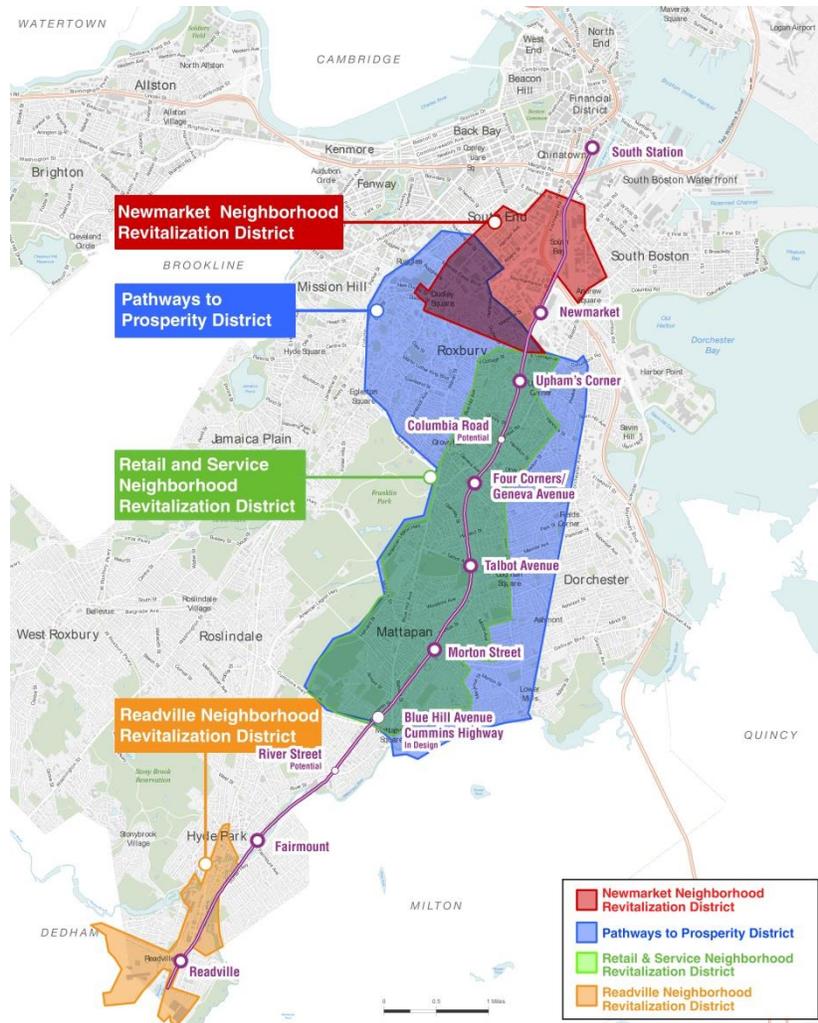


NEIGHBORHOOD REVITALIZATION DISTRICTS

PATHWAYS TO PROSPERITY ALONG THE FAIRMOUNT INDIGO CORRIDOR

Incentives for Advancing Economic Growth



Prepared for:
The American City Coalition
Boston, MA
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NEIGHBORHOOD REVITALIZATION DISTRICTS
PATHWAYS TO PROSPERITY ALONG THE
FAIRMOUNT INDIGO CORRIDOR
A Guide to Incentives for Advancing Economic Growth

Prepared by:
Marc A. Miles, Ph.D.

Prepared for:
The American City Coalition

ABOUT THE AMERICAN CITY COALITION

The American City Coalition (TACC) helps organizations and people in the toughest urban neighborhoods convert desperation and poverty into power and partnership. Driven by clearly defined local needs and a keen understanding of market conditions, TACC supports the development and implementation of strategies that communities need to spark and sustain transformation.

ABOUT MARC MILES

Marc A. Miles has researched and written about global and regional economic policy for more than 30 years. Prior to founding Global Economic Solutions, he was Editor of the annual Heritage Foundation/Wall Street Journal Index of Economic Freedom. Dr. Miles began his career at the Federal Reserve Bank of New York, followed by a career as a professor at Rutgers University. During that time he wrote scholarly articles and three books, including *International Economics in an Integrated World* (1982) and *Beyond Monetarism: Finding the Road to Stable Money* (Basic Books, 1984). He also served on Governor Thomas Kean's 1981 campaign task force investigating Urban Enterprise Zones for New Jersey. This work served as the impetus for legislation enacted in 1983. He was an adviser to institutional investors at several investment research and forecasting firms, focusing on the impact of policy changes and pending investment trend shifts in both equities and fixed income. Dr. Miles' articles have appeared in the *New York Times*, *The Wall Street Journal*, and *The Boston Globe*. He holds B.A., M.A., and Ph.D. degrees from the University of Chicago and a M.Sc. degree from the London School of Economics.

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EXECUTIVE SUMMARY

This report explains the **Neighborhood Revitalization District Concept**, how it works and how it can be adapted to create lasting economic benefit in four revitalization districts along the Fairmount Indigo Line, in Boston, MA. This vision is realistic. Analysis of similar state enterprise zones established in the early 1980s throughout the United States demonstrates clear, measurable success. Based on the success of a large number of zones, the results can be projected to the neighborhoods around the Fairmount Line to provide a reasonable estimate of the number of new jobs, business expansions and new businesses that will emerge from a properly formulated economic development program.

