

APPENDIX B-22: MASSACHUSETTS



- **Overview**
- **Public Policy**
- **Regulatory Affairs**
- **Tax Policy**
- **Innovation**
- **Workforce**
- **Education**
- **Cost of Market Entry**

Business Poll Ranking	
CEO Confidence	49
CNBC	12
<i>Forbes</i>	36
Pollina	28
Site Selection	Not ranked

Overview

The Commonwealth of Massachusetts is traditionally industrial and is known as being one of the most densely settled states in the nation. In its earliest stages, Massachusetts was known as a farming and seafaring colony. In the late 19th century and more recently, it has become a leader in the manufacturing of high-technology products.

Fueled in part by a dramatic increase in the Pentagon's budget during the Reagan administration (which focused on high-technology weaponry), high-tech companies located themselves around the periphery of Boston in the 1970s and early 1980s. As a result, wholesale and retail trade, transportation and public utilities prospered.

In the late 1980s, the Commonwealth saw an end to this boom. Between 1988 and 1991, jobs in both high-tech and non-high-tech manufacturing declined by 17%. Employment in construction dropped 44%, and real estate jobs declined 23.8%. Wholesale and retail trade lost 100,000 jobs. Hurt by unsound loans, banks were forced to retrench. Unemployment rose to 9% in 1991.¹

The Massachusetts economy slowly recovered in the 1990s, as evidenced by the announcement from several banks of new lending programs as well as a reduction in the unemployment rate to 4% by 1997. Annual growth rates soared as the Commonwealth benefited from information technology (IT) and the stock market booms of the late 1990s. However, in the collapse of the dotcom bubble in the national recession of 2001, Massachusetts was the hardest hit among the New England economies and growth abruptly plummeted to 1.7%. Sustained weakness in national business investment as well as equity markets continued to impede economic growth in Massachusetts through 2002 and beyond.²

¹ "Massachusetts Economy" City-Data.com.

<http://www.city-data.com/states/Massachusetts-Economy.html>

² "Massachusetts Economy."

In its 2007 ranking of states, *Forbes* listed Massachusetts as the 36th best state to do business in, up one from last year's ranking.³ Below are the comprehensive rankings that factored into *Forbes'* overall listing:

Massachusetts's <i>Forbes</i> Rankings	
Overall Rank	36
2006 Rank	37
Business Costs Rank	49
Labor Rank	19
Regulatory Environment Rank	29
Economic Climate Rank	47

In general, Massachusetts did not rank highly in any of the reports we found: Pollina, CNBC, CEO Confidence or *Forbes*.

Chief Executive Confidence Index had this bit of advice for Governor Deval Patrick: "Taxachusetts still lives, regardless of the PR. Fix it for real...need to lower taxes and improve education for the lowest tiers."

An interesting note is that the Commonwealth does not have one specific Chamber of Commerce that deals with the state as a whole – each region of the state has their own chamber and they function independently of each other.

Public Policy

The "State Competitiveness Report (SCR) 2007,"⁴ a study by the Beacon Hill Institute, ranks state's ability to produce high income, and generally a better quality of life for its citizens. The rankings compare all the states and rank them 1-50 (with a ranking of 2nd in the nation). In this study, Massachusetts placed very high with a ranking of 2nd in the nation. However, the state's high performance was hampered by the SCR's ranking for the state's government and fiscal policy which was ranked at 34th in the country. The SCR was particularly critical of the state's management of unemployment, and ranked those dead last for the amount of benefits per payment.⁵

Governor Patrick recently launched a new effort to harness the potential of the growing creative economy in Massachusetts, which he sees as among the most important keys to economic development in the Commonwealth. Recent studies undertaken by the Governor show it is absolutely vital to the state's economic health. The state understands that the creative economy requires industry-specific policies, strategies and

³ Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July 2007.

http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz_kb_0711bizstates.html

⁴ David Tureck, Jonathan Haughton, Frank Conte, and Christopher Doyon, . *State Competitiveness Report 2007*. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, December, 2007. 36.

<http://www.beaconhill.org/Compete07/Compete2007State.pdf>.

⁵ Tureck,et al, 36.

investments. They seem to be eager to work with industry stakeholders to determine the smartest tools they can use, and policy choices to make, to support and grow this important sector of their economy.

