

# HIGH TECH NEWS

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## Council Directors Relay Priorities to Romney's Economy Chief Positive News on State Budget, Employee Stock Option Plans

**Governor Romney's new Economic Development Chief Ranch Kimball** joined Council directors on May 18 for a focus policy discussion. Kimball heard from the Council directors about the priorities of state technology CEOs, including the preservation of employee stock option plans, creating a stable and competitive tax climate, reforming the state's health care system, and maintaining the technology missions of **Hanscom Air Force Base** and the **Natick Army Soldier Systems Center**. We look forward to working closely with Ranch to help strengthen the state's tech-based economic strategy.

## State Budget Balanced, Avoids Tax Increases

On June 16, the Massachusetts Legislature approved the joint conference committee recommendations for a Fiscal Year 2005 state budget. For the second year in a row, the Legislature did not impose new or increased taxes to balance the budget. The \$24.8 billion spending plan (up seven percent from last year) achieves several goals established by the Council for the year, but also contains measures that we believe will have a negative effect on the state's diverse technology economy.

In a June 18 letter, Council president Chris Anderson requested Governor Mitt Romney to take the following actions to create a better budget document:

### **Veto Senate proposals that would lead to price controls on the biopharmaceutical industry.**

By creating a bulk purchasing program that includes Medicaid (which already receives the lowest drug prices available, per federal law) and calling for the importation of price controlled drugs from Canada, Massachusetts would be undermining its own life sciences cluster that is the future of its economic growth. Perhaps more important, price controls will dampen the flow of new drug discoveries.

### **Veto the proposed moratorium on charter schools and delay the opening for three new schools.**

Charter schools have perhaps been the most successful component of the 1993 Education Reform Act and a moratorium would be a reversal of the successful trend for accountability and competition in our public school system.

**Veto "anti-outsourcing" initiative.** This is a misguided and overly simplified reaction to an international trade and competitiveness issue. It will cost taxpayers more and make Massachusetts a less business-friendly environment.

**Veto new potential "energy tax" to fund Department of Energy or any diversions from the Renewable Energy Trust Fund.** Massachusetts ratepayers already pay some of the highest energy taxes in the nation. A case for additional energy taxes has not been made, and existing energy taxes should be used for their intended purposes or otherwise eradicated.

**Support Early Childhood Education.** An initiative of House Speaker Tom Finneran and supported from the beginning by the Council, this is a pragmatic and prudent start toward development of a long-term plan to provide access to early childhood education for all pre-K students. With flat population growth, Massachusetts must maximize the pipeline of homegrown talent and starting early is the key to developing building blocks for math, science and other careers.

**Support full funding of Workforce Training Fund.** The Council is pleased that the Legislature concurred with the Governor's proposal to fully fund WTF at \$21 million. Funded entirely by employers through an Unemployment Insurance surcharge, past fund balances have been diverted for non-training initiatives.

**Maintain UMASS funding at conference committee levels.** The budget conference committee increased the state commitment to the UMASS system by boosting funding from \$236 million in 2004 to nearly \$400 million. This commitment will balance other efficiency reforms and a renewed focus on science and technology already underway at the university.

**Support creation of Commission on Medical Malpractice Reform.** While a more proactive measure to reform the state's uncompetitive medical malpractice system would have been preferred, the establishment of this commission provides an opportunity to quantify the benefits of several initiatives (including malpractice liability limits). Reform of medical malpractice is a priority of the CEO members of the Council.

### **Romney Preparing Veto Pen**

Gov. Romney may exercise his veto power before the end of June, and the Legislature will have a little more than a month to act on the vetoes before the close of formal session for the year on July 31. With only a small number of GOP legislators in each branch, Romney will require Democratic support to sustain his vetoes.

We are pleased that the conference committee held back some of the more controversial aspects of the budget plan, including a misguided proposal to mandate nurse staffing ratios at hospitals, which the Council opposes. However, language that supports the development of stem cell research in Massachusetts, which the Council supports, was also omitted from the final bill. It seems unlikely that either one of these items will be acted on before the close of formal legislative session on July 31.