The goals of a Neighborhood Revitalization District are:

- Stimulate job creation
- Retain and expand commercial and industrial facilities
- Attract new industry and business to vacant and new sites
- Promote the area's revitalization through increased economic activity

A revitalization district works because, rather than focusing on any one problem, it presents a plan to simultaneously address underlying economic issues. Its promise is to create an economic environment conducive to moving communities forward. It potentially can convert the economic environment of the area from a risk-heavy environment to an environment that offers opportunities for all to benefit and businesses with unique incentives to start and expand in these communities.

The Neighborhood Revitalization District directly address the key problems - the disincentives for hiring residents, the disincentives for new businesses to come and disincentives for businesses to expand. By focusing primarily on profitable businesses as the driver of neighborhoods jobs, the seeds are sown for sustainable growth.

A Neighborhood Revitalization District can be a win, win, win, policy. **Residents are better off and local businesses benefit.** Furthermore, these benefits can be achieved at minimal cost to the local and state governments. Unlike many current approaches to economic development, the Neighborhood Revitalization District concept does not require expensive subsidies.

This report recommends four areas of Boston as designated Neighborhood Revitalization Districts, each with specific incentives to attract business and build employment:

1. The Newmarket Neighborhood Revitalization District
2. The Readville Neighborhood Revitalization District
3. The Retail & Service Neighborhood Revitalization District stretches south along the Fairmount commuter rail line from Massachusetts Avenue to Cummins Highway.

4. The **Pathways to Prosperity District** consisting of Roxbury plus large sections of Dorchester and Mattapan. This district would provide a targeted pool of potential employees for the three revitalization districts designated above. Residents of this area will benefit from the employment incentives. Businesses in the three business districts would receive primary benefits of this program only by hiring at least 35 percent of new employees from this area.

Necessary Steps and Forecasted Benefits

Based on the documented experiences of similar state enterprise zones in the 1980s, these four **districts are likely to produce 1900 jobs and 195 new or expanded businesses within the first two to three years of implementation. Approximately 1250 of these new jobs would be for residents from the Pathways to Prosperity District.** The job and business creation will continue for years beyond this initial time period. The growth within 5-6 years could potentially double the current estimate. Making these new jobs and improvements a reality requires that Boston and the Commonwealth of Massachusetts take action. Specifically, they must take the following steps:

- | | |
|--------------------------------------|--|
| City of Boston | <ul style="list-style-type: none"> • Designate Neighborhood Revitalization Districts. • Enable legislation to cut the property tax in half for expanding and new business that hire at least 35 percent of workers from the Pathways to Prosperity Districts. |
| Commonwealth of Massachusetts | <hr/> <ul style="list-style-type: none"> • Enable legislation to establish the city/state Neighborhood Revitalization Districts. • Create a clear guide for how cities designate such areas. • Enable legislation to eliminate the state unemployment payroll tax for residents of the Pathways to Prosperity District employed within the Neighborhood Revitalization Districts. • Enact an exclusion from state income tax on the first \$30,000 of income earned in a revitalization district for residents of the Pathways to Prosperity District. • Halve the state corporate income tax rate for businesses in revitalization districts that hire at least 35 percent of employees from the targeted areas. • Eliminate the capital gains tax for only the <i>initial owners</i> of new and expanding businesses within the revitalization districts that hire 35 percent or more of workers from the targeted pools. • Halve the state sales tax in the Main Street Retail and Services Revitalization District stretching through Roxbury and Mattapan. |

These steps can return the neighborhoods of Roxbury, Dorchester, Mattapan and parts of Hyde Park to economic vibrancy, with many benefits. Residents would have more money in their pockets to improve their living conditions and support local businesses. Business owners, sensing improved climate for their products become more willing to expand. Business entrepreneurs searching for a location to startup their new businesses recognize the increasingly attractive area they previously might have ignored. More young inexperienced people, unemployed and those with criminal records would find increased opportunities and learn new skills. Increased economic activity in turn could lead to increased ridership on the Fairmount Line, presenting a demand driven argument for conversion of the system to rapid transit service.

Designating these districts and implementing these incentives can jump-start the economic stagnation that has left these neighborhoods underdeveloped with high unemployment.

OVERVIEW

The upgrade of the Fairmount Line was part of the 2005 agreement to mitigate increased measured air pollution from the Big Dig. The 9.2 mile transit line provides previously missing access to public rail transit to residents of some of Boston's most disadvantaged neighborhoods. The absence of reliable transit had created barriers both for residents seeking employment and businesses seeking new customers.

In February 2013, Mayor Thomas M. Menino launched the Fairmount Indigo Planning Initiative (FIPI). The purpose of this Planning Initiative was to create a “comprehensive community-based, corridor-wide planning process that the city will undertake with various community participants and partners.”¹ Part of the Planning Initiative is to create even greater rail access for these economically-challenged



neighborhoods. There are plans to add new stations along the line in the next few years. This transit improvement creates an opportunity for more economic development along the corridor. Given the desirable proximity to the center of Boston, the industrial and commercial zoned areas, and the untapped potential of residents, the Fairmount Line presents a real opportunity for improved community stability for all the residents surrounding this line.

