



## Build to suit

Massachusetts needs to focus its economic development policies on our Gateway Cities **BY BEN FORMAN AND JOHN SCHNEIDER**

**EARLY LAST YEAR**, MassINC released *Reconnecting Massachusetts Gateway Cities*, a report on how the state's historic mill communities have been struggling to make the shift to the New Economy. It acknowledged the challenges holding these communities back—challenges that we all recognize—but more importantly, it revealed enormous opportunities, some of them hiding in plain view, to address the state's most pressing problems.

"Gateway," the name we gave to the 11 industrial cities highlighted in the report, acknowledges the contributions these communities make to the Commonwealth. (The cities are: Brockton, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Lowell, New Bedford, Pittsfield, Springfield, and Worcester.) They are Gateways to their regions, to the immigrants who are a vital segment of the state's workforce, and to the Massachusetts economy in general, which still relies heavily on their significant output.

Without a doubt, Gateway Cities could contribute even more to the Commonwealth than they do today. In a state where housing pressures, an aging workforce, and reliance on oil represent significant barriers to growth, Gateway Cities offer solutions to many of these problems. By helping Gateway Cities turn the corner, we can expand opportunities for authentic, attractive, and affordable urban living; bring large numbers of young and underemployed workers into the workforce; and make better use of compact walkable neighborhoods with established transit connections.

Public policy should be promoting Gateway City growth, but unfortunately just the opposite is happening. Over the last decade, the state has overlooked the 11 Gateway Cities in critical areas like economic development and housing.

Year after year, Massachusetts invests more than

half a billion dollars in a variety of incentives to attract and retain businesses, but less than 5 percent of those dollars go to programs that draw companies to economically distressed areas like the Gateway Cities.

Three large bond bills approved or nearing approval this legislative session committed more than \$3.5 billion for housing, the life sciences, and the environment, major investments that will shape the Commonwealth's growth for years to come. Yet not a single significant initiative aimed at Gateway City revitalization was included in the bills.

The lack of state support prompted the chief executive officers of each of the 11 cities, leaders who usually compete against each other for economic development, to enter into a historic compact in May pledging to work together on Beacon Hill for policies that can help the most distressed areas of the state. State legislators from those areas quickly formed a Gateway Cities caucus. The Patrick administration is also starting to take a leadership role on the issue, promoting economic growth districts in many of the Gateway Cities. But the hard work is yet to be done.

The Commonwealth's existing economic development tools aren't providing much help to the Gateway Cities. For example, the state sets aside a minuscule \$28 million annually for tax credits intended to draw businesses to distressed "Economic Opportunity Areas," but only a fraction of those credits end up in the Gateway Cities. Instead, Economic Opportunity Areas have spread all over the map and now include communities that can hardly be described as being in distress.

At last count, 138 cities and towns have acquired EOA status, including affluent communities such as Andover, Bedford, and Lexington. These municipalities are causing an already-low-

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dose economic development pill to be diluted to the point where it is no longer effective. Companies can now get the same tax advantages in Bedford as they can in New Bedford, which means they are unlikely to take a chance on a redeveloping area.

To make matters worse for Gateway Cities, the EOA credit is not well-suited to the goals of economic developers working in older urban areas. The tax incentive is most attractive to manufacturers who are making sizeable investments in machinery and require large parcels of land, plots that are hard to come by in crowded cities. And service-sector firms, which Gateway Cities really need to grow and diversify their economies, don't make the large investments in factories that would qualify them for significant EOA tax savings.

In order to award an EOA credit, cities must also commit to abating local property taxes, generally by completing a Tax Increment Financing (TIF) agreement, which

the average abatement has generated development valued at only \$6 million.

Even more troubling, some suburban communities are using TIFs to attract big-box stores like Target, Kohl's, and Lowe's, drawing retail activity away from urban areas and placing greater pressure on Gateway Cities to grant similar tax abatements to local businesses. Tax abatements were never intended to benefit retailers, which tend to compete for fixed shares of regional wealth rather than contributing to it.

