CITY OF CAMBRIDGE

COMMUNITY DEVELOPMENT DEPARTMENT

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To: Robert Healy
City Manager

From: Michael Rosenberg MHR
Assistant City Manager for Community Development

Date: September 16, 1992

Subject: The Governor's new Economic Development Plan

As you probably know, Governor Weld will announce a new economic proposal today. The package is based on many of the same themes that have driven our recent economic development initiatives in the City.

Here for your benefit and in order to keep the council informed, is a brief description of the highlights of the governor's proposal along with the relevant city initiatives.

Quasi-Public Reorganization: The numerous state quasi-public funding organizations would be rolled into a single Agency which would have regional offices designed to leverage private financing through three funding programs:

1 The Emerging Technology Fund would use partial guarantees, subordinate debt financing, and other mechanisms to fund R&D and manufacturing facility construction in emerging industries.

2 The Small Business Capital Access Program would allow banks to use Commonwealth matching funds to enhance credit worthiness in order to make loans which they may not otherwise make to a wide variety of small businesses.

3 The Export Finance Program would allow the state to guarantee up to 85% of qualified bank loans based on foreign orders to finance export transactions.

The reactivation of the Cambridge Industrial Development Finance Authority, our recent efforts to establish the CDBG section 108 loan program, and our pursuit to establish private loan pools and other financing mechanisms offer opportunities for the city to maximize the benefits of the state's proposed initiatives.

Other Weld Proposals: More long standing proposals are also being re-proposed this week, including:

1 A <u>reduction in the state's capital gains tax</u> is meant to encourage investors to take longer term investment perspectives.

2 Establishing <u>Economic Opportunity Areas</u> would provide tax incentives to encourage new business expansion in "distressed areas".

Areas of Cambridge including parts of Alewife and Central Square may be eligible.

3 An <u>Economic Development Capital Program</u> would commit $100 million per year of the state's five year capital program to projects directly creating permanent long-term economic development.

We will continue to keep you informed as more details of this proposal become available. Please see the attachment for recent news stories from the Boston Globe and Wall Street Journal on this topic.

Governor Who Tamed "Taxachusetts" Is Venturing Afield

BOSTON – Gov. William Weld, an avowed supply-sider who delighted libertarian conservatives by initially reining in a high-tax state government, goes back on the offensive tomorrow. But the package of fiscal and credit policies he plans to propose to get the Massachusetts economy moving may leave some of his 1991 fans behind.

Fresh off last week's state bond upgrading that he can credit to his early turnaround of Dukakis-era growth in spending, the GOP governor faces unemployment at 8.3% and seeks to employ measures to "influence the economy." Details of the program haven't been released, but in an interview at the statehouse on Friday he made clear that he has some type of public financing in mind.

Business World

By Tim W. Ferguson

A credit crunch continues to bedevil business, he's decided, and inhibits knowledge-based fields that an academically rich area can foster. In addressing this, Gov. Weld said, his aim is "not to pick winners and losers but to make sure our companies have a good jumping-off point."

Traditional lenders look for earnings records that industries absorbed in R&D cannot muster, he said. Meanwhile, venture capitalists are diverted to "dealing with things that would have been handled by aggressive commercial banks 10 years ago. So you don't have the VC industry riding over the hill to save the situation the way arguably may have happened 10 or 15 years ago with high tech."

Venture financiers say the commercial viability of what's pitched to them today isn't equal to what came before. But Gov. Weld smells market failure, "and I don't think it's irresponsible of government to try to help companies address what is in essence a structural defect. . . . You've either got to say we're not going to have any industries like biotech with a long lead-time R&D phase, or you're going to do something about it."

So, with the understanding some assists will fail, a governor with Friedrich Hayek's free-market wisdom on his shelf is prepared to put taxpayers' capital at risk.

"I don't think I'm as against industrial policy as The Wall Street Journal is," Mr. Weld mused. "I'm probably somewhere short of Paul Tsongas in terms of how many steps I'd be willing to take. If having full-fledged Japanese industrial policy is 6, I'm a 1.5. Tsongas is 3.3."