Yet, the neighborhoods along this corridor remain far from this goal. Most of the communities remain poor and commercially underdeveloped with high unemployment². For example, the average household income is significantly lower than the Boston median, and the corridor is dotted with the poorest pockets of the city. Not surprisingly the percentage of households in poverty is higher than for Boston as a whole. Far higher percentages than in Boston have education limited to high school or less, and unemployment is two-thirds higher than for the city as a whole.

Most can agree that these neighborhoods of Boston need economic development. Most can agree on the economic potential. The disagreement and frustration is over how to get it started.

This scenario is a vision of the potential of these currently underutilized portions of Boston. Unlocking untapped land, buildings and people, along with greater use of the Fairmount Line to tie these resources together, can add new vitality, life quality and income, an important part of Boston can be returned to the vibrancy of the past.

¹ Fairmount Indigo Planning Initiative, Corridor Profile, January 2013, P. 6.

² Fairmount Indigo Planning Initiative, Corridor Profile, January 2013, P. 38.

Here we propose defined Neighborhood Revitalization Districts with specific incentives. This is an implementable solution with a demonstrated record of success. Rather than focusing initially on any one problem, it presents a plan to simultaneously address multiple economic issues, sustainable employment and new business creation. Its promise is to create a positive economic environment conducive to moving communities forward.

The proposed project is loosely based on the concept of Enterprise Zones, and focuses on alleviating disincentives for hiring residents and disincentives for new businesses to come and for existing businesses to expand. By focusing on incentivizing businesses that are profitable, the seeds are sown for long-term growth in communities with the greatest need.

These new revitalization districts can be a win, win, win, win policy. Residents are better off, local businesses benefit, and these benefits can be achieved at minimal cost to government. Unlike many current approaches to economic development, the revitalization district does not require expensive, controversial upfront subsidies. In fact, through the potential of reduced needs for social services, reduced needs for police patrols, and a rise in the property tax, sales tax and income tax bases, it is a realistic expectation that city and state governments revenue will increase.

Neighborhood Revitalization District: The Key to an Economic Jump-start

The persistent negative economic cycle in poor, underdeveloped neighborhoods can be traced largely to one problem – *disincentives*. A basic economic truth is that the more you subsidize (create incentives for) an activity the more of it you get, but the more you tax (create disincentives for) an activity the less of it you get. In a neighborhood stuck in a cycle of poverty, disincentives abound. Unless these disincentives are identified and dealt with directly, the status quo will persist. These disincentives inhibit the desired outcome for:

- Workers to work
- Businesses to hire
- New businesses to enter the neighborhood or existing businesses to expand
- Revitalization of the area through increased economic activity

There is also little reason to start or expand a business. Business owners increasingly find that when they add up wages, taxes, insurance, security and other expenses, it costs more to run a business in the area than the revenue they can reasonably expect. Demand for shops and offices falls and with it the value of the land, buildings and property tax base.

Without new businesses or business expansion, the neighborhood remains a drag on the city and state. With families unable to find work, more social services are needed. The growing number

of underutilized buildings produces little or no tax revenue, but requires more police protection. Increasingly it costs governments much more to maintain a depressed neighborhood than the tax revenues received. Everybody loses.

To reverse this negative cycle, neighborhoods need an economic jump-start. The correct economic policy requires first identifying the source of the disincentive problem. Then the disincentives must be directly eliminated or mitigated.

Disincentive #1 – The Problem of the Wage “Wedge”

For the jump-start to succeed, employers must want to hire local residents. Yet, disincentives inhibit that decision. The disincentives come from the levels of wages, payroll taxes and benefits that must be paid, and the lack of education or skill the potential workers have to offer. The basic decision process of a potential employer is quite straightforward - the employer wants to hire anyone who can help him make a profit. So the employer wants to make sure that the employee adds more to the revenue of the business than what is paid in wages and benefits. If the additional revenue is below that level, the businessperson would lose more than he or she would gain.

So the employer totals up all the costs of hiring. Suppose the employer is paying workers \$15 per hour. That is only the beginning. There are also payroll taxes on the first \$14,000 of wages for state unemployment insurance. It is estimated that the average rate paid by Massachusetts employers is roughly 4.8 percent³. On top of that tax the state also requires payments of .06 percent as a work force training contribution and 0.48 percent for a health insurance contribution. With these taxes the \$15.00 wage becomes a gross payment of \$15.80 per hour (\$15.00 plus the total 5.34 percent total unemployment tax) for the employer. The federal government then applies the employer’s share of social security and Medicare taxes (7.65 percent), adding (in terms of incidence) another \$1.15 per hour to the employer’s costs. If there are other state employment mandates, or the employer provides any other benefits, they too would raise the cost of the employee.

