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MTF Bulletin

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Economic Development Legislation: Reasons to Act

In spite of unanimous passage by both the House and the Senate, in the final days of the legislative session a compromise economic development bill failed to reach the Governor's desk. While the two versions of the bill differ significantly on policy proposals, the framework for both bills is the same: authorizing capital spending that supports the state's five-year economic development plan, continuing the state's successful life sciences initiative, and creating a similar initiative for climate tech.

The fate of the economic development bill is uncertain. By rule, House and Senate formal sessions ended on July 31st and the authorizations in the economic development bill require a roll call vote. However, the legislature could agree to return to formal session to act on this bill.

This Bulletin lays out the key reasons why completing the economic development bill this session is not only possible, but essential:

- Getting this bill done now sends an important message that policymakers will ensure that the state remains a leader in life sciences and becomes a leader in climatetech;
- These economic development authorizations are affordable and critical to the state's fiscal year 2025 capital spending plan;
- This bill bolsters Massachusetts' ability to compete for a better economic future.

There is broad consensus that Massachusetts faces a variety of threats to its economic success. MTF's inaugural ***Competitiveness Index*** identifies critical economic areas where the state lags competitors, while our recent Economic Chartbook, ***Keeping the State's Economic Edge***, highlights how important life sciences, ClimateTech, and AI are to our economic future. The need and the opportunity call for prompt action and timely implementation of economic development legislation that starts this year.

Getting this Bill Done Now Matters

Failing to finalize an economic development bill in a timely manner is problematic for both perception and policy reasons, and both reasons make short-term action critical.

Addressing the Perception Problem

In each of the last three two-year legislative sessions, policymakers have failed to finalize an economic development bill by the July 31st end of formal sessions deadline. In 2020, due to the pandemic, formal sessions were extended to January, and an economic development bill was sent to Governor Baker on the last night of session. In 2022, the session was not extended and economic development spending authorizations were not approved until three months into the following session – the first time that had happened in 20 years.

Economic Development Capital Authorizations, 2003 to 2024

Session	Signed by Governor
2003-2004	November of 2003
2005-2006	June of 2006
2007-2008	June of 2008
2009-2010	August of 2010
2011-2012	August of 2012
2013-2014	August of 2014
2015-2016	August of 2016
2017-2018	August of 2018
2019-2020	January of 2021
2021-2022	Not enacted
2023-2024	Not yet enacted

The consistent inability to enact planned legislation over a two-year session indicates a policymaking process that is not working effectively. The fact that the legislation in question defines and implements core elements of the state's economic development plan sends the wrong message to communities and employers in the state who are looking to work with the public sector to expand economic opportunity and respond to changing conditions. Failure to act also makes the case for attracting people and investment to Massachusetts even tougher.

From a perception standpoint, the ability of Massachusetts policymakers to effectuate a shared economic development strategy during a time of increasing uncertainty sends a strong, positive message; failing to do so sends a different message and exacerbates some of the challenges that the state faces in the short and long-term related to competitiveness and economic growth.

The State Must Reaffirm Its Strong Life Sciences Commitment

The perception of the state's ability to implement a thoughtful economic development strategy only matters, however, if it is allied with thoughtful and timely policies; and here, action on life sciences is especially important.

Massachusetts launched its Life Sciences Initiative in 2008, creating the Massachusetts Life Sciences Center (MLSC) as the hub for nurturing and supporting the state's life sciences sector. The initiative uses a variety of tools, including tax credits, direct loans, and financing support funded through a ten-year capital authorization. Funding for life sciences has been extended twice since the original bill and the current authorization is set to expire in 2025.

The economic development bill is a unique opportunity for the state to demonstrate its continued support for the life sciences sector and make an investment to retain a critical economic strength of the Commonwealth. Both the House and the Senate include provisions to extend the life sciences initiative, but they differ in two fundamental ways:

- Duration and amount of the bond authorization
    - The House, like the original Healey-Driscoll proposal, provides ten years of capital authorization for the MLSC. In total, the House authorization is for $580 million, which is comprised of a $50 million annual authorization as well as an $80 million earmark for the Manning College of Nursing & Health Sciences at UMass Boston
    - The Senate cut the duration of the authorization to five years and reduced the total authorization to $225.5 million, for an annual amount of about $45 million.
- Annual tax credit cap
    - Once again, the House and the administration share the same approach, increasing the yearly cap on life sciences tax credits from $30 to $50 million.
    - The Senate was much more limited in their life sciences support – maintaining the current credit cap at $30 million per year.

