



OLR RESEARCH REPORT

January 13, 2011

2011-R-0009

MASSACHUSETTS ECONOMIC DEVELOPMENT REORGANIZATION

By: John Rappa, Chief Analyst
Kristin Sullivan, Principal Analyst

You asked us to (1) summarize how Massachusetts reorganized its economic development entities in 2010 and any anticipated savings and staff changes resulting from the reorganization and (2) compare how Massachusetts and Connecticut organized themselves for economic development before Massachusetts reorganized its economic development entities.

SUMMARY

In 2010, Massachusetts made several changes to how it plans and implements economic development policies and programs (2010 Mass Acts Chapter 240, effective August 1, 2010). Most affected the structures, functions, and operations of economic development entities; others affected procedures and practices for issuing permits and adopting regulations. The changes mostly addressed performance goals, including giving businesses better access to economic development programs and services.

In analyzing the structural changes, we noted differences in how Massachusetts and Connecticut organize their executive branch agencies, including the economic development ones. Unlike Connecticut, Massachusetts groups departments and offices under executive secretaries reporting directly to the governor. The Executive Office of Housing and Economic Development (EOHED) includes several non economic development departments, such as those regulating banks and insurers. The heads of these department report to EOHED's executive secretary. The comparable Connecticut departments report to the governor.

Despite these structural differences, Massachusetts and Connecticut run economic development programs through largely the same types of entities, including executive branch departments, quasi-public agencies, and commissions and councils. Massachusetts has more economic development entities than Connecticut. For example, it had six quasi-public agencies before the reorganization, one providing business capital and the others specializing in technology development.

Massachusetts' eliminated two quasi-public agencies during its reorganization, but transferred their functions and assets to a new quasi-public agency it created. It also created a new, public-private partnership organization to ensure that state agencies coordinate their marketing efforts.

Connecticut has two quasi-public agencies—one specializing in business financing and the other, technology development and venture capital investment, but no comparable entity for coordinating statewide marketing.

Connecticut's economic development department mainly provides financial and technical assistance to businesses and municipalities. It provides small business financing through a state-chartered chartered nonprofit organization.

Another way to compare Massachusetts and Connecticut's economic development entities is by the functions they perform. EOHEd, like Connecticut's Department of Economic and Community Development (DECD), provides financial and technical assistance for housing and economic development. But EOHEd also regulates banks and insurance companies, functions Connecticut assigns to other departments.

Other differences between the states include the types of organizations responsible for cleaning up brownfields, promoting culture and tourism, and providing venture capital.

We contacted Massachusetts legislative offices several times for information on how the act may affect costs and staffing patterns, but have not received it. One reason may be that the act's fiscal effects are unknown because the state is still implementing the act's changes, which took effect August 1, 2010. Further, our review of the act suggests that cost savings and staffing patterns may not have been its major concerns.

MASSACHUSETTS REORGANIZATION OF ECONOMIC DEVELOPMENT

Overview

Massachusetts' economic development reorganization seeks to:

1. improve economic development planning,
2. hold agencies accountable for their performance,
3. give businesses better access to economic development services,
4. ease regulatory burdens,
5. provide coordinated statewide marketing and promotion, and
6. reduce agency operational costs.

The reorganization seeks to address these goals by:

1. making structural changes, including creating new organizations and eliminating or consolidating existing ones;
2. instituting new functions, including providing regionally-based one-stop business assistance centers;
3. establishing new regulatory procedures, including setting deadlines for issuing environmental permits; and
4. implementing operational changes that require certain quasi-public agencies to contract out core administrative functions to other quasi-public agencies.

Table 1 relates these structural, functional, procedural, and operational changes to the act's six goals.