The bottom line is that a new employer’s gross cost to hire the potential employee is at least \$16.95 per hour, (See Figure 1) and could be much higher. If an employee’s skills and education are limited, he or she may not add \$16.95 per hour worth of additional business, making the potential employee an unattractive job candidate.

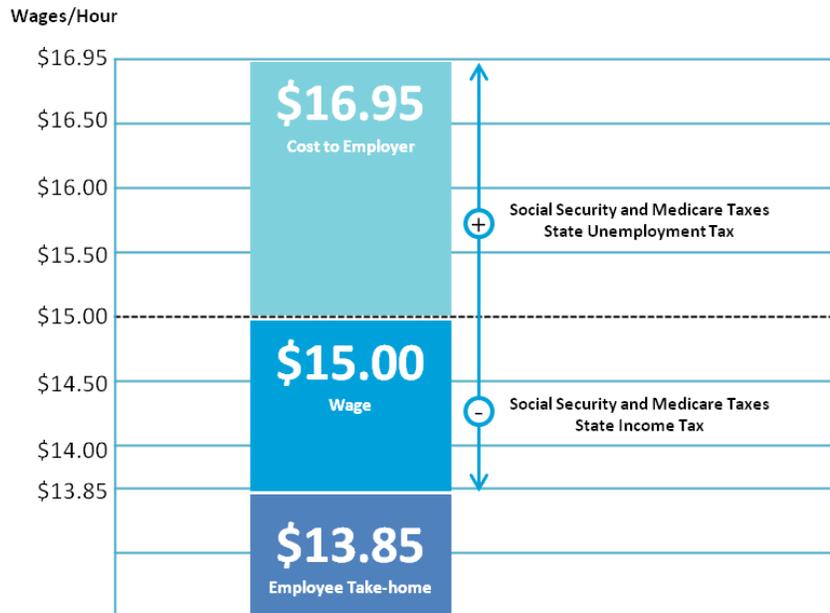
On the other side of this employment decision, the employee is concerned with how much actually ends up in the paycheck, the net wage⁴. In terms of incidence the employee’s share of

³Estimate provided by the Massachusetts Division of Unemployment Assistance.

⁴ If there are benefits such as child care or health insurance, the employee would presumably consider these as part of the net wage too.

federal social security payroll taxes reduces that net amount by \$1.15 per hour. All the employee sees in the paycheck is \$13.85 per hour (the \$15 wage minus his/her share of the federal payroll taxes). In fact to the extent there is any state income tax on that amount, the net paycheck would be even smaller.⁵ The state's 5.25 percent income tax would reduce the net income by another \$0.79 per hour⁶.

Figure 1: The Wage Wedge



Notice that in this latter case there is a spread between the gross pay (wages plus all taxes and benefit payments) the employer faces and the net (after all the taxes have been subtracted) wage eventually received by the employee of almost \$4.00 per hour. Including the state income tax the employer pays almost \$17 per hour, while the worker receives only about \$13.00 per hour. This wage difference is known as the “wedge”. **The larger this wedge, the less incentive an employer has to hire someone** (because the gross wage will be higher), and the less incentive the employee has to take the job (because what comes home in the paycheck will be smaller).

To jump-start a depressed neighborhood economy, one important step is a policy that directly shrinks that disincentive wedge. A smaller wedge ensures that there will be a greater chance that both the employer will want to hire, and that the employee will want to work.

⁵ The employee still has to pay state sales tax on all but food, medicines and clothing items under \$75. The sales tax affects the employee the same way as an income tax. Whether (simplifying for a minute by assuming that all purchases are subject to the sales tax) the 6.25 percent is taken out of the paycheck before the employee is paid (income tax), or whether the employee has to pay the 6.25 percent sales tax after he is paid, the effect is still to reduce his purchasing power by 6.25 percent. Even savings are subject to the same 6.25 percent tax. Savings after all are just future purchasing power, and when the employee is eventually ready to spend the savings, the savings plus interest are also subject to the 6.25 percent tax.

⁶ Starting in the calendar year 2014 this rate is reduced slightly to 5.20 percent.

Substantially shrinking the wedge is even more important for those employees with little education, experience and skills.

Disincentive #2 – The Businessperson’s Risk

People go into business to earn a living (to make a profit). Part of those earnings should be a return on the initial investment at least as high as could be earned by the next best alternative. Yet **opening a business in depressed neighborhoods is far riskier than the average investment.** For instance, retail businesses service a clientele that is poorer than elsewhere. Families simply have less income to spend. The store’s anticipated revenue would be below a similar store in a neighborhood with higher income families, an obvious but real deterrent to main street businesses starting in depressed neighborhoods.

The probability of earning the necessary profit faces further hurdles. On top of the lower revenue are higher costs. For instance, insurance premiums are higher because insurance underwriters note that there is a higher rate of robberies, vandalism, fire and other claims than in more stable neighborhoods with higher incomes.

