CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

SUSAN B. SCHLESINGER
Assistant City Manager for Community Development

BETH RUBENSTEIN
Deputy Director for Community Development

TO: Robert Healy
City Manager

FROM: Susan Schlesinger
Assistant City Manager for Community Development

DATE: December 29, 1997

RE: Council Order #16
Economic Target Area Designation

The City of Cambridge has had state Economic Target Area designation since October 1994. This designation was obtained for the entire geographic area of the City. ETA designation entitles the City to apply on a project specific basis for Economic Opportunity Area (EOA)designation. The criteria for EOA designation include creating net new jobs; meeting the definitions of blighted open area, decadent area or substandard area defined in the 121A legislation; or having a plant closing or permanent layoffs totaling at least 2,000 jobs. Designation enables the City to abate property taxes in exchange for which the state offers a 5% investment tax credit and/or a 10% abandoned building tax credit.

In Cambridge's economy growth is generated mainly from small entrepreneurial companies that start here and grow, rather than from recruitment of companies from out of town. Therefore, tax abatements have not played a central role in our economic development strategy. In fact, corporate recruitment incentives, including tax abatements, have come under severe criticism from economists in recent years because they pit communities against each other over who will make the greatest offer. In the final analysis, businesses will go where it makes the best business sense, regardless of incentives.

The City's established economic development policy is that property tax abatements be used rarely and strategically. Accordingly, the City of Cambridge has only done one commercial property tax abatement, a 121A tax abatement for Biogen's three phase build-out of up to 600,000 square feet in Kendall Square. In that situation, the abatement was granted for the build-out of land owned by the Cambridge Redevelopment Authority which had been off the tax rolls for over twenty years. By abating the taxes and

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encouraging development during the severe recession of 1991-2, the City had a net gain of property tax revenues and retained one of our largest employers.

When evaluating requests for property tax abatements, the City looks at some of the following criteria: the business investment will not take place without the tax abatement; the proposed project make a substantial contribution to the community in terms of numbers and quality of jobs; and a new building must be sufficiently large to contribute significant property taxes even with the abatement, generally at least 100,000 square feet. In addition, the City will entertain tax abatements on smaller projects that meet strategically important needs in the community, such as creating or retaining manufacturing jobs or providing a critical service, such as food.

The State approached the City once, in August 1996, requesting that the City provide an EOA designation for a car dealership that a was a non-conforming use in a residential zone. Because the jobs created did not address a critical need and the company was planning to come without the incentive, the City declined to offer a tax abatement. At that time, the City Manager informed the state that the City did intend to retain the ETA designation as a tool for future use in strategically appropriate situations.

The City considered a property tax abatement to retain a supermarket in the Purity Supreme building in Central Square. Although the number of jobs is small, the store plays a critical role in the community and the economics of the facility are marginal. However, the current owner was able to take over the facility without an abatement.

The Cambridge economy has been very strong for the last several years, making property tax relief less significant than it might be during a downturn. The City plans to retain its ETA designation so that during the next downturn it will have the tool available for situations in which the tax break could result in needed investment when it otherwise might not take place.

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

TO: The Honorable, the City Council

FROM: Robert W. Healy, City Manager

DATE: April 15, 1994

SUBJECT: Response to Council Order 25 of April 4, 1994

The 121A tax agreement between the City of Cambridge and Biogen demonstrated that the City of Cambridge will agree to abate property taxes as part of a strategy to promote it's economic development goals. Council Order 25 highlights the need for Cambridge to develop a policy framework for evaluating requests for 121A tax agreements from companies in need of tax relief. This document responds to the Council Order by outlining criteria against which 121A requests can be evaluated.

Enhancement of the Tax Base

A primary criteria for granting 121A tax agreements is the enhancement of the tax base by bringing under-utilized property into productive, tax generating use. The 121A tax agreement is regarded by the City of Cambridge as an economic development tool which, over the term of the agreement, will stimulate a net increase in revenues. The net present value of total property taxes paid during the term of a 121A tax agreement will be expected to exceed the net present value of taxes that would have been paid if no 121A tax agreement had been granted. 121A tax agreements will be granted in conformity with the provisions of M.G. L. 121A. Therefore, a 121A tax agreement cannot be granted an existing business unless a new building is constructed or a substantial rehabilitation (representing greater than 50% of the most recent fair market appraisal value) of an existing building is undertaken.

