MASSACHUSETTS
HIGHTECHNOLOGYCOUNCIL
Dedicated to Growth... Committed to Action

April 6, 2022

The Honorable Aaron Michlewitz
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

Dear Chair Michlewitz,

The Massachusetts High Technology Council is grateful for your ongoing efforts to resolve the state budgeting decisions before you and wants to provide you with our short list of priorities as you draft the FY23 budget. The information that follows provides the background and rationale for our requests—but to summarize, the Council is respectfully requesting that you:

1. Retain increases in targeted education and workforce funding;
2. Provide relief to employers for state-funded Unemployment Insurance overpayments; and
3. Advance Governor Baker's common sense tax relief proposals.

Budget discussions this year proceed through a period of lingering uncertainty and seismic shifts in our economy, with important implications for spending decisions and the context within which policy decisions will take place.

First is the current state of the Massachusetts economy. Jobs have rebounded rapidly since the first wave of the pandemic and peak of the economic shutdowns in 2020. The unemployment rate, which peaked at over 16% in April 2020, fell to just under 5% to conclude 2021 and has stayed there through February. According to the Executive Office of Labor and Workforce Development, Massachusetts has gained 571,400 jobs since April 2020. The labor market is the tightest it has been in decades with job openings at all-time highs.

This has impacted employees positively as the labor shortage has resulted in wage growth. For employers, though, it has caused significant challenges in recruiting talent. As one illustration of what companies like our members have been confronting, consider that in 2021 there was an average of just under 53,000 technology job postings with just over 6,100 average monthly technology hires, according to labor market analysis on our data platform, MATTERS. The most recent estimates from the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS), as of January 2022, show that the job openings rate is 7.1%, down from just over 8% in September 2021 but still well above the decade average of ~4%. Consider the broader context: Higher labor costs, when coupled with continued supply chain issues, rising inflation and geopolitical uncertainty, pose significant impediments to business stability and growth.

Second, the economic rebound has helped drive robust state tax collections—an important factor that should inform budget writers' approach to tax relief debate. According to the Comptroller's

January 2022 reporting, state revenues in FY21 exceeded estimates by over $13 billion. Approximately $6 billion of that was from surplus tax revenue. As we know, this is in addition to billions in federal funds directed to the state from various Congressional spending packages.

These conditions shape the context for budget decision-making and should be front-and-center in discussions regarding what should be prioritized in FY23 spending plans.

As outlined below, the Council is committed to partnering with you to advance policy options that help the Commonwealth direct resources to augment our talent pipeline, manage and meet its fiscal needs, and avoid policies that would restrict economic growth.

1. Retain increases in targeted education and workforce funding

The Governor's budget includes a FY22-23 increase in Early College funding from $11M to $18.3M across two line items: Concurrent & Dual Enrollment Programming (7066-0019) and Early College (7009-6600). As a member of the Massachusetts Early College Coalition and supporter of early college as an evidence-backed tool to widen access to opportunities for Massachusetts residents, we are excited to see Governor Baker's commitment to augmenting this programming. We encourage you to maintain the increases in your spending plans.

We also support the Governor's proposed appropriation of $4.83M for Career Technical Partnership Grants/Innovation Pathways (7027-0020) to ensure adequate funding for what has been a proven career technical education option for non-vocational secondary schools. This funding complements the $15.3M for Career Technical Institutes (7002-1091), which is a valuable path for adult learners to pursue industry-recognized credentials.

We urge you to see the value in these three items, and the importance of the Governor's proposed funding for them, in advancing the Commonwealth's workforce goals.

2. Provide relief to employers for state-funded Unemployment Insurance (UI) overpayments

As you are aware, over the course of the pandemic our UI system saw historic benefits spending to meet the needs of claimants who were temporarily laid off due to public health orders. Many workers who lost their jobs and received benefits needed this money to survive, and we understand both that the extraordinary circumstances required extraordinary measures and many claimants still face economic challenges. To cover the historic benefits claims, the Commonwealth borrowed $2.3 billion from the federal government. The cost of this borrowing has been put wholly on employers—even though the public health crisis and significant unemployment assistance needs were beyond employers' control. As of September last year, interest on the loans is growing too, totaling $18.9M as of March 2022.

The true balance of the Trust Fund, accounting for the federal loans, employer credits, and the $500 million from prior legislative action, leaves an amount that is nowhere close to the balance just before the COVID-19 pandemic, or where the balance needs to be to meet a viable reserve standard. At such a low Fund balance, the corresponding schedule also means employers pay significantly higher rates. The current plan is that the Administration will issue bonds to restore the Fund balance to adequate levels. Based on what the Administration shared at a recent meeting of the UI Trust Fund Study Commission, their recommendation is bonding for $3.3 billion. Every cent of this, principal and interest, employers will be responsible for paying.

One reasonable and modest way to alleviate some of this burden on employers is to dedicate funds to cover the overpayments that came from the state's UI Trust Fund. The Department of Unemployment Assistance (DUA) estimates that, as of March 2022, the total amount of overpayments attributable to the Trust Fund is approximately $375 million. If not covered through other sources, this total will be fully born by employers over and above the billions that they will be on the hook for once the Baker Administration issues bonds to repay federal loans.

The $375 million in state overpayments is a significant amount of money, and if the state decides to forgive these overpayments, it should not be an additional cost incurred by employers. We urge you to allot resources from whatever appropriate source—whether the $2.3 billion in remaining American Rescue Plan Act (ARPA) funds or surplus tax collections—to cover the state portion of UI overpayments so the business community doesn't shoulder this burden on top of debt obligations already in motion.

3. Advance Governor Baker's common sense tax relief proposals

We support the Governor's proposals for tax relief because tax policy is an increasingly important facet of state competitiveness today. And in surveying the national landscape, there are important developments to make note of and inform debate in Massachusetts.

In most states, like ours, significant tax surpluses and federal spending packages have enabled budget writers to examine their tax policies and consider tax relief efforts. High inflationary pressures have prompted leaders to consider how they can remedy rapidly rising living costs.

Many states are looking to enact tax reforms, such as lowering income taxes, providing tax breaks to small businesses, or pausing the state corporate tax with the explicit motive of boosting competitiveness. According to the Tax Foundation's February analysis of state tax reform proposals, around 40 states in active session by February showed a "flurry of activity on taxes" with tax relief at the center of most states' policy debates. But Massachusetts is noted as being just one of two states with meaningful initiatives to raise taxes (the other being Hawaii). An important observation about many states' tax relief initiatives is that most have been proposed by leaders in both parties. Tax reform discussions going on nationwide are not along partisan lines.

The Governor's tax relief proposals are prudent policy, acknowledging similar initiatives of a much larger scale in other states—and we urge you to support them as well. Approximately half of the $693 million from credits, exemption changes, and reductions would come from reducing the short-term capital gains tax rate from 12 to 5% and doubling the threshold for covered estates to $2 million. Both are areas that would materially help Massachusetts be more competitive with other states, many of whom are already benefiting from outmigration trends from high-tax and high-cost-of-living states like ours.

Thank you for your leadership and considering our perspective as you develop your own blueprint for spending to meet the Commonwealth's needs in the fiscal year ahead.

Sincerely,

Matthew Blackbourn
Director of Policy and Research