CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

SUSAN B. SCHLESINGER,
Acting Assistant City Manager for Community Development

MARY FLYNN,
Deputy Director for Community Development

TO: Robert W. Healy, City Manager

FROM: Susan Schlesinger, Acting Assistant City Manager for Community Development
Jim Maloney, Assistant City Manager for Fiscal Affairs
Jeanne Strain, Director of Economic Development

DATE: July 28, 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. 121A tax agreements will be granted in conformity with the provisions of M.G. L. 121A. Therefore, a 121A tax agreement cannot be granted to 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
During the last 20 years, Cambridge's economy underwent a major transition from a declining industrial center to a service economy centered on universities, government, medical services, and business services. These changes have had a profound impact

City Hall Annex
57 Inman Street
Cambridge, MA 02139
617 349-4600
Fax: 617 349-4669

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 during the seventies and eighties 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 local 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 major companies from out of the area and to retain existing companies which can enhance Cambridge's economic development objectives.

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.

* Signing first source hiring agreements in which the Ctiy of Cambridge will be notified first of openings to hire entry level workers and technicians.

* 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 attract major employers of strategic importance, to retain existing firms, promote the maturation of industries that can contribute to the diversification of the city's job base, and to stimulate economic growth during downturns.

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.

* To be considered, build out must exceed 100,000 square feet.

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

Terms

* Agreements shall generally 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.

* The issue of whether the City should require that contractor's chosen by companies receiving 121A tax abatements be union shops has been raised. Requiring that all construction be performed by union labor may add 15-20% to the total construction cost of a project. If a total union shop is made a requirement of a 121A agreement, the value of the tax relief offered by the City would have to increase significantly to offset the increased construction cost. Another possible solution would be for the City to require a merit shop approach where construction jobs must be bid to both union and non-union shops. Union contractors would be selected if they could match the price of competing offers, inhibiting cost inflation and limiting the level of tax relief required by the City.

17.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

August 1, 1994

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 7, regarding a detailed report on the City using 121 A relief, received from Susan Schlesinger, Acting Assistant City Manager for Community Development.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
attachment

Consent Agenda # 17 S-359

Response to Awaiting Report Item Number Seven regarding a detailed report outlining the pros and cons of the City using 121A relief.

for original see 1994 City Manager Requests #99

In City Council,

August 1, 1994

Referred to the Finance Committee