Having a creative economy means different things to different people, but to Massachusetts, it means that a clear focus will be on a cross-section of businesses in the arts, culture, and technology fields. The governor hopes to provide economic incentives to boost the number of creative entities in the state by 10% and boost tourism by 25% the combination of which will give a \$4 billion boost to the state's overall economy.

A Creative Economy section has been added to the state's Department of Economic Development, and a commission has been selected to focus on this important sector.

Regulatory Affairs

Forbes ranks Massachusetts as one of the regulatory environments that are below average. The state is ranked 29th out of 50 states.⁶

The 2003 Economic Stimulus Bill, (Chapter 141 of the Acts of 2003), which states that "An Act Relative to Investments in Emerging Technologies to Promote Job Creation, Economic Stability and Competitiveness in the Massachusetts Economy," was enacted by the Legislature in November, 2003 to reinvigorate the economic drivers of innovation, and research and development in Massachusetts. The Commonwealth's continued competitiveness in these areas is crucial. This legislation appropriated more than \$82 million to stimulate the development of new technologies, enhance job training, and promote job growth in Massachusetts. For the first time, the Massachusetts Legislature dedicated its full support in one package toward job growth and economic development.⁷

The stimulus package also created two new economic development centers: the John Adams Innovation Institute, which was provided with \$35 million in capital, and the Massachusetts Technology Transfer Center at the University of Massachusetts, which received \$1.9 million in capital.⁸

Other major features of the act include: a \$25 million recapitalization of an Emerging Technology Fund; the creation of a \$2.5 million Massachusetts Mathematics, Science, Technology and Engineering Grant Fund ("Pipeline Fund");⁹ the recapitalizations of an Urban Initiative Fund (\$1 million); a *BayStateWorks* worker training grant program (\$6

⁶ Badenhauen.

⁷ Massachusetts Acts of 2003: Chapter 14. Masseconomy.org.
http://www.masseconomy.org/pdfs/chapter_141_of_the_acts_of_2003.pdf

⁸ "About Us" MassEconomy.org.
http://www.masseconomy.org/html/9_3admin_aboutus.html

⁹ "Mass Mathematics, Science, Technology, and Engineering Grant Fund" Economic Stimulus Programs MassEconomy.org.
http://www.masseconomy.org/html/2_3_2p_pipeline.html

million); an investment fund in start-up technology companies (\$5 million); and the Brownfields Redevelopment Access to Capital Fund (\$6 million).¹⁰

2006 Economic Stimulus Bill Programs

In 2006, another major economic stimulus package was enacted which authorized approximately \$152 million in new funding for economic stimulus-related programs.

The 2006 Economic Stimulus Bill (Chapter 123 of the Acts of 2006) is “An Act Relative to Economic Investments in the Commonwealth to Promote Job Creation, Economic Stability, and Competitiveness in the Massachusetts Economy,” and authorized the creation of many new research centers and grant programs, and recapitalized several programs originally funded under the 2003 legislation.¹¹

The 2006 appropriations included \$2.5 million in grants for a Scholar/Internship Match Fund and \$1.5 million for an Educational Rewards Grant Program Fund, both administered by the Board of Higher Education; \$2 million to the Department of Business and Technology for grants for technical assistance to small businesses; \$11 million in workforce training grant funding to the Department of Workforce Development and the Commonwealth Corporation; and \$10.5 million for additional workforce training programs, to be administered jointly by the Department of Workforce Development and the Board of Education.

In addition, the 2006 legislation included a \$4 million recapitalization of the “Pipeline Fund”; \$10 million in funding to the John Adams Innovation Institute's Research Center Matching Fund; \$2.5 million in funding to the Massachusetts Technology Development Corporation's technology investment fund; \$10 million in funding for the Emerging Technology Fund;¹² and \$2.5 million in funding for the Massachusetts Technology Transfer Center. The bill also provided for \$30 million to recapitalize the existing Brownfields Redevelopment Fund.

The 2006 legislation also authorized \$35 million for a nanotechnology and biotechnology manufacturing center at the University of Massachusetts Lowell; \$10 million to develop a Massachusetts Life Sciences Center; and \$10 million to develop a bio-processing facility at the University of Massachusetts Dartmouth. The legislation also created additional tax credits and exemptions to encourage the growth of manufacturing facilities and for environmental cleanup and the manufacture of medical devices. It further authorized the establishment of tax-exempt special development districts in municipalities.