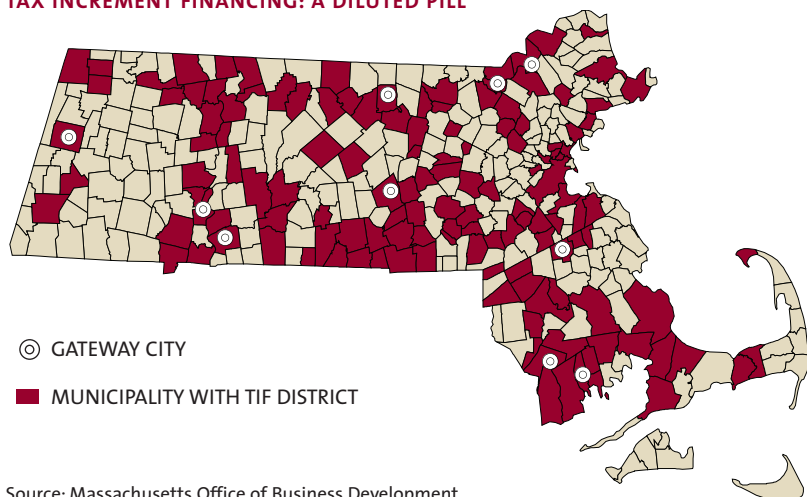
In the last few years, the Legislature has created new tools that use state and local taxes to finance infrastructure for new private investment. Over time these new instruments, which go by the names DIF, I-Cubed, and (if it is approved by the Legislature) Chapter 40T, will have a significant influence on the Commonwealth's economic geography and Gateway City redevelopment efforts in particular. But if these tools are used with the same indis-

cretion as TIFs, new projects could bleed additional commercial and retail activity away from urban areas, causing considerable harm for years to come.

Gateway Cities also urgently need comprehensive neighborhood revitalization programs that will help them rebuild healthy mixed-income communities. Yet the state's considerable housing investments are targeted primarily at the market's failure to produce a sufficient supply of affordable units in Greater Boston.

Developers can build residential projects that reduce blight and abandonment in Gateway Cities using state-funded programs, but

### TAX INCREMENT FINANCING: A DILUTED PILL



Source: Massachusetts Office of Business Development

forgives tax proceeds from the value created by new development for up to 20 years. This requirement puts additional pressure on the tax base of Gateway Cities, especially when the sprawling nature of EOA designation means they are competing against towns with more empty land and much greater bargaining power.

As the data suggest, cities with the least fiscal capacity fare poorly in the bidding. The 11 Gateway Cities account for 35 percent of all TIF projects, yet they attract less than 15 percent of the private investment generated by TIFs. Projects receiving tax breaks in the more affluent communities, those with median incomes above 120 percent of the statewide median, have averaged \$36 million in total property value. For less wealthy communities, those with income below 80 percent of the statewide median,

they then need to sell their projects to low-income buyers with required deed restrictions that prevent these families from reselling their homes at market-rate prices. In Greater Boston, low-income families accept this trade-off in exchange for quality homes at prices well below the prohibitive market rates. Gateway Cities, however, already have a large supply of low-cost homes. Developers in the 11 communities can't invest in housing and earn a reasonable profit while competing against unsubsidized properties that don't carry these deed restrictions.

Of course, some developers are able to assemble projects that use state and federal housing funds profitably in Gateway Cities, usually by building rental projects. But in communities with cool real estate markets, new subsidized apartments add to an already large supply of low-rent

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stock, competing against privately held units for tenants.

Leaders in the housing community clearly recognize and sympathize with Gateway City challenges (see “Deeds That Keep Houses Affordable May Keep Neighborhoods Poor,” *CW*, Spring ’07). This year’s \$1.1 billion housing bond bill also seems to partially acknowledge these concerns, with language committing \$10 million to projects with slightly less cumbersome deed restrictions in “weak market” neighborhoods. Yet this response is hardly adequate, given Gateway City challenges.

### BUILDING A NEW AGENDA

When it comes to the search for the right tools to revitalize their communities, Gateway City leaders can feel like lonely desert travelers thirsting for rain. The state can’t provide an oasis in the desert, but it can certainly help seed the clouds.

It begins with a plan. Right now Massachusetts has no explicit road map for long-term growth. Industry drives much of the debate by demanding more benefits, and this has led to major spending on business incentives with little scrutiny on whether the money is being spent effectively. The Commonwealth needs a long-term growth strategy that balances the interests of various industry and community stakeholders. Such a plan could set performance measures for incentive programs and require data collection to ensure that these initiatives hit their targets.