Smaller expected revenue plus higher costs reduce the likelihood of earning a profit. Making the decision to open a business in a neighborhood like this poses a clear business risk. Typically to entice investors to take on more risk, the investment must compensate with a potentially higher return. Yet, investing in this neighborhood initially offers a lower probability of return than elsewhere

To jump-start the depressed business climate and encourage more investment in retail stores, services and other businesses requires policies that mitigate some of this higher risk. Here we propose lifting capital gains returns for initial owners of businesses that move to the districts or which grow their businesses. In either case, 35 percent of the businesses’ workforce would need to be from the “Pathways to Prosperity” District.

A BRIEF HISTORY OF ENTERPRISE ZONES IN THE UNITED STATES

The proposed Neighborhood Revitalization Districts concept is based largely on the earlier concept of Enterprise Zones. The enterprise zone is not a new idea and the basic ideas of the enterprise zone have been promulgated by both those on the left and the right⁷.

The origin was in Britain in the late 1970s. British urban planning professor Peter Hall is often credited with originating the idea. He noticed rapid economic growth in untaxed or low taxed ports in Asia such as Hong Kong, Singapore, and Taiwan. He concluded the rapid growth could be attributed to both the low taxes and relative lack of government economic interference in the economies of these city/states. By transferring the idea to urban planning, he proposed zones in poor neighborhoods that would also be free of nearly all taxes and government regulation

In 1980, the new Conservative Party government of Margaret Thatcher enacted the first enterprise zone law legislation, and the first British zones were designated in 1981.

Enterprise zones caught the imagination of policymakers in the United States in the early 1980s. Stuart Butler, a British-born policy analyst is often credited with introducing the concept in America. He thought the zones could be used to eliminate urban poverty and blight. In 1981 a federal bi-partisan enterprise zone bill was introduced by Representative Jack Kemp (R-NY) and Representative Robert Garcia (D-NY). Their goal was also to increase the employment and income of low income and unemployed residents of the zones through attracting new business. However, that federal legislation failed to be enacted. It was not until 1993 that a federal program was established under the Clinton Administration, with the community and empowerment zone legislation. Before then, in the absence of federal programs⁸, the initial experiments were conducted at the state level. The first was in Connecticut in 1981, but by 1985 at least 40 states had enacted some kind of enterprise zone legislation. **Although, these state programs differed significantly from the Federal Programs they demonstrated promising policy that drove results which provide a model here for the proposed Neighborhood Revitalization Districts.**

⁷ For a more complete summary of enterprise zone history see, "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence," Policy Brief, Minnesota House of Representatives, January 2005.

⁸ The Kevin White Administration published in September 1982 a preliminary proposal for a Boston enterprise zone under the President Reagan's proposed enterprise zone legislation. The targeted areas were three neighborhoods, the South End, Roxbury and North Dorchester. See "Boston's Enterprise Zone: An Innovative Private/Public Partnership to Revitalize the City's Neighborhoods and Employ It's People." Downloadable at <https://archive.org/details/bostonsenterpris00bost>

Federal Empowerment Zone Program

The federal empowerment zone legislation enacted by the Clinton Administration in 1993 consisted of three different types of areas: Renewal communities, Empowerment Zones and Enterprise Communities. They were aimed at both urban and rural communities that had experienced poverty and/or high emigration. Designations were awarded in three competitions starting in 1994.

The Community Renewal Tax Relief Act of 2000 authorized 40 renewal zones and created the New Markets Tax Credit Program. Originally scheduled to end on December 31, 2009, the program was twice extended two years and is now scheduled to end in December of 2013.

The empowerment zone legislation consisted of certain tax breaks and subsidies for businesses in the zone that maintained at least 35 percent of its workforce from qualified zone residents. They also had to conduct at least 50 percent of their business in the zone. However, **the most important distinction between Empowerment Zones and the proposed Neighborhood Revitalization Districts is that Empowerment Zones depended almost exclusively on lump sum subsidies as opposed to marginal incentives.**

Several studies concluded that this program did little to improve the economic position of zone residents⁹. By comparing the benefits offered under this federal program¹⁰ to the benefits in the proposed program, it easy to see why the federal program mostly failed. Recall that one of the disincentives inhibiting employment of residents is the spread or “wedge” between the current gross amount employers pay workers and the net amount received by the employees. The federal program offered a 20 percent tax credit on wages of up to \$15,000 of qualified residents who were hired. The maximum credit was therefore \$3000. A major criticism of this approach was that it effectively applied to past hiring (previous year) and not current hiring. A business person contemplating expansion of business or hiring is most likely to respond positively the more immediate the reward. By rewarding the past rather than the present, there is no immediate relief or incentive on the cost of each new hire. The immediate reduction in that “wedge,” is lost.

In other words the Federal program constituted a delayed lump sum subsidy rather than a marginal incentive. Furthermore, the retroactive subsidy is limited. Pay more than essentially

⁹ See for example “Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program,” commissioned by the U.S. Department of Housing and Urban Development in 1996. To quote the executive summary “The findings of the interim impact assessment were mixed in their implications....In only three of the six EZs were increases in employment correlated with specific EZ programmatic activities. Moreover, in some of the EZs, such as Atlanta, employment increases may have been attributable to non-EZ activities.”