In all, the 2003 and 2006 economic stimulus bills appropriated more than \$234 million for programs to stimulate economic development in Massachusetts.

¹⁰ Economic Stimulus Programs “Brownfields Redevelopment Access to Capital Fund: Program Fact Sheet.” MassEconomy.org: http://www.masseconomy.org/html/2_3_5p_brownfields.html

¹¹ “Acts of 2006: Chapter 123”Masseconomy.org.
<http://www.masseconomy.org/documents/Chapter123oftheActsof2006.pdf>

¹² “Emerging Technology: Program Fact Sheet” MassEconomy.org.
http://www.masseconomy.org/html/2_3_11p_emergingtech.html

Tax Policy

Massachusetts has some of the highest tax rates in the country. The State Business Tax Climate (SBTC) is a tool for lawmakers and the media to compare the state's tax policies (with a ranking of one being the best). In this index Massachusetts placed 34th out of 50.¹³ The index particularly criticized the state's property taxes which placed dead last among all states.¹⁴ This index also criticized the state for having extremely poor state tax rankings in corporate taxation (46th), property tax (47th) and unemployment tax (49th). Meanwhile, the 2007 Small Business Survival (SBS) index rates a state's public policies according to how friendly a state is toward entrepreneurial activity. In that study the state also placed 44th out of all states and the District of Columbia.¹⁵

The Massachusetts Investment Tax Credit (ITC) offers a 3% credit for qualifying businesses against their Massachusetts corporate excise tax.¹⁶ The credit is to be used for the purchase and lease of qualified tangible property used in the course of business operations.

The ITC is 3% of the cost (or other basis for federal income tax purposes) of qualifying tangible property acquired, constructed, reconstructed, or erected during the taxable year, after federal tax deductions are taken on the property. Qualifying property includes tangible personal property and other tangible property, including buildings and structural components of buildings acquired by purchase.

The Commonwealth understands that growing a business and investing in new jobs requires time and money. They encourage capital investment with the ITC. According to the official website of the Commonwealth of Massachusetts, it reduces the cost of expansion, includes a carry forward provision, and is a permanent incentive.

The Massachusetts Investment Tax Credit is available to manufacturers, certain research and development corporations and corporations engaged primarily in agriculture or commercial fishing.

Innovation

National studies that rank the states for their progress in innovation and technology have been extremely complimentary toward Massachusetts. The New Economy Index¹⁷ (NE) rates the states according to advancements in innovation (with a ranking of one being

¹³ Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index. October 2007, Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

¹⁴ Atkins and Dubay.

¹⁵ Raymond J. Keating. Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 2. http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709

¹⁶ "Tax Incentives For Bio-Pharmaceutical Industry" Massachusetts Biotechnology Council. http://massbio.org/industry_dev/tax_incentives.php

¹⁷ Robert Atkinson and Daniel K. Correa. The 2007 State New Economy Index.: Benchmarking Economic Transformation in the States. Innovation Technology and Innovation Foundation. February, 2007. 13. http://www.kauffman.org/pdf/2007_State_Index.pdf

the best). In this index Massachusetts received its highest overall ranking. The index was particularly complimentary toward the state's high number of technology-based jobs, and also its workforce education. In these categories Massachusetts also had the best rating. In addition the state was also rated 8th for the number of inventor patents within the state.¹⁸

A recent report found that despite some promising signals of improvement, the Bay State's innovation continues to lose its grip as one of the nation's leaders, beset by competition from other states and outpourings of key workforce demographics.

The Massachusetts Technology Collaborative's (MTC) *Innovation Economy Index*¹⁹ says flattening federal assistance for research and development, combined with the venture capital industry veering away from risky start-ups, has reduced cash flow into the state's economy.²⁰

"Even though there are recent signs of modest job recovery in some key clusters, the growth in employment in the majority of these clusters is alarmingly slow when compared to the other [leading technology states]," the report finds.

According to the index, while the state's scarcity of affordable housing slows the economy, Massachusetts "still dominates" competitive states in the level of education its workforce receives. For instance, the report says that in 2005, approximately 37% of people aged 25 and older held a bachelor's degree.

But the state's workforce remains poorly equipped to fill the promise of the innovation sectors, trailing other states in the number of students, states the index, showing interest in computers, engineering, and information science.