Table 1: Summary of Massachusetts 2010 Economic Development Reorganization

| (1) Improve Economic Development Planning | | | |
|--|--|--|---|
| Structural | Functional | Procedural | Operational |
| New interagency economic development planning council | Council develops plan and implementation strategy | Plan goes to specified legislative committees for hearing and then to governor for approval | Not applicable |
| (2) Hold Agencies Accountable for their Performance | | | |
| Structural | Functional | Procedural | Operational |
| New Office of Performance Management and Oversight (within EOHED) | Office sets performance measures for agencies, monitors their performance, and annually reevaluates the measures | Agencies must submit annual reports to performance management office | EOHED secretary coordinates all economic development activities and chairs three quasi-public agency boards |
| (3) Give Businesses Better Access to Economic Development Services | | | |
| Structural | Functional | Procedural | Operational |
| High-risk financing programs consolidated in new Massachusetts Growth Capital Corporation (MGCC) Businesses directly contact Office of Business Development instead of through Housing and Economic Development Department, which the act eliminated New advisory commission for regional one-stop shopping program Health and education facilities finance authority placed under Massachusetts Finance Development Agency | MGCC provides comprehensive assistance for high risk projects, including ownership changes, corporate restructurings, turnaround plans, and employee-buyouts One-stop shopping for business assistance through state-approved regional economic development organizations | Not Applicable | Regionally-based Office of Business Development (OBD) staff to help businesses access state assistance OBD contracts with 12 regional organizations to provide one stop shopping |
| (4) Ease Regulatory Burdens | | | |
| Structural | Functional | Procedural | Operational |
| New interagency permitting board | Board reviews permitting procedures for efficiency improvements Permitting agencies must review regulations every 12 years to minimize small business impacts | New statutory deadlines for issuing permits Notices of proposed regulations must include small business impact analyses | Not Applicable |

Table 1: Continued

| (5) Provide Coordinated Statewide Marketing and Promotion | | | |
|--|--|-------------------|--|
| Structural | Functional | Procedural | Operational |
| New interagency marketing partnership encompassing separate offices and commissions for trade, travel and tourism, and state marketing | Partnership offices and commissions designated lead agencies for respective policy areas | Not Applicable | Not Applicable |
| (6) Reduce Operational Costs | | | |
| Structural | Functional | Procedural | Operational |
| Not Applicable | Not Applicable | Not Applicable | Marketing partnership and three specified quasi-public agencies must contract out core administrative functions with another quasi-public agency |

Structural Changes

The 2010 act and the resulting reorganization created new organizations and eliminated, combined, or restructured several existing ones. The act:

1. created four executive branch offices, one quasi-public corporation, five planning and advisory bodies, and one public-private partnership;
2. eliminated EOHEC's Housing and Economic Development Department, but kept its Business Development Office;
3. eliminated the tourism and trade offices, but created similar offices under the public-private marketing partnership it created;
4. folded two financing entities into a new quasi-public corporation; and
5. relocated an executive branch office and made the quasi-public Health and Education Facilities Authority a unit within the development finance authority.

New Entities. The reorganization created the new executive branch Office of Performance Management and Oversight under the EOHED secretary. It also folded two financing entities, the Economic Stabilization Fund and the quasi-public Massachusetts Community Development Finance Corporation (MCDFC), into a new quasi-public financing corporation called the Massachusetts Growth Capital Corporation (MGCC).

The Stabilization Fund provided flexible financing for high-risk projects, such as corporate restructurings and employee buyouts. It was located in the labor department and overseen by an independent board. MCDFC provided flexible financing for housing and business development projects benefiting low- and moderate-income people in economically-distressed areas. MGCC will perform the functions these entities previously performed.

The reorganization also created a new public-private partnership and placed several executive branch offices under its control, including the state's film, trade, and travel and tourism offices. The partnership is responsible for coordinating state agency marketing efforts.

Lastly, the reorganization created several planning and advisory boards, councils, and commissions, including the Economic Planning Council and the Interagency Permitting Board.

Eliminated and Relocated Entities. The reorganization eliminated EOHED's departments of (1) Business and Technology Development and (2) Business Development. Prior to the reorganization, the latter was divided into separate offices for Minority and Women Business Assistance, Business Development, International Trade and Investment, and Travel and Tourism. Only the Minority and Women Business Assistance Office appears to have been eliminated. (Presumably, its functions will be subsumed by another office.)

The reorganization kept the Business Development Office, making it a separate unit within EOHED and requiring its director to report directly to the secretary instead of through a department head. And, although the reorganization eliminated the trade and tourism offices, it created separate offices under the new marketing partnership to perform their functions.

