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MTF Brief

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Governor Baker’s Economic Development/ARPA 2.0 Legislation

Earlier today, Governor Baker filed a combination economic development and COVID recovery bill that includes \$1.3 billion in capital authorization, \$2.3 billion in direct spending of remaining federal ARPA funds and 137 policy sections. This Brief provides an initial summary of the provisions of the Administration’s proposal. MTF will weigh in with greater detail on the current state of ARPA spending in Massachusetts in a subsequent bulletin.

Big Picture

The Governor’s legislation is notable because it combines the standard biennial economic development legislation with a proposal to appropriate the state’s remaining Fiscal Recovery Funds. The Legislature is almost certain to act on some form of economic development legislation prior to the end of the session and so the Administration’s approach could provide greater clarity on the vehicle and timing for additional COVID-19 recovery spending.

The bill contains two parts: a section which uses \$1.3 billion in capital authorizations to support a number of capital needs; and a section which directly appropriates \$2.3 billion in federal Fiscal Recovery Funds provided through the American Rescue Plan.

In addition, the bill makes a number of policy proposals, including language enabling the state’s Convention Center Authority to move forward with the expansion of the Boston Convention Center and Exhibition Center (BCEC) and sale of the Hynes Convention Center. Unlike a previous proposal by Governor Baker, the proceeds from the sale would not be used to finance the expansion of the BCEC. Instead, funds from the sale of the Hynes would be dedicated to the Back Bay neighborhood and affordable housing in the Boston area.

Fiscal Recovery Funds Background

Massachusetts received \$5.3 billion in flexible Fiscal Recovery Funds that must be obligated by the end of 2024. As MTF has detailed in previous publications, there are four categories of eligible use for FRF resources. Massachusetts can spend at least \$3.9 billion as “revenue replacement,” which broadly covers almost any expenditure typically undertaken by government.

To date, approximately \$3 billion of those funds have been spoken for:

Fiscal Recovery Fund Use To-Date

Total MA Award	\$5,286.1
Supplemental local distribution	\$109.0
COVID paid leave set-aside	\$125.0
VaxMillions	\$10.0
Administration set-aside	\$200.0
March Supp.	\$24.0
ARPA 1.0	\$2,550.0
Uses to date	\$3,018.0
FRF Remaining	\$2,268.1

\$ in millions

Governor Baker’s bill proposes using \$2.27 billion of the state’s remaining FRF award.

ARPA 2.0 Proposal

The Governor proposes appropriating remaining FRF funds in 9 broad categories:

Governor Baker’s ARPA 2.0 Proposal by Category

Category	Amount
Environmental/climate infrastructure	\$1,169.7
Community economic development	\$311.5
UI overpayment	\$300.0
Health care	\$250.0
Public health	\$100.0
Public infrastructure	\$65.0
Workforce	\$45.0
Oversight	\$25.0
Total	\$2,266.2

About two-thirds (65.2 percent) of the Governor’s plan goes to local environmental/climate infrastructure and economic development projects and programs around the state. This is the Administration’s second time proposing these types of investments. In October of last year, Governor Baker filed a bill to use \$750 million in federal funds to capitalize a climate innovation fund, while the Governor’s original ARPA 1.0 proposal included \$350 million for downtown revitalization funds. Neither proposal was included in the \$4 billion COVID recovery bill signed into law in December.

Governor Baker’s latest proposal makes similar investments, but with a new wrinkle: in this bill, environmental, climate and economic development appropriations are, for the most part, earmarked to specific projects in specific communities. In total, the Governor’s bill includes 614

environmental, climate and economic development earmarks and guarantees each of the state's 351 cities and towns at least \$250,000 in dedicated funds.

It is unusual for an Administration's spending bill to earmark operating appropriations with such specificity, as it reduces the flexibility they have in distributing funds, but Governor Baker employed a similar approach in his most recent supplemental budget. The benefit of this approach is it provides legislators and communities with certainty as to how such appropriations will be distributed and alleviates concerns that the Legislature is ceding control over how FRF resources are used.