Commonwealth policymakers have worked to lure "new economy" investment, trying to streamline permitting processes and dangle research and development incentives in front of companies. But overarching trends in the Commonwealth worry the MTC, the state agency responsible for renewable energy and the so-called innovation economy.

"There are concerns around sub-par job growth, low rates of commercialization and high-tech startups and housing costs contributing to the exodus of some of our younger workers," said Patrick Larkin, director of the John Adams Innovation Institute, MTC's economic development arm, and an author of the index.

According to the study, in the year 2000 the percentage of Massachusetts high school seniors planning to major in computer, engineering, or information science was 12%; by 2005, it had slipped to 11%, even as former Governor Mitt Romney emphasized math and science as important to the state's public education system.

¹⁸ Atkinson and Correa, 15.

¹⁹ Patricia M. Flynn. "Federal Academic and Health Research and Development Expenditures" *10 Years of the Index of the Massachusetts Innovative*. Massachusetts Technology Collaborative. 2006. <http://web3.streamhoster.com/mtc/index2006.pdf>

²⁰ Flynn, 48.

Governor Deval Patrick has spoken frequently of expanding the state's innovation economy, promising to pursue alternative energy and life sciences, and saying that if the state succeeds, "the whole world will be our customer."

As an aside, the Massachusetts Opportunity Relocation and Expansion (MORE) Jobs Capital Program provides \$100 million in grant funding for public infrastructure improvements needed to support business expansion in the Commonwealth of Massachusetts. The purpose of the program is to stimulate job creation and economic growth across the state by providing the public infrastructure developments companies need. MORE was established in an economic stimulus bill and signed into law on June 24, 2006 (Chapter 123 of the Acts of 2006).

Workforce

Massachusetts receives the highest ranking when it comes to its workforce. The SCR ranks the quality of its workforce in its "Human Resources" category.²¹ The primary factors that contributed to Massachusetts' strong workforce ranking were the state's placing high for the number of adults in the workforce (13th), the number of scientists and engineers in the workforce (2nd) and also for workers with a high school degree (18th).

In October, [the Executive Office of Labor and Workforce Development announced that lower over-the-year unemployment rates occurred in 21 of the Commonwealth's 22 labor areas in September, with the rate unchanged in the Nantucket labor market area.](#) Statewide, the seasonally unadjusted total unemployment rate was 4.4% in September 2007, six-tenths of a percentage point below that of the 5.0% recorded one year ago.²²

Eleven areas posted lower unemployment rates over the month, with two area rates remaining unchanged and nine areas posting small rate increases. Statewide, the seasonally unadjusted unemployment rate edged up slightly from 4.3% in August to 4.4% in September.²³

Job gains were recorded in ten areas over the month. The statewide seasonally adjusted unemployment rate released the first week in October was 4.4%, down from the 4.5% rate in August and also down from 5.1% one year ago.

Education

According to the US Chamber of Commerce's "*Leaders and Laggards: A State by State Report Card on Educational Effectiveness*" study, Massachusetts performs especially well in providing secondary education to its residents. In this study, Massachusetts was one of only ten states to receive an overall rating of an "A" for the quality of its education

²¹ Tureck, et al. 36.

²² "Massachusetts Labor Markets Post Lower Unemployment Rates In September". Commonwealth of Massachusetts, Executive Office of Labor and Workforce Development. Commonwealth of Massachusetts, Executive Office of Labor and Workforce Development. 23 Oct. 2007.
<http://lmi2.detma.org/lmi/Newsrelease/NewsLMI20071023.htm>

²³ Commonwealth of Massachusetts, Executive Office of Labor and Workforce Development.

system.²⁴ The state placed in the highest levels in such categories as: academic achievement, return on investment, truth in advertising, rigor of standards, workforce readiness and the 21st century standards which demands subject matter expertise. The only area where the state could improve was a need for more flexibility in administration and better data quality.

Today, the Commonwealth of Massachusetts boasts some of the most highly regarded private secondary schools and colleges in the country, and it has a long history of support for education. The Boston Latin School opened in 1635 as the first public school in the colonies. Harvard College, the first college in the U.S., was founded the following year. And, in 1647, for the first time, towns with more than 50 people were required by law to establish tax-supported school systems.