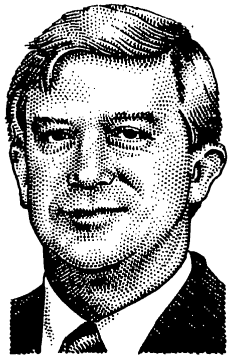
Other parts of the Weld push this fall will be an easier sell on the political right. He'll ask for tax credits, which are another form of steering, and help for so-called patient capital. "I've never understood the rationale for the capital gains tax in the first place," he said. "I think we should look toward some sort of phase-out, both federally and on the state basis."

This would suit his desired industries. "They want to attract these highly educated, highly motivated, highly mobile people. How do they do it? They do it with their ESOPs," he said, referring to company stock options. "What that means is any capital gains relief you can give them is manna from heaven because it relates directly to their ability to hold employees."

He said cutting general taxes is a way to shrink government, not to generate job growth directly. "I guess I still think the income tax rate in this state [now 5.95%] should not be any higher than 5%, but when we push that and how much we bite off at one time remains to be seen."

Barely 14% of Massachusetts voters are registered Republicans, and the governor appears sensitive to a counterattack that "this is Weld wanting to spread a little more dough around to all his rich friends that he plays squash with." For this reason, the state's 12% tax on "unearned" income, highest in the nation, is "probably not first on my list" for action, even if it discourages investment. Likewise, Gov. Weld was not out front on repeal of Massachusetts' estate tax, passed this summer.

William Edgerly, chairman of State Street Bank and a fan of the governor's, admits incentive tax cuts Mr. Weld has in mind are "tinkering" that "may help somewhat," but aren't the "fundamental change" a cut in the rate on interest and dividend income would be. He says the governor is "very much a realist. Reform takes time. You do what you can do."



Gov. William Weld

In the blush of his inaugural, Gov. Weld won repeal of a sales tax extension and cut nominal state spending slightly. His second-year budget, however, grew by about a billion dollars, or 7%. It is "a little sweeter than I feel comfortable with. By the time it went through in July, I was concerned about the fall. We'd had an uptick in unemployment, and I didn't like what I saw." So $150 million in special highway funds escaped a veto.

More unhappily for conservatives, a school-reform bill that promised changes in tenure and other sacred cows lost after Gov. Weld introduced it along with a big funding increase. The school establishment and its friends in the Democratic Legislature took part of the money and ran. "All it did was get us to spend $186 million in fiscal 1993 with no reform whatsoever," laments banker Edgerly.

The governor defends trying to hatch a bargain with the opposition. Besides, he said, he favors state funding to correct disparities among rich and poor districts. "You can now put me down for your gentle readers as not only a Keynesian but a leveler," he quipped.

Some on the right, such as the Boston Herald, want him to be more of a fighter, to hammer Democrats on such issues as privatization in order to reorient state politics lastingly. Gov. Weld says, "I'm not much of a legislature basher."

A reluctance to be partisan may draw Gov. Weld less flattering comparisons with California Gov. Pete Wilson than he received on the right in 1991. Gov. Wilson, who raised taxes then while Gov. Weld cut them, has this year taken on his Democratic Legislature, winning spending cuts.

The two are a match because they could appeal to a similar constituency in the GOP presidential race in 1996, should both win re-election in 1994. They abjure social-issue conservatives and position themselves as environmentalists. (Mr. Weld endorses a Naderite recycling initiative on the November ballot.)

Gov. Weld's embrace of intervention in capital markets adds another element to the political mix. Should President Bush lose seven weeks hence, his economic passivity will be blamed, along with the social right that captured the GOP – creating an opening for someone distinct from the defeat. The question is how a GOP scheme to "influence the economy" would be distinct from Bill Clinton's activism.

Certainly industrial policy already exists in the U.S., in military and space technology, in residential housing, in small business. But in what he unveils tomorrow, Bill Weld risks taking another step down the road to state capitalism. He should dust off his Hayek beforehand.