A growth strategy would also help the state remain true to its public priorities. Legislators find it inherently difficult to prioritize communities for economic growth, and this has been a problem not just in Massachusetts but also in California and New York. Both of those states tried to create enterprise zones in order to provide businesses with strong incentives to locate in distressed urban areas, but in both instances relatively well-off communities used politics and loopholes to exploit the geographically targeted incentives.

In terms of more specific suggestions, MassINC offers the following:

**Offer meaningful incentives.** Identify older urban areas where business incentives can create new clusters of economic activity. Set specific benchmarks that must be met to retain eligibility for these benefits, as well as benchmarks that sunset benefits as healthy private markets return. The incentives provided to companies that locate in these targeted areas must offer significantly more value than the incentives businesses could receive from other locations within the state. These subsidies should also more than compensate for the added upfront costs companies assume when they locate in older urban areas, such

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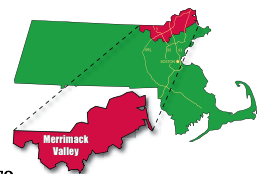
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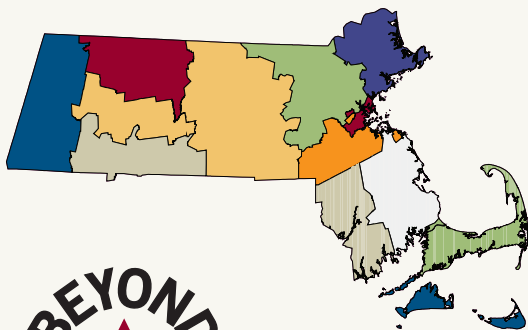
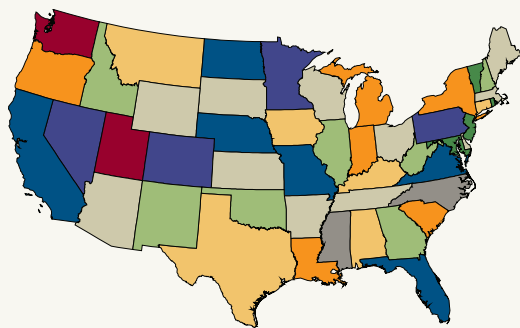


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as the risks associated with undertaking environmental remediation, remodeling an older building, or moving to a redeveloping area without proven potential. Beyond simply offering tax credits to companies that invest in machinery, an upgraded credit that allows for deductions against job training, lease payments, and payroll for new hires will help economic developers site a diverse array of businesses.

**Provide stricter scrutiny.** State officials responsible for overseeing public investment must have adequate staff to review business incentive agreements and must have the authority to deny bad deals. These officials should also regularly examine contracts and take action when companies are clearly underperforming on hiring, job creation, or other obligations. Tax abatements for predominately retail shopping centers should be restricted exclusively to urban areas.

**Build quality of place.** The state's historic rehabilitation tax credit can help make downtowns attractive again for businesses and visitors. The tax credit program is currently capped at \$50 million, and many projects wait a long time to receive the funding they need. (See "Preserving Power," Page 36.) The credit, equal to up to 20 percent of qualified expenditures, should be expanded to help individuals restore their owner-occupied historic homes and immediately fund any commercial project ready to go in a distressed area.

**Fund comprehensive neighborhood redevelopment.** The state should run a competitive grant program that would fund major revitalization efforts in Gateway City areas that can demonstrate how these public resources would successfully restore neighborhoods. These funds should come with technical assistance to help cities manage the complex task of acquiring and assembling vacant parcels, abandoned buildings, and other problem properties.

**Encourage higher-density residential development.** The state has responded to sprawling housing patterns by purchasing development rights that permanently protect large swaths of undeveloped land. However, these resources need to be matched with investments that make higher-density development in urban areas more appealing. Without complementary action, investments in conservation will unwittingly drive up the cost of housing. The Seattle metropolitan area has found a way to do this by transferring development rights from suburban and rural property owners to urban areas more suitable for development. **CW**

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*Ben Forman is a researcher and John Schneider is executive vice president at MassINC, the publisher of CommonWealth. A full brief on state policy and Gateway Cities is available at [MassINC.org](http://MassINC.org).*