Total public school enrollment stands at approximately one million. Of these students, approximately 800,000 attended schools from kindergarten through grade eight, and about 340,000 attended high school.²⁵ Total enrollment is estimated at approximately 1.7 million.

There are over 473,403 students enrolled in college or graduate school in the Commonwealth. Massachusetts has 117 degree-granting institutions. The state has a total of 15 public colleges and universities, while the Massachusetts Board of Regional Community Colleges has 16 campuses.²⁶

Harvard University is one of the country's premier institutions and is located in Cambridge along with Radcliffe College, whose enrollment is included in Harvard's, (founded in 1879), and the Massachusetts Institute of Technology, or MIT (1861). Massachusetts' Mount Holyoke College, the first US college for women, was founded in 1837. Other prominent Massachusetts private schools and their dates of origin are: Amherst College (1821); Boston College (1863); Boston University (1869); Brandeis University (1947); Clark University (1887); Hampshire College (1965); the New England Conservatory of Music (1867); Northeastern University (1898); Smith College (1871); Tufts University (1852); Wellesley College (1875); and Williams College (1793).²⁷

With these outstanding higher-education institutions in the Commonwealth, businesses located within the state have a well-educated workforce from which to draw.

Among the tuition assistance programs available to state residents are the Massachusetts General Scholarships, awarded to thousands of college students

²⁴ The Institute for a Competitive Workforce. Leaders and Laggards: A State by State Report Card on Educational Effectiveness. US Chamber of Commerce, 2007.

<http://www.uschamber.com/icw/reportcard/default>

²⁵ "School Enrollment: Census 2000," U.S. Census Bureau. Berkshire Publishing.

http://berkshireplanning.org/8/download/SchEnroll_2k_ok.pdf

²⁶ "Colleges, Community Colleges and Universities in Massachusetts." UnivSource.

<http://www.univsource.com/matype.htm>

²⁷ "Massachusetts—Education".City-Data.

<http://www.city-data.com/states/Massachusetts-Education.html>

annually, and Massachusetts Honor Scholarships, for outstanding performance on the Scholastic Aptitude Test.

The landmark Education Reform Act of 1993 established new systems of financial support for public elementary and secondary schools and instituted major reforms in governance, professional development, student educational goals, curricula, and assessments.²⁸

Cost of Market Entry

Massachusetts, Hawaii and New York are the most expensive states in the nation in which to do business, according to the most recent Milken Institute *Cost of Doing Business Index*. According to the report, Massachusetts has costs that are 25% greater than the US overall.²⁹

The *Cost-of-Doing-Business Index*, released annually by the Institute, indicates each state’s comparative advantages or disadvantages in attracting and retaining businesses. Those states with a low cost of doing business have, on average, greater job growth than those with high costs.³⁰

The *Index* measures wage costs, taxes, electricity costs and real estate costs for industrial and office space. Each state is measured on the five individual categories, and those weighted scores are compiled to make the overall index.

The Massachusetts Department of Economic Development provided this chart to describe Taxes and Business Costs in Massachusetts.³¹

Corporate Income Tax	9.5% (offset by single sales factor)
Single Sales Factor	Yes
Sales Tax	5%
Personal Income Tax	5.3% except 12% on short term capital gains
Unemployment Insurance	New Employer Rate: 2.125% Experienced Rate: 1.325-7.225% Base Wage: \$14,000
R&D Tax Credit	10% on incremental qualified and 15% on incremental basic
Hiring Tax Credit	Cash rebate of 50% of newly hired biotech and medical device manufacturing employees’ income tax withholdings payable over 3

²⁸ “Overview of Massachusetts Education Reform Act: Fairest”. The National Center For Fair And Open Testing. http://www.fairtest.org/care/Overview_of_MA_Ed_Reform.html

²⁹ “2007 Cost of Doing Business Index.” Milken Institute. December, 2006. <http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

³⁰ “2007 Cost of Doing Business Index.”

³¹ “Massachusetts Business Costs.” Massachusetts Department of Housing and Economic Development. <http://www.mass.gov/?pageID=eodterminal&L=3&L0=Home&L1=Facts+and+Information&L2=The+Co>

	years
Investment Tax Credit	3% in manufacturing, R&D, agriculture and fishing; any industry eligible for 5% when located in target areas

As an aside, according to the Massachusetts Department of Economic Development, approximately one half of all companies in Massachusetts pay the minimum corporate income tax of \$456.