As noted later in the brief, there is no fiscal reason to cap the life sciences authorization to five years or limit the annual authorization. The question is: what message does Massachusetts want to send to an economic sector that has played a major role in the state's economic success over the last two decades and that complements the state's historic strengths of an educated workforce and world class health care facilities?

MTF's most recent economic Chartbook demonstrates the importance of life sciences to the Commonwealth. Massachusetts ranks second in the nation for the strength of its scientific research and development sector, and Boston and Cambridge ranked first in 2023 as the top market for the life sciences workforce in a recent CBRE report on US Life Sciences Talent Trends. Acting this fall to extend the life sciences authorization for ten years and increase the annual tax credit cap is a tangible way for the legislature to demonstrate its commitment to life sciences – as well as a commitment to retain the companies already located in Massachusetts and to attract new investments and new ideas to this existing area of strength.

The Time Is Now to Put Forward a Climatetech Playbook

Prompt action on the economic development bill will also send an important policy message to the emerging Climatetech sector, also highlighted as a critical emerging industry in MTF's economic chartbook. The original Healey-Driscoll Mass Leads bill included a new version of the state's life sciences playbook for Climatetech, and their proposal was embraced by both the House and the Senate.

Climatetech Provisions in Economic Development Bill

	Clean Energy Investment Fund	Offshore Wind Industry Investment Trust Fund	Tax Credit (Annual Cap)	Expanded Offshore Wind Eligibility
Governor	$200	$200	$30	Yes
House	$200	$200	$30	Yes
Senate	$200	$200	$30	No

$ in millions

Like the Governor, the House and Senate bills create a Climatetech initiative housed at the Clean Energy Center, which includes annual capital funding and a $30 million tax credit. Both bills agree on what Climatetech is – technologies that relate to decarbonization, reduction of greenhouse gas emissions, and mitigation of climate change impacts – and they agree on how grants and tax credits will be used to support the industry and its workforce.

The economic development bill's focus on Climatetech reflects the threat that climate change poses to Massachusetts and the economic opportunity this sector presents. According to PwC, Climatetech investment now makes up ten percent of all start-up investment; a decade ago it was less than two percent. As that investment share continues to increase, Massachusetts' ability to benefit will be a function of the Climatetech eco-system we create.

The Climatetech investment in the bill is also timely because of the scope of recent federal investments in the climate space. The Inflation Reduction Act included hundreds of billions of dollars in grants, loans, and tax credits related to climate that will support new industries, emerging technologies, and consumers' purchase of Climatetech technologies. The sooner Massachusetts has its Climatetech initiative in place, the sooner it can improve its response to the challenges of climate change and the better positioned it will be to receive public and private investment in the sector.

Capital Authorizations Can be Accommodated and are Integral to the State's Capital Plan

Both the House and Senate economic development bills proposed more in bond authorizations than the $2.815 billion put forward by the Governor. Combined, the two bills propose just under $4 billion in authorizations, of which $864.5 million is for member earmarks and local projects. However, this increase in scope does not create a fiscal challenge for the state and all authorizations can be accommodated in the final bill. Moreover, the components of the bills are vital to the state's Capital Investment Plan for FY 2025.

2024 Economic Development Bill Authorizations

Category	Governor	House	Senate	Maximum
Reauthorization	$1,255	$1,220	$1,308	$1,308
New Program	$660	$1,201	$930	$1,671
Life Sciences	$500	$580	$226	$580
ClimateTech	$400	$400	$400	$400
Total	**$2,815**	**$3,401**	**$2,863**	**$3,959**

$ in millions

An All-Inclusive Economic Development Bill is Fiscally Sound

Bond bills establish the maximum level of capital spending that can occur for a program, typically over a five-year period, but they do not affect the actual level of capital spending the state makes in a year or the attendant debt service costs. Annual capital spending is determined through an administrative process which begins with recommendations from the Debt Affordability

Committee. Over the last 15 years, annual capital spending growth has generally been capped at $125 million per year, though it will grow by $212 million in FY 2025.