Enhancement of the Job and Industrial Base

Cambridge's economy underwent a major transition from a declining industrial economy to a service economy centered on academic, governmental, and medical institutions, and business services derived from these institutions during the last 20 years. It is undergoing another transition as new technologies, such as genetic engineering, founded at academic centers are commercialized. These changes have had a profound impact on the structure of employment in Cambridge. From 1972-1992 Cambridge lost two thirds of its manufacturing base, some 12,000 jobs.

During this period it also lost an additional 2,000 construction jobs. Although Cambridge added 10,000 jobs in the service sector during the eighties, these jobs tend to be concentrated in highly skilled occupations requiring a college degree, such as engineers, and jobs requiring very low levels of skill, such as janitors. Workers used to finding mid-level employment in manufacturing found their options restricted.

Cambridge's academic, medical and governmental institutions provide a stable core to our job base,representing 27% of total jobs, but employment growth in these sectors is expected to be flat in the next decade. Many of the companies that provided job growth in the last decade have actually reduced their labor forces. Polaroid, Lotus, and Bolt, Beranek, and Newman, are among them. In fact, Cambridge experienced a net decline of 2670 jobs between 1990 and 1992.

If Cambridge is to provide opportunities for displaced manufacturing workers, high school graduates entering the labor force, and the many immigrants making a home here, preservation and diversification of the job base is essential. 121A tax agreements should be used as part of Cambridge's long term strategy to promote the maturation of industries which can provide diversified job growth over time, such as biotechnology and other emerging technology industries. These agreements should also be used to attract and retain companies which can meet the objective of diversified job growth in the short term, such as manufacturing.

Community Benefits

Cambridge businesses have a tradition of corporate good citizenship which should be encouraged in granting 121A tax agreements. It is expected that companies entering into 121A tax agreements will enter into written agreements to participate in activities which directly benefit the Cambridge community. Examples of such activities are listed below. These examples are not exhaustive, nor is any company expected to provide all of them. It is anticipated that companies will develop individualized agreements which may include :

* Supporting the preparation of the Cambridge workforce for jobs within the local economy by providing scholarships to technical and academic institutions, offering internships to students in training, establishing mentoring relationships with high school students, donating supplies and equipment to training programs, and participating in the planning and execution of such efforts.

* Supporting other community needs. Companies may choose to meet other community needs by contributing to the City's stock of open space and providing ongoing maintenance of such space, participating in joint para-transportation efforts with other employers, and participating in joint child care programs with other employers.

Compatibility with Established Planning Goals

* Zoning. Projects receiving approval for 121A tax agreements will generally be expected to adhere to established planning and zoning policies. The Cambridgeport Light Industrial Zone already establishes 121A agreements as an economic development strategy to promote manufacturing employment.

* Growth Policy. The Growth Policy adopted by the Planning Board establishes a vision for the City's future and guidelines for sustainable growth and development in different areas of the City. 121A tax agreements should be compatible with these guidelines.

* Traffic Mitigation. Projects entering into 121A agreements should support the vehicle trip reduction policies established by the City and have approved transportation management plans.

* Economic Development. 121A tax agreements should be used as a tool for implementing the City's economic development policies. 121A tax agreements will be used to stimulate economic growth during downturns. The potential for job generation and retention will be a primary consideration in granting 121A tax agreements.

Development Characteristics

* Speculative office development should not be considered for 121A tax agreements. To be eligible for a 121A tax agreement, 60% of the gross leasable floor area, excluding parking, must be occupied by the owner or by a major tenant who shall posess and lease the space for a period of not less than 10 years.

* Predominantly retail uses will not be eligible.

* Build out of 100,000 square feet or greater will be considered.

* The development will ehance the overall character of the City and be consistent with good environmental practice.