As noted above, the reorganization eliminated the Economic Stabilization Trust and MCDFC, but assigned their functions to the new Massachusetts Growth Capital Corporation.

Functional Changes

Economic Development Planning. The act created the interagency Economic Planning Council chaired by the EOHED secretary. The other executive branch members are the executive secretaries for Transportation, Administration and Finance, Labor and Workforce Development, and Energy and Environmental Affairs. The council also includes representatives from specified industry, academic, and municipal associations and legislative and gubernatorial appointees.

The council's job is to prepare and implement a comprehensive economic development policy and a strategic plan to implement it. In doing so, the council must set long-term goals and benchmarks for measuring progress toward achieving them. It must also consider how the policy affects small businesses. The council must submit the plan to the legislature's Joint Committee on Economic Development and Emerging Technologies, which must hold a hearing on it. The governor may approve the plan after the hearing.

The act specifies no timetable for completing the policy and plan. Nor does it specify whether the council must periodically update these documents. (Connecticut law requires the Economic and Community Development commissioner to prepare a five-year strategic plan; she submitted the first five-year plan in 2009.)

Agency Accountability. The act created a new office within EOHED to monitor and assess the effectiveness of public, quasi-public, and private organizations implementing state economic development policies and programs. In doing so, it requires the office to set performance measures for these organizations and requires them annually to report to the office based on these measures. The act also requires the office to publish annual reports on the organizations' performance. It requires the EOHED secretary to use these reports to evaluate the effectiveness of the state-approved regional organizations in helping businesses access state services. (Connecticut law requires the state's public and quasi-public economic development agencies to prepare annual reports on the businesses they assisted and the number of jobs these businesses created.)

Besides creating an office within EOHEd to monitor and assess agency performance, the reorganization makes the EOHEd secretary the chair of each quasi-public economic development agency's board. (By law, Connecticut's economic and community development commissioner serves as an exofficio member of the boards of the two quasi-public economic development agencies and the governor appoints the boards' chairperson. The law does not prohibit the governor from appointing the commissioner chairperson to either or both boards. In the early 1990s, Governor Weicker appointed his economic development commissioner as chairman of both boards.)

Better Access to Economic Development Services. The act made several structural, functional, and operational changes intended to give businesses easier access to state services.

The act requires the Business Development Office to create a regionally-based one-stop shopping system through which businesses can access economic development programs and services. It specifically requires the office to contract with a regional economic development organization in each state-designated region to serve as contact point for accessing these programs and services. It also requires the office's director to place staff in each region to help these organizations access the services and programs. And it requires the EOHEd secretary to create a board to advise him about this regional program. (During the mid 1990s, Connecticut's economic development commissioner assigned economic development staff to different regions to give businesses better access to state services. A few years later, he discontinued the practice.)

The act created the quasi-public MGCC to operate several existing financing programs, including the Economic Stabilization Fund, which was originally administered by the Executive Office of Labor and Workforce Development and overseen by an independent board. A 12-member board of directors governs MGCC, which the EOHEd secretary chairs. MGCC's powers include issuing bonds.

The Economic Stabilization Fund finances relatively risky projects, including corporate restructurings, employee-buyouts, and turnaround plans. (Similar financing is available in Connecticut through the Department of Economic and Community Development and the Connecticut Development Authority.)

The programs assigned to MGCC also include those previously administered by the quasi-public Massachusetts Community Development Finance Corporation (MCDFC), which the act eliminated.

MCDFC funded business and housing projects benefiting low- and moderate-income people in economically distressed areas. (Most of Connecticut's community economic development financing come through the Connecticut Community Economic Development Fund, a state-chartered nonprofit organization.)

The Office of Business Development (OBD) originally was a unit within EOHEd's Department of Business Development. The act eliminated the department and its constituent offices, except OBD. In doing so, it elevated OBD and required its director to report directly to the secretary. As mentioned above, the act requires OBD to oversee the regional one-stop economic development efforts.