In addition to these local projects, major ARPA spending proposals include:

- \$300 million to offset the cost of UI of waiving UI overpayments. The Administration estimates that foregoing collection on a portion of UI payments that were made in error will cost the state fund approximately \$300 million. The waiver provides critical relief to individuals who received UI overpayments, often through no fault of their own. This payment to the fund is equally critical to ensure that employers also do not unfairly bear the cost;
- \$250 million in additional financial relief to hospitals affected by the pandemic. This would match \$250 million included in the December COVID recovery bill;
- \$100 million for testing, vaccination and other public health costs related to COVID-19.

Economic Development Authorizations

The bill includes \$1.26 billion in authorizations for 23 different economic development, workforce, infrastructure and innovation capital programs, which can be further organized into three categories: new or expanded capital programs (approximately \$340 million), reauthorizations of existing programs (approximately \$660 million) and authorizations to provide matching funds for federal programs (approximately \$250 million). The scope of this bill is significantly larger than the Governor's 2020 economic development bill, which included \$240 million in new authorizations.

Notable capital proposals include:

- \$400 million to reauthorize the state's MassWorks economic development grant program;
- \$200 million in matching grants to enable academic institutions and other organizations to compete for federal research and development grants in a number of high-tech areas;
- \$104 million for the state's Clean Water Trust;
- \$95.2 million for capital improvements at housing authorities;
- \$73.1 million to recapitalize the Housing Stabilization and Investment Trust Fund; and
- \$50 million to provide matching funds to leverage federal broadband infrastructure funding.

Policy proposals

In addition to FRF spending and capital authorizations, the bill includes 137 policy sections, a far greater number than the 95 policy sections in the Governor’s FY 2023 budget. Upon initial review, notable sections include:

- Oversight of Apprenticeship programs (sections 4-30, 106 & 113) – these sections make a number of updates to the state statute overseeing accredited apprenticeship programs to make it easier for employers to participate. The sections also expand industries eligible for an apprenticeship tax credit;
- Brownfields mitigations (sections 31-45, 99-101 & 107-109) – these sections extend the state’s Brownfields Tax Credit by 5 years and adjust eligibility criteria for receiving funding through MassDevelopment’s Brownfields Development Fund;
- Starter Home Zoning (sections 49-98) – these sections overhaul the Starter Home Zoning District program, created in the 2016 economic development bill. The updates, which include creating a new statute for the program, are intended to address implementation challenges that have limited the feasibility of program.
- Housing Development Incentive Program (HDIP) (sections 102-105 & 110-112) – these sections increase the annual cap on HDIP from \$10 million to \$30 million and allow unspent funds to carry over and increase the cap in a subsequent year;
- BCEC expansion (section 134) – the section requires the Massachusetts Convention Center Authority (MCCA) to update and resubmit its 2019 report on expansion. By resubmitting the report, the inclusion of this section will enable the MCCA to move forward with expansion plans.
- Hynes Convention Center (sections 135-136) – these sections authorize the MCCA to sell the Hynes Convention Center. Under these provisions, successful bidders would be required to maintain structural elements that impact adjacent transportation assets, make space available for public use and meet criteria related to diversity and inclusion. The bill proposes using proceeds from the sale as follows:
 - 50 percent for affordable housing in Boston;
 - 30 percent for affordable housing in other communities;
 - 20 percent for mitigation and redevelopment in the Back Bay.

Bottom line

Governor Baker’s bill starts the clock on legislative consideration of the next round of FRF spending and the biennial economic development bill. While the Governor could have opted to file separate bills, there is a clear overlap in the focus on housing, climate, community and economic development, and innovation. The proposal signals the Administration’s commitment to prompt action on spending the remaining federal COVID funds and using them in way that will foster economic development, while attaching that spending to a bill that the legislature is likely to take action on in the next several months.