The administrative control over actual capital spending levels and associated borrowing means that legislative adoption of record authorization amounts pose no threat to the fiscal sustainability of the capital budget. Capital authorizations that are out of line with likely spending levels can create expectation management challenges, as program supporters may expect a level of investment that never materializes, but incorporating higher authorization levels in the final economic development bill has some advantages as well: the greater the level of authorization, the greater the flexibility the administration has to adapt to changing economic development needs and opportunities.

For example, one of the signature new initiatives in the Healey-Driscoll economic development bill was a $250 million authorization for a new MassImpact program designed to provide support for unique, transformational economic development projects. The House included $252.5 million for the same program, while the Senate only includes a $50 million authorization. If the higher House figure is included in the final bill, the administration will have the flexibility, but not the requirement, to tap this program for several major initiatives, whereas if the lower Senate figure is included, the ability to respond to unique development opportunities will be constrained. Neither authorization affects the state's fiscal health and so the stronger case is for the larger authorization.

The FY 2025 Capital Plan Relies on an Economic Development Bill

The Healey-Driscoll administration's FY 2025 Capital Investment Plan presumes $269 million in economic development spending in the current fiscal year, a 13 percent increase over the FY 2024 planned spending level. The composition of those FY 2025 economic development investments is intertwined with the economic development bill pending before the Legislature.

Economic Development in the FY 2024 and FY 2025 Capital Investment Plan

	FY 2024	FY 2025
MassWorks	$96.0	$97.0
Life Sciences	***$35.0***	***$40.0***
MassVentures & R&D Innovation Fund	$20.6	$21.7
Mass. Manufacturing	$18.3	$16.7
Underutilized Properties	$16.6	$17.0
Seaport Grants	$13.5	$11.0
Rural/Small Town	***$5.0***	***$10.0***
CDFI Grants	$2.0	$3.0
ClimateTech at CEC	***$0.0***	***$10.0***
MassTech Hub, Robotics & AI	***$0.0***	***$10.3***
MassImpact	***$0.0***	***$7.0***
Other	$35.1	$25.4
Total	**$242.0**	**$269.0**

$ in millions

Enactment of the economic development bill interacts with the Capital Investment Plan in two important ways:

- The authorizations for nine existing programs are expiring. The state's Rural Development and Advanced Manufacturing (authorized for $199 million combined in both the House and Senate bills) do not have sufficient authorizations to complete their FY 2025 grants. A further seven programs expire for the start of FY 2026.;
- About one quarter of all economic development capital spending planned in FY 2025 is contingent on new authorizations included in the economic development bill. Without a bill, investments in areas like AI, Climatetech and the MassImpact program will not occur.

The longer it takes for an economic development bill to be signed into law, the more pronounced the effect the delay will have on capital spending plans for the current year. If an economic development bill is not signed by the end of this session, the state will have lost more than half of the year to begin investments in new programs that the Administration, House, and Senate all agree should move forward.

It is also not a foregone conclusion that action occurring next session would happen quickly. A new economic development bill would require two rounds of hearings and could be delayed as committee appointments are made. The longer the delay, the greater the chance that existing programs will run out of resources to use this year.

The Provisions in this Bill are Critical to Our Economic Future

Massachusetts' economic competitiveness is a much-discussed topic, especially as pre-pandemic demographic and pandemic induced changes to employee and employer location decisions pose long-term challenges to the state's economic health. MTF recently released its inaugural Competitiveness Index for the state, which examines key economic and quality of life metrics that speak to our ability to retain and attract talent and investment. The bottom line from the Index is that Massachusetts continues to have a leg-up on workforce talent and quality of life, but our high costs and demographics pose an increasing challenge in a time where people and employers have more location flexibility.

In addition to the 26 metrics tracked in the Index, the report also takes a closer look at Massachusetts' sector strengths. We find Massachusetts continues to be a leader in health care, life sciences, and the tech sector. We also find that the state continues to punch above its weight in the innovation economy, as measured by patents, venture capital, and research and development funding.

Economic development legislation is a chance to boost our strengths and expand them into new areas, without exacerbating our weaknesses. The original Mass Leads bill built on a five-year economic development plan released by the Healey-Driscoll administration in December of 2023 to do just that. Reaffirming the state's strong commitment to life sciences, advancing a climatetech strategy, and nurturing emerging AI and robotics sectors must all be part of the state's competitiveness playbook, but the state cannot begin calling plays until a compromise bill is finalized and put on the Governor's desk.