As noted above, the act created the 11-member public-private Massachusetts Marketing Partnership to help state agencies coordinate their marketing efforts. In doing so, it designated the partnership as the "central entity and coordinating organization" for marketing the state. It placed under the partnership's umbrella the trade, travel and tourism, and marketing offices. The act also gave the partnership many of the powers and duties of a quasi-public agency, except issuing bonds and incurring other debt.

The partnership consists of the EOHEd secretary, who also chairs it; the heads of the OBD, the Massachusetts Port Authority, and the nonprofit Massachusetts Alliance for Economic Development; and six gubernatorial appointees representing specified industry sectors and geographic regions.

Procedural Changes

The act institutes new functions and procedures to ease the burden state regulations impose on small businesses. It requires state agencies to analyze how proposed regulations affect small businesses and attach these results to the notice they submit to the secretary of the state when proposing new or amended regulations (i.e., small business impact statement). (Connecticut also requires agencies to determine how proposed regulations will affect small businesses and consider alternatives that would reduce the impact without compromising the regulations' purpose (CGS § 4-168).)

The act also requires permitting agencies periodically to determine if their existing regulations unduly burden small businesses. The agencies must do this at least once every 12 years by preparing and filing a small business impact statement for the regulations. (The act does not specify where an agency must file the statement.)

The act sets deadlines for issuing permits for activities in areas the EOHED secretary designates for capital improvements projects (i.e., growth district initiative). It requires permitting agencies to act on applications for permits in these areas within 180 days, or 210 days for those requiring a public comment. It specifies that applications are automatically approved if agencies miss these deadlines and applicants file notices to that effect. (Connecticut's 2010 expedited permitting law focused on environmental permitting. Although it did not impose deadlines for issuing these permits, it required the environmental protection commissioner to do so via regulations ([PA 10-158](#))).

The act established a 10-member interagency permitting board to determine how each permitting agency can make its procedures more efficient. It also requires the board to help state and local permitting agencies work together when issuing permits for the same project.

Operational Changes

The act requires the marketing partnership and the quasi-public Massachusetts Technology Corporation, Massachusetts Growth Capital Corporation, and the Massachusetts Life Science Center to contract out "core administrative functions," as the EOHED secretary determines. These functions include human resources, financial management, procurement, information technology, and legal assistance. The partnership and the three quasi-public agencies must contract out these functions to another quasi-public agency.

COMPARISON OF MASSACHUSETTS AND CONNECTICUT ECONOMIC DEVELOPMENT ENTITIES BEFORE REORGANIZATION

We compared Massachusetts' organization plan before reorganization with Connecticut's based on (1) organizational type and (2) function.

Organizational Types

Connecticut and Massachusetts run their economic development programs through the same types of organizations—executive branch agencies answering directly to the governor; quasi-public agencies answering to gubernatorially- and legislatively-appointed boards of directors; gubernatorially- and legislatively-appointed commissions, councils, and boards; and private agencies performing public purposes.

Table 2 compares Connecticut’s economic development agencies to Massachusetts’ before the reorganization. As the table shows, Massachusetts had more quasi-public agencies and commissions than Connecticut, many with a narrower focus or mission. Massachusetts also differed from Connecticut in that it housed an economic development fund in its labor department. (The fund was subsequently consolidated with the assets of a quasi-public agency, which the reorganization eliminated, and placed under a new quasi agency.)

Table 2: Comparison of Connecticut and Massachusetts Economic Development Entities Prior to Massachusetts Reorganization

| Organization Type | Connecticut | Massachusetts |
|--|--|--|
| Executive Branch Agency | 1. Department of Economic and Community Development | 1. EOHED 2. Economic Stabilization Fund within Executive Office of Labor and Workforce Development |
| Quasi-public Agency | 1. Connecticut Development Authority 2. Connecticut Innovations, Inc. 3. Capitol City Economic Development Authority | 1. Massachusetts Development Finance Authority 2. Massachusetts Life Science Center 3. Massachusetts Community Development Finance Authority 4. Massachusetts Convention Center Authority 5. Massachusetts Technology Collaborative 6. Massachusetts Technology Development Corporation |
| Executive Branch Boards, Commissions, and Councils | 1. Connecticut Commission on Culture and Tourism 2. Connecticut International Trade Council | 1. Massachusetts Sports and Entertainment Commission 2. Massachusetts State Racing Commission 3. Massachusetts Sports and Entertainment Commission 4. Massachusetts Cultural Council (under Office of the Treasurer and Receiver General) 5. Massachusetts International Trade Council |
| Private Agencies | 1. State-chartered Community Economic Development Fund 2. Connecticut Economic Resource Center | 1. MassEcon 2. Massachusetts Export Center 3. Massachusetts International Trade Council |