## **Positive Congressional Action to Preserve Employee Stock Option Plans**

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In Washington, DC, an effort to preserve broad-based employee stock option plans gained steam when the **House Financial Services Committee** voted 45-13 to block a rule calling for the expensing of employee stock options. The committee's vote supporting HR 3574, the **Stock Option Accounting Reform Act**, effectively stops a proposed rule by the **Financial Accounting Standards Board (FASB)** that would require all companies to list on their books stock options they give employees. The High Tech Council is pleased that bipartisan support for the bill includes **Massachusetts Congressmen Marty Meehan, Michael Capuano and James McGovern**.

The Council has been a vocal opponent of the mandated expensing stock options because there is no accurate way to expense stock options and the additional burden to employers will make these plans unsustainable, effectively ending perhaps the most successful entrepreneurial and employee retention and motivational tools in existence. Despite the public perception, broad-based employee stock option plans benefit all levels of employees – nearly 90 percent of all stock options are awarded to non-executives. The Council Directors supported an aggressive posture on supporting the legislation at the May 18 Directors Meeting, and many Council members directly lobbied Congress to preserve these important stock option plans.

## **Next Phase of Battelle Road Map Report Due Out in July**

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As a long-term technology-based economic development strategy for Massachusetts continues to evolve, the Council is working with state, academic and business leaders to strategically invest science and technology funds approved by the Legislature in late 2003. In July, **Mass Insight Corporation** and the Council will release the **Strategic Alliance Opportunities section of the Technology Road Map Report**, providing a more in-depth view of multi-institutional strategic R&D opportunities. The goal of Phase II of the Road Map project is to identify and build support for flagship R&D projects - major new or expanded centers in the \$40-50 million range that will sustain the state's R&D leadership in key platform technologies and generate significant economic impact across regions in the state.

## **Progress from SciTech Initiative**

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In 2002, the Council and Mass Insight initiated the **Science & Technology Initiative**, a partnership of industry, academia and government designed to create and implement a statewide, technology-based economic development strategy for Massachusetts. The first effort of the initiative was when technology CEOs penned a letter to then gubernatorial candidates **Mitt Romney and Shannon O'Brien** calling on the next governor to make science and technology a top priority of the new administration.

Facts on Employee Stock Option Plans:

- *A Rutgers University study recently concluded, "...using broad-based options to create a partnership model of the corporation will, over the long run, help to make most companies more competitive and create more wealth for shareholders."*
- *Non-executive employees made \$78 billion in stock option profits from 1994 to 2002.*
- *Research indicates that companies with broad-based stock option plans receive boost to productivity of about 4%.*
- *Total shareholder returns go up by an average of about 2%.*
- *70 studies have shown that companies with stock option plans witness productivity increases.*
- *In 2002, 95% of the employee stock options issued by Sun Microsystems went to non-executive employees, while the remaining 5% were issued to VPs. Zero percent went to Sun's senior execs.*

Source:  
[savestockoptions.org](http://savestockoptions.org)

The election of Romney witnessed the creation of the **Office of Business & Technology**, which brings cabinet-level support for science and technology initiatives, and the passage of the \$100 million Economic Stimulus bill, which was primarily focused on growing the state's diverse technology economy. The Council and Mass Insight also successfully staved off an attempt to eliminate the University of Massachusetts President's office, which would essentially have meant the end of significant collaboration among the state's five UMASS campuses.

### **Something New: Inaugural Chairman's Dinner**

The Council Directors also endorsed a plan to hold a first-ever technology CEO dinner later this year to provide chief executives with the opportunity to network and discuss important issues facing the industry with their peers. The event will be hosted by **Paul Gudonis**, chairman of the High Tech Council, but will be open to invited technology chief executives from around the state. More details on this inaugural event tentatively scheduled for mid-October will follow shortly.