with an overall lift to online lottery revenue of 21%.

And for the week of March 30<sup>th</sup>, Pennsylvania saw online lottery sales and the number of first-time players [*first-time depositors*] increase significantly. Last week, online sales went up by almost 20% over the previous five-week

average. And the number of first-time players [*first-time depositors*] jumped by almost 167% over the previous five-week average.

Customers are clearly choosing to play at home while they stay at home.

As both state and lottery revenues trend downward across the country, we expect the number of lotteries with online offerings to increase. Governor Lamont of Connecticut and Governor Scott of Vermont have both already proposed an expansion of their states' lotteries online. The former Treasurer of Alabama, who was just appointed as a member of their Governor's task force on gaming, has asked for a meeting with us to discuss what it would take for them to create a lottery with an online operation.

I would encourage the Legislature to carefully consider statutory changes that will allow the Lottery to modernize so it is better positioned to weather future crises, as they inevitably occur.

### ***ABCC***

The COVID-19 pandemic and the necessary state of emergency that shut down all restaurants and bars for on-premises consumption of food and alcohol has dealt an abrupt and significant blow to the more than 9,000 restaurants and bars in the Commonwealth. This has been like nothing ever seen before.

Recognizing the toll on these licensees and their employees, the ABCC took immediate administrative action to help them by automatically extending the usual sixty-day period by an additional thirty days in which bars and restaurants have to pay their invoices to creditors.

The agency was able to quickly and successfully transition to 100% remote work with almost no interruption in operations. Since March 10th, the ABCC has answered over 850 phone calls and emails from members of the industry and the public. They continue to process all pending applications, respond to public record requests and subpoenas, and conduct remote hearings regarding pending applications and adjudicatory hearings.

Immediately after the Governor signed the new law allowing restaurants to sell beer and wine with takeaway and delivery orders, the ABCC issued an advisory with clear guidance for licensees.

The ABCC is still on track to meet its Fiscal Year 2020 revenue projection of \$5.15 million.

The outlook for Fiscal Year 2021 is not as strong. While too early to predict accurately, local industry experts estimate that we may see upwards of 20-25% of retail licensees and 10-15% of state licensees not renew. Such a precipitous drop would result in a reduction of revenue of 10-20% for Fiscal Year 2021.

The team at the ABCC will continue to monitor the impact of this pandemic on local businesses. We stand ready to work with you to find innovative ways to revive these local and statewide economic engines.

### ***Unclaimed Property***

Unclaimed Property is still on track to meet our total reversion estimate of almost \$81 million. Looking ahead to Fiscal Year 2021, we have not made any adjustment to our projected reversion of \$81 million.

The Massachusetts Unclaimed Property Division leads nationwide, and was uniquely positioned to pivot to remote work with no disruption to the customer experience. When we went out to bid to update our database system and our public-facing website in 2016, I worked to make sure that we used this opportunity to move from an internal server based system, which could only be used on premises, to a secured-cloud-hosted web-based system. Employees can now work remotely with the same functionality as if they were on site.

The Division also has built a robust outreach program. As a result, our staff already has experience working remotely to initiate and pay claims outside of the office.

### ***Office of Economic Empowerment***

The Office of Economic Empowerment [*OEE*] is also hard at work, adapting our programming to meet people where they are: at home, on their computers and phones. In order to support all Massachusetts residents with financial education resources during the stay-at-home order, OEE launched a new digital tool for residents experiencing financial hardship due to the COVID-19 outbreak.

Accessible via Mass.gov, this webpage offers timely and free resources to the general public who are experiencing lifestyle and income changes. These resources include information on identifying scams and frauds, directions to file for unemployment, and much more. My team at OEE is committed to updating the page regularly with new materials as they become available.

Please be sure to visit the site and share it with your constituents, which is included in the written version of this testimony:

<https://www.mass.gov/ma-financial-resources-for-covid-19>

OEE is also providing free online training and webinars on relevant topics such as senior fraud prevention, BabySteps Savings Program enrollment, and financial empowerment for women. OEE will continue to collaborate with external partners to deliver additional online workshops to those who need it most at this time.

However, some of our most impactful trainings cannot take place online. That is why my office also worked with the Division of Banks to extend the deadline for our Credit for Life Fairs, in order for schools to use the funds during the 2020-2021 school year. We all know how vital these resources are to schools and their communities.

And as we speak today, OEE is working diligently to create new ways to assist constituents facing financial insecurity and uncertainty. Look for more updates from my office soon.

### ***Conclusion***

Thank you again for inviting me to testify this morning.

I look forward to many more conversations about these issues in the weeks and months ahead. I hope to collaborate with you, as together, we address these challenging times.

I am happy to answer any questions.