The table does not show the significant differences in the organizational units comprising the executive branch agencies, which stem partly from how the states organize their executive branches. Connecticut relies mainly on a department headed by a commissioner reporting directly to the governor. Massachusetts, instead, groups its departments into executive offices under a secretary reporting directly to the governor. Attachment 1 shows the major organizational units that comprise Massachusetts' economic development agencies.

Functional Assignments

Another way to compare Connecticut and Massachusetts economic development agencies is by function. Massachusetts' EOHED performs many functions that Connecticut houses in separate departments, including those regulating banks and insurance companies and professional licensing (see Attachment 1). In contrast, Connecticut's DECD runs mainly economic development and some housing programs.

Table 3 compares Connecticut's and Massachusetts' economic development agencies before the reorganization according to 12 core housing and economic development functions. As the table shows, the two states performed the same functions, but housed them in different types of agencies. The major differences include:

1. Connecticut assigns the brownfield remediation function to its economic development and environmental protection agencies while Massachusetts assigned it to its environmental protection agency,
2. Connecticut markets its culture and tourism attractions through a statewide commission and five regional tourism districts while Massachusetts divided this function among several agencies, and
3. Connecticut assigns technology development and venture capital investment to a quasi-public agency while Massachusetts assigned these functions to several such agencies.

Table 3: Comparison of Connecticut and Massachusetts Economic Development Entities by Function before 2010 Reorganization

| <i>Policy Area</i> | <i>Connecticut</i> | <i>Massachusetts</i> |
|------------------------------------|--|---|
| Brownfield Remediation | <ul style="list-style-type: none"> • Department of Economic and Community Development (DECD), Office of Brownfield Development • Connecticut Development Authority (CDA), Connecticut Brownfield Redevelopment Authority • Department of Environmental Protection | <ul style="list-style-type: none"> • Department of Environmental Protection |
| Technical and Financial Assistance | <ul style="list-style-type: none"> • Nonprofit Connecticut Economic Resource Center • DECD • CDA | <ul style="list-style-type: none"> • Nonprofit MassEcon • EOHEd, Office of Business Development • Massachusetts Finance Development Agency (MFDA) • Executive Office of Labor and Workforce Development, Economic Stabilization Fund |
| Business Sector Development | Within DECD, offices of: <ul style="list-style-type: none"> • Bioscience • Business and Industry Development • Film, Television, and Digital Media • Insurance and Financial Services | <ul style="list-style-type: none"> • EHOED, Office of Business Development • Massachusetts Life Science Center |
| Housing & Community Development | <ul style="list-style-type: none"> • DECD, Office of Community Development • Nonprofit Community Economic Development Fund | <ul style="list-style-type: none"> • EOHEd, Department of Housing and Community Development • Massachusetts Community Development Finance Authority |
| Convention Center | Capitol City Economic Development Authority | Massachusetts Convention Center Authority |
| Culture & Tourism | <ul style="list-style-type: none"> • Connecticut Commission on Culture and Tourism (CCCT) • CCCT, Sports Advisory Board | <ul style="list-style-type: none"> • Office of Travel and Tourism within EHOED's Department of Business Development • Massachusetts Sports and Entertainment Commission • Massachusetts Film Office (within Sports and Entertainment Commission) • Massachusetts Cultural Council (within Office of the Treasurer and Receiver General) |
| Expedited Permitting | DECD, Office of Permit Ombudsman | EOHEd, State Permitting Office |
| International Trade | <ul style="list-style-type: none"> • DECD, Office of International and Domestic Affairs • Connecticut International Trade Council (inoperative) | <ul style="list-style-type: none"> • Office of International Trade and Investments within EOHEd's Department of Business Development • Massachusetts International Trade Council • Massachusetts Export Center |
| Policy Planning | DECD, Office of Strategy and Policy | Unspecified |
| Small Business Assistance | DECD, Office of Small Business Affairs | EOHEd, Office of Small Business and Entrepreneurship |
| Technology Development | Connecticut Innovations, Inc. (CII) | <ul style="list-style-type: none"> • Massachusetts Life Science Center • Massachusetts Technology Development Corporation • Massachusetts Development Finance Authority |
| Venture Capital | CII | <ul style="list-style-type: none"> • Massachusetts Technology Development Corporation • MFDA |