'eld has a Dukakis-like plan to spur the economy

By Doug Bailey
GLOBE STAFF

The economic development plan Gov. Weld is set to unveil today contains some very Dukakis-like ideas to capitalize emerging businesses with public money, according to officials who have seen a draft of the package.

Weld plans to showcase the jobs package at a joint session of the Legislature. The administration has already said it will include business tax credit proposals and perhaps call again for a cut in the state's capital gains tax.

But officials said Weld also intends to call for three separate programs to use state funds as venture capital for emerging technology companies, small businesses and export firms. The plan would require legislative approval.

Details of the package were still not complete yesterday, but sources on Beacon Hill said it will involve the state pledging relatively small amounts of money to be used as seed capital for businesses and inducements for banks and other lenders to invest in Massachusetts companies.

"The idea is to fill the gap in private financing," said one official familiar with the Weld program. "It will stress partnerships with private financiers in which public dollars will leverage private dollars."

Such plans were a staple of the

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Weld is e[illegible]pected to unveil Dukakis-like economic pla[illegible]

■ WELD
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> 'We're supposed to put public money into speculative investments that the private markets won't go near? Come on. Be serious.'
>
> REP. THOMAS FINNERAN
> *Chairman, House Ways and Means Committee*

Dukakis administration, which created a virtual alphabet soup of public financing agencies, and were often the target of ridicule by free-market capitalists and Republicans who favor minimal government intervention in business and the economy. Weld's economic czar, Stephen Tocco, has talked about merging most of those agencies into one umbrella economic development agency and may revive the idea today, officials said.

But Weld's flirtation with public financing may show he is growing impatient with the recession's staying power and that he believes, unlike some of his Republican peers, that the government can jumpstart the economy with taxpayer money. He apparently believes that some companies are foundering, not because they are are poor investments but because of the unwillingness or inability of banks to lend money.

"I don't think it's irresponsible of government to try to help companies address what is in essence a structural defect," Weld said in an interview in yesterday's Wall Street Journal. "You've either got to say we're not going to have any industries like biotech with a long lead-time R&D phase, or you're going to do something about it."

According to the draft of the plan, Weld's venture capital proposal has three components:

■ The governor will call for the creation of an emerging technology fund with more than $15 million in state money, plus loan guarantees for small and midsize companies that can't raise capital through equity markets or from direct lending by banks. The program will be aimed at companies that are "further along than your typical venture capital firm," said one official.

■ The second finance plan would provide small amounts of seed capital to growing companies. It is modeled after a Michigan program in which the state said its $3.7 million investment of taxpayer money spurred $80 million in private investment capital in more than 1,600 loans over five years. The Weld plan may set similar expectations, officials said.

■ The third component will be a finance plan to leverage private investments in companies specializing in products for overseas markets. It is modeled after a California plan that also succeeded in attracting private investment capital by dangling public money and state-backed loan guarantees.

Weld's economic development [illegible]ficials were described as exc[illegible] about the governor's plan, but [illegible] expect a tough fight in the Le[illegible]ture, where some of the same [illegible]posals died earlier this year.

Ironically, the heaviest [illegible]tion may come from Democra[illegible] in the past have hailed public-[illegible] business partnerships. "We're [illegible]posed to put public money into [illegible]ulative investments that the [illegible] markets won't go near?" asked [illegible] Thomas Finneran (D-Dorch[illegible]), chairman of the House Way[illegible] Means Committee. "Come on. [illegible]rious."

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

September 21, 1992

To The Honorable, The City Council:

I am hereby transmitting for your information, communication received from Michael Rosenberg, Assistant City Manager for Community Development, relative to the Governor's new Economic Development Plan.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev

CONSENT AGENDA ITEM #14 F-400

Transmitting communication from Robert W. Healy, City Manager, relative to information on the Governor's new Economic Development Plan.

In City Council,

September 21, 1992

Placed on file