Terms

* Agreements shall be for no longer than 15 years, regardless of the build out schedule.

* Financial terms shall be in full agreement with the stipulations of M.G.L. Chapter 121A.

* Applicants for 121A agreements should be encouraged to enter into a 6A agreement that provides the City with a near market square foot rate in exchange for tax stability for the owner/tenant.

Before giving away the state, remember region's strengths

N.E. business sense

Lester C. Thurow

LIVING IN NEW ENGLAND, ONE GETS used to studies purporting to show that other areas of the country are better places to do business – usually on the basis of lower taxes – and that we should do something to improve our business climate.

But the ultimate measure of economic success is per capita personal income. Using this measure of success, New England, and the Northeast more generally, do very well. Regionally, New England's per capita personal income was the nation's highest in 1995 – $26,503 per person or 16 percent above the national average. The rest of the Northeast held the No. 2 position, only slightly behind.

The nation's top four states in personal income were all in the Northeast: Connecticut, New Jersey, Massachusetts and New York. New Hampshire was sixth.

Two of the nine fastest-growing states were in New England (New Hampshire and Rhode Island) and none of the nine slowest-growing states were in New England.

Looking at disposable personal income per capita, a measure that subtracts taxes, the facts remain unchanged. New England is still the No. 1 region, with disposable per capita income 14 percent above the national average.

Just to put things in comparison, in 1995 the golden state of California ranked 12th in per capita personal income while booming Florida ranked 20th. Both are losing ground when it comes to per capita disposable income. In 1990, California ranked No. 8 and Florida No. 18. Persuading a lot of low-wage employers to move into your state is simply counterproductive. Higher taxes are needed to provide public services for those new workers, but with average wages going down, the per capita tax base to pay for those services declines. A boom in low-wage jobs simply isn't a boom.

> Persuading a lot of low-wage employers to move into your state is simply counterproductive.

The bottom line is simple. Someone must be doing something right in New England and somehow those "high" taxes must not be the handicap that "experts" on business location make them out to be.

One answer is that state and local business taxes are a very small part of the total costs of doing business. Other location factors always dominate. But state and local taxes are easy to calculate and are hence overweighted in studies of business climate. The big location determinate is always the cost and quality of the labor force that must be hired. State and local taxes are third-order effects, with other factors such as energy costs and transportation costs in second position.

In New England, for example, cutting energy costs is far more important than cutting state and local taxes.

Taxes, depending upon how they are spent, can actually be a positive factor in location decisions. A good education system that turns out a good top-to-bottom work force is worth paying for. A good work force lowers business costs far more than any state or local tax cut and a good education system helps persuade well-educated workers in the rest of the country that they should move into an area and get good education for their children.

None of this means that the New England states should be unconcerned about their competitive position. But it does mean that this concern has to be a sophisticated concern and not the simple "slash and burn" cut-the-government remedy so often suggested.

A sophisticated concern means going through each of the costs of doing business and seeing where public actions might reduce those costs. Are there ways to reduce workers' compensation costs that don't cut the benefits to those genuinely injured on the job? Are there ways to restructure energy markets to lower costs? Does our infrastructure give us the lowest possible transportation costs? Where lies the biggest bang for the buck in new infrastructure investments? What factors would lead New England to be seen as the best place for knowledgeable workers to develop their careers? What would make the area an even better place to start up high-tech companies. Are there public services that we don't need or cheaper ways to provide those services we do need?

In each of these areas, there are things that could be done to make New England a better place to do business. But as we do so, we should also remember that based on outcomes – the only thing that ultimately counts – New England is already the country's best place to do business.

Lester C. Thurow is professor of management and economics at the MIT Sloan School of Management.

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4.

January 12, 1998

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 6, regarding a report on Cambridge's use of its designation as an economic target area, received from Assistant City Manager for Community Development Susan Schlesinger.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
attachment

Consent Agenda #4 5-5

Relative to Awaiting Report Item Number Six, regarding a report on Cambridge's use of its designation, as an economic target area.

In City Council January 12, 1998

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