¹⁰ For details on the benefits of this program see, IRS Publication 954, “Empowerment Zones and Enterprise Communities,” <http://www.unclefed.com/IRS-Forms/2001/HTML/p95401.html>

the minimum wage of \$8 per hour or allow employees to work 40 hours per week, and the subsidy falls short of alleviating in any way the wedge on additional wages.

The benefit for investment in empowerment zone business property was a lump sum subsidy in the form of accelerated depreciation.

Again, this is a subsidy for past actions, not necessarily incentives for future action. By providing potentially bigger subsidies on capital investment than on job creation, this provision could actually inhibit job growth as companies purchase labor saving machines and technology at a tax incentive-induced lower price instead of hiring people.

There was also 50 percent capital gains exclusion on the sale of an empowerment zone business (stock, partnerships, etc.). **This provision was beneficial, because it only applied to businesses considered viable, and the reduced tax helps to compensate original investors for the added risk of investing in these areas.**

Finally, state or local governments could issue tax-exempt empowerment zone facility bonds to raise capital for an empowerment zone business. In other words the local government was **using its power to borrow at a better credit rating plus the tax-exempt tax preference to provide a direct subsidy to the business. This also was not a successful economic policy.** There is no marginal incentive, but rather this program had the potential to support poorly performing business with subsidies. There was no requirement that the business actually be profitable. Hence, the government may be subsidizing firms without a long-term viability to remain in business and maintain jobs. Since the lump sum subsidies do nothing to incentivize job creation, it is unlikely to produce the desired outcome. A recent example of this kind of lump sum subsidy is Rhode Island's 38 Studios investment¹¹.

Boston has such a designated empowerment zone. It is a scattered area that meanders (**Figure 2 below**) from parts of Roxbury through parts of Dorchester and South Boston and out to the seaport.

38 Studios was heavily subsidized

RI Studies Worth of Tax Incentives After Curt Schilling Failure

By Elaine S. Povich, Staff Writer

Rhode Island, famously burned when it issued \$75 million in bonds supporting former Red Sox pitching ace Curt Schilling's failed video game company, is undertaking a study of tax incentives to see if they are worth it.

Gov. Lincoln Chafee signed the bill last week to provide a "systematic approach to evaluating whether the state's tax incentives are truly fulfilling their intended purpose in a cost-effective manner," according to a press release.

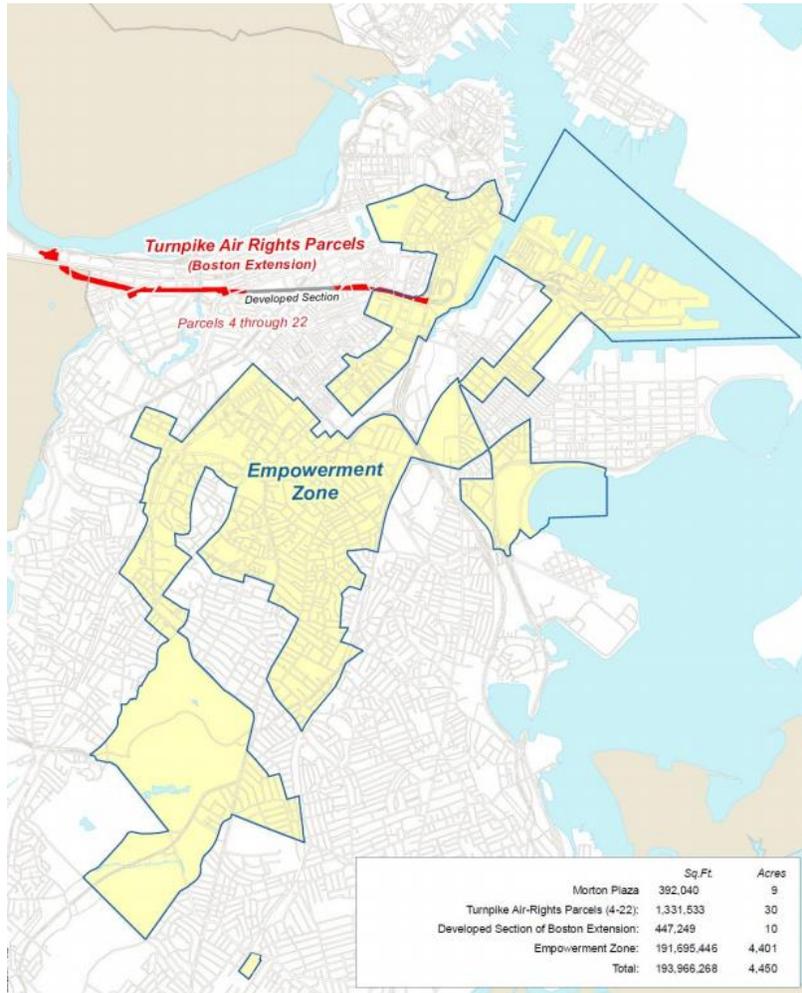
The study does not directly



A visitor takes a picture of the Curt Schilling "bloody sock" poster during an auction in 2012 of the former Boston Red Sox pitcher's video gaming company in Providence, R.I. The state approved the \$75 million loan guarantee for the company in 2010, which it has to pay back, and is now undertaking a study of all of its tax incentives. (AP)

¹¹ "Thrown for a Curve in Rhode Island," The New York Times, April 20, 2013.

Figure 2: The Boston Empowerment Zone



Unlike the proposed Neighborhood Revitalization Districts, the empowerment zone was not a community or place-based program. The map reveals a scattered target area that lacks a concentration of effort. The policy focus on this wide-stretching area is hard to determine. Clearly, the target was not improving the economic well-being of residents of disadvantaged neighborhoods, as the area incorporates some high income sections of Boston. That empowerment zone with its shortcomings will expire at the end of this year.

The Success of State Enterprise Zones in The 1980s

The experience of state enterprise zones was quite different and positive. A 1989 study by researchers at Pennsylvania State University analyzed the outcomes of 357 enterprise zones in 186 communities in 17 states.¹² This cross sectional study is particularly relevant for assessing the feasibility of the proposed revitalization districts along the Fairmount Line, since it examines only state programs that existed prior to passage or enactment of any federal legislation. So like the revitalization districts currently under consideration, only state and local tax and regulation changes were involved¹³.

States began creating their own enterprise zones in 1982. The survey provides results for when the zones were relatively new. The first round of surveys includes performance through 1985, while the second round includes information through 1986. To be included in the surveys, a state must have designated enterprise zones by 1984. “Thus, the data represent enterprise zones in operation from one to five years since designation.”¹⁴ A meaningful interpretation of the findings therefore is what happened on average in an enterprise zone within the first two to three years. Thus the study is an excellent comparison guide for estimating new jobs and businesses in the proposed Neighborhood Revitalization Districts for a similar time frame.

The study did not consider any one particular set of state and local policy changes. The authors note that all these zones “are characterized by considerable diversity in zone designation criteria, the incentives provided by state and local governments, and the areal scales and geographic locations of the zones.”¹⁵ The extreme diversity of the programs, as well as sheer number of cases included, provide general empirical results that can be applied to proposals with a wide varieties of incentives. One interesting result from the study is the apparent weak impact of eased regulations. The authors noted that regulatory relief was seldom included in enterprise zone programs and that where it was offered “businesses seldom, if ever, requested it.”¹⁶

The profiles of the 186 enterprise zones that provide most comparable data were remarkably similar in that the populations had similar levels of poverty and similar levels of unemployment. The arithmetic average (or mean) and the median (50 percent above, 50 percent below) for poverty and unemployment statistics differ little across the zones. The average family income in

¹² See Rodney A. Erickson and Susan W. Friedman, “Enterprise Zones: An Evaluation of State Government Policies,” Center for regional business analysis, Division of Research, College of Business Administration, The Pennsylvania State University, University Park, PA, June 1989. Report prepared for U.S. Department of Commerce, Economic Development administration, Technical assistance and Research Division. Reproduced by U.S. Department of Commerce, National Technical Information Service, Springfield, VA.

¹³ The study data come from U.S. Department of Housing and Urban Development (HUD) surveys of local enterprise zone coordinators. The primary statistics come from the 186 zones that filed the most complete reports, providing a very large, meaningful sample from which to draw conclusions.

¹⁴ Erickson and Friedman, P. 43.

¹⁵ Erickson and Friedman, P. i of Executive Summary.

¹⁶ Erickson and Friedman, P. 25

these zones is approximately 70 percent of that in the surrounding community. The poverty rates are 13-14 percentage points higher than the surrounding community averages. The mean and median unemployment rates are essentially the same across all of the studied enterprise zones and much higher than the surrounding communities across all the studied zones. The percentage of minority residents doubled that of the surrounding communities. The authors concluded, “**the general picture...is one of considerable economic and demographic stagnation, poverty, and a high proportion of minority residents.**”¹⁷

However, since the *sizes* of the zones differ significantly, the mean (simple average) and median (half above, half below) *outcomes* differ sharply. For example, the average number of initial businesses across the zones was 280, but the median was only 105. The mean initial jobs were 4,776, while the median was only 2000. The mean area of the zones was 25.6 square miles, while the median was only 1.8 square miles. Clearly, the initial numbers in the largest zones are shifting or skewing simple average upward, providing a false impression. To avoid this pitfall, the median results are quoted to provide a far more reliable guide to what can be reasonably expected for implementation along the Fairmount Line.

These median results are quite encouraging. For example, the median zone started with about 2000 jobs. Within 2-3 years the number of additional jobs was 175, an 8.75 percent increase. Similarly, the number of additional new or expanding businesses in the median zone is 6-7 compared to 105 initial businesses, approximately a 6 percent increase.

A common worry is that new jobs will be given to people outside the enterprise zone who already have good jobs, skills and education. The results prove otherwise. The zones operated to directly address the accompanying social goals. The proportion of jobs held by residents of the zone was 68 percent. Forty-four percent of the jobs were taken by low income persons, and 36 percent held by the previously unemployed.

Another concern is that the zones simply attract existing businesses that move in to take advantage of the tax breaks. In other words, the amount of businesses and jobs is a zero sum game. One area can gain only at the expense of another. **The study authors found, however, that creation of enterprise zones is a positive sum game.** Eighty percent of the new investment in the zone came from new businesses or expansions of existing businesses. Equally important is that the typical firm entering the zone was not a large enterprise. This result suggests that new businesses popping up in the proposed districts are likely to be smaller firms complementing existing businesses in the districts, or even new service firms addressing the needs of center city residents and businesses that are close by and easily accessible.

¹⁷ Erickson and Friedman, P. 47.

FAIRMOUNT INDIGO FOCUS AREA: WHERE THE JUMP-START IS NEEDED

The Fairmount Indigo Corridor was defined by the Boston Redevelopment Authority (BRA) as the area within a one-half mile radius of the existing and proposed stations along the Fairmount rail line. The entire Fairmount Corridor is the collection of these 11 areas stretching 9.2 miles from South Station to the Readville section of Hyde Park. One-fifth of Boston’s population lives within this narrow Fairmount Indigo Corridor.

At the far northern end, Newmarket has a low population density. It is primarily an industrial and commercial district. The Readville neighborhood at the far southern end of the focus area features single family homes, park land, plus regions of light industry primarily along the rail lines. Readville is also a low population density area. In the center sections the primary businesses are main street commercial districts. From Blue Hill Station to Upham’s Corner, contains the areas of highest population density, lowest income, lowest education level, and highest unemployment. These differing area characteristics require different development goals and hence different approaches to incentives.

Newmarket Commercial/Industrial Revitalization District

The Newmarket area is the largest light industrial area in Boston, land usage in Newmarket can be broken down as:

Table 1: Land Usage in Newmarket

CATEGORY	PERCENT OF TOTAL AREA¹⁸
Industrial	10.8%
Tax Exempt	35.4%
Commercial	44.1%
Residential	9.0%
Mixed use	0.6%
Other	0.0%
Total	100.0%

The commercial/industrial uses are primarily food distribution, construction and transportation. Newmarket is the major food distribution center for the Boston area. In addition to a major construction company, there are smaller companies providing parts and components for construction and pre-construction staging areas. The transportation component is primarily related to bus transportation and servicing large delivery trucks.

¹⁸ “Fairmount Indigo Planning Initiative, Corridor Summary”, September 2013, P. 21.

The 35 percent of the land that is tax-exempt includes numerous government facilities such as the headquarters for the City of Boston’s Water Commission, a Boston Police facility and an MBTA Police facility. There are also non-profits such as the Pine Street Inn.

The Newmarket area is particularly attractive to industries because of its central strategic position. It is only a little over a mile from downtown, with direct highway access to both the Massachusetts Turnpike and the Southeast Expressway. These highways also provide an easy, short connection to Logan Airport. Massachusetts Avenue and Melnea Cass Boulevard provide cross-city connections to the west. Businesses that locate to this area greatly value reducing windshield time for their product and service delivery.

The City of Boston envisions Newmarket “as a job-center.” It foresees the economic goal as attracting “new economic activity that creates synergies with existing businesses and fully utilize the location advantages of station area.”¹⁹ While such businesses are a likely outcome, with the proper incentives small businesses and services will find the area attractive. Large spaces and easy access to major highways and downtown can prove useful for planning areas of people-intensive service businesses that can then implement the services and concepts to customers throughout the Boston area.

The adjacent, highly successful South Bay Shopping Center houses big box retail stores (Target, Best Buy, Stop and Shop) with some of the highest grossing chain locations in the state. This area seems already fully developed as a source of jobs and is excluded from the Neighborhood Revitalization District proposal.

City policy has long defended the commercial nature of Newmarket, and there is a strong economic argument to promote this area primarily as a commercial, manufacturing and distribution center, and that residential uses of the buildings not be encouraged. The development focus is on job expansion. **As a guide, the BRA foresees a population growth of only 3.2 percent but employment and building expansion of 18.5 percent and 17.0 percent respectively. A Neighborhood Revitalization District plan for this area can be designed to meet these goals. Estimates of this study conclude that employment can be increased in this district this by 13 percent and businesses can be increased by 8 percent within 6 years.**

Readville Commercial/Industrial Revitalization District

At the opposite end of the focus area, the Readville section of Hyde Park is almost equally divided between commercial/industrial and residential land use (approximately 30 percent for each). Houses are primarily single family homes on tree lined streets. Median income is among the highest along the Fairmount Line. In addition to the Fairmount Line, Readville is also

¹⁹ Both quotes are taken from “Fairmount Indigo Planning Initiative Corridor Summary”, P. 22.

serviced by a second commuter line. As a result, there are commuter connections, commercial transportation and sizable rail yards. The large commercial parcels therefore have access to both commuter lines for workers and freight lines for products. There are also reasonable connections to highways. That makes Readville another potential center for job growth. The growth would be accomplished primarily by redevelopment of the current commercial parcels, many of which are empty or underutilized. **The BRA estimates that employment could grow around 5.5 percent and buildings about 9.4 percent. This study's conservative estimate is that the job growth number is achieved within 5 years, and that business growth can be achieved within 10 years.**

Retail & Service Neighborhood Revitalization District