Attachment 1: Massachusetts Economic Development Related Agencies Prior to 2010 Reorganization

| <i>Organization Type and Organization</i> | <i>Business Development</i> | <i>Business Finance</i> | <i>Business Regulation</i> | <i>Culture and Tourism</i> | <i>Housing and Community Development</i> | <i>Technology Development</i> | <i>Trade</i> | <i>Transportation</i> |
|--|-----------------------------|-------------------------|----------------------------|----------------------------|--|-------------------------------|--------------|-----------------------|
| Executive Branch Agencies | | | | | | | | |
| • Executive Office of Housing and Business Development | | | | | | | | |
| ○ Office of Consumer Affairs and Business Regulation | | | X | | | | | |
| ○ Division of Banks | | | X | | | | | |
| ○ Division of Insurance | | | X | | | | | |
| ○ Division of Standards | | | X | | | | | |
| ○ Division of Professional Licensing | | | X | | | | | |
| ○ Department of Telecommunications | | | X | | | | | |
| ○ Department of Business Development | | | | | | | | |
| ▪ Office of Minority and Women Business Assistance | X | | | | | | | |
| ▪ Office of Business Development | X | | | | | | | |
| ▪ Office of International Trade and Investment | | | | | | | X | |
| ▪ Office of Travel and Tourism | | | | X | | | | |
| ○ Office of Small Business and Entrepreneurship | X | | | | | | | |
| ○ Permit Regulation Office | X | | | | | | | |
| ○ Department of Housing and Community Development | | | | | X | | | |
| ○ Department of Business and Technology | | | | | | X | | |
| • Executive Office of Labor and Workforce Development | | | | | | | | |
| ○ Board of Trustees of Economic Stabilization Fund | | X | | | | | | |
| Quasi-Public Agencies | | | | | | | | |
| • Massachusetts Convention Center Authority | x | | | | | | | |

Attachment 1: Continued

| <i>Organization Type and Organization</i> | <i>Business Development</i> | <i>Business Finance</i> | <i>Business Regulation</i> | <i>Culture and Tourism</i> | <i>Housing and Community Development</i> | <i>Technology Development</i> | <i>Trade</i> | <i>Transportation</i> |
|---|-----------------------------|-------------------------|----------------------------|----------------------------|--|-------------------------------|--------------|-----------------------|
| • Massachusetts Finance Development Authority (MassDevelopment) | | x | | | | | | |
| • Massachusetts Life Science Center | | | | | | X | | |
| • Massachusetts Technology Collaborative | | | | | | X | | |
| • Massachusetts Technology Development Corporation | | | | | | X | | |
| ○ Massachusetts Technology Park Corporation | | | | | | X | | |
| • Massport | | | | | | | | X |
| • Massachusetts Health and Education Authority | | X | | | | | | |
| • Massachusetts Community Development Finance Authority | | X | | | | | | |
| Boards, Commissions, and Councils | | | | | | | | |
| • State Racing Commission (within the Executive Office of Housing and Economic Development) | | | X | | | | | |
| • Sports and Entertainment Commission | X | | | | | | | |
| ○ Massachusetts Film Office | X | | | | | | | |
| Public-Private Partnerships | | | | | | | | |
| • MassEcon | X | | | | | | | |
| • Massachusetts International Trade Council | X | | | | | | X | |
| • Massachusetts Export Center | | | | | | | X | |
| Constitutional Office | | | | | | | | |
| • Office of the Treasurer and Receiver General | | | | | | | | |
| ○ Massachusetts Cultural Council | | | | X | | | | |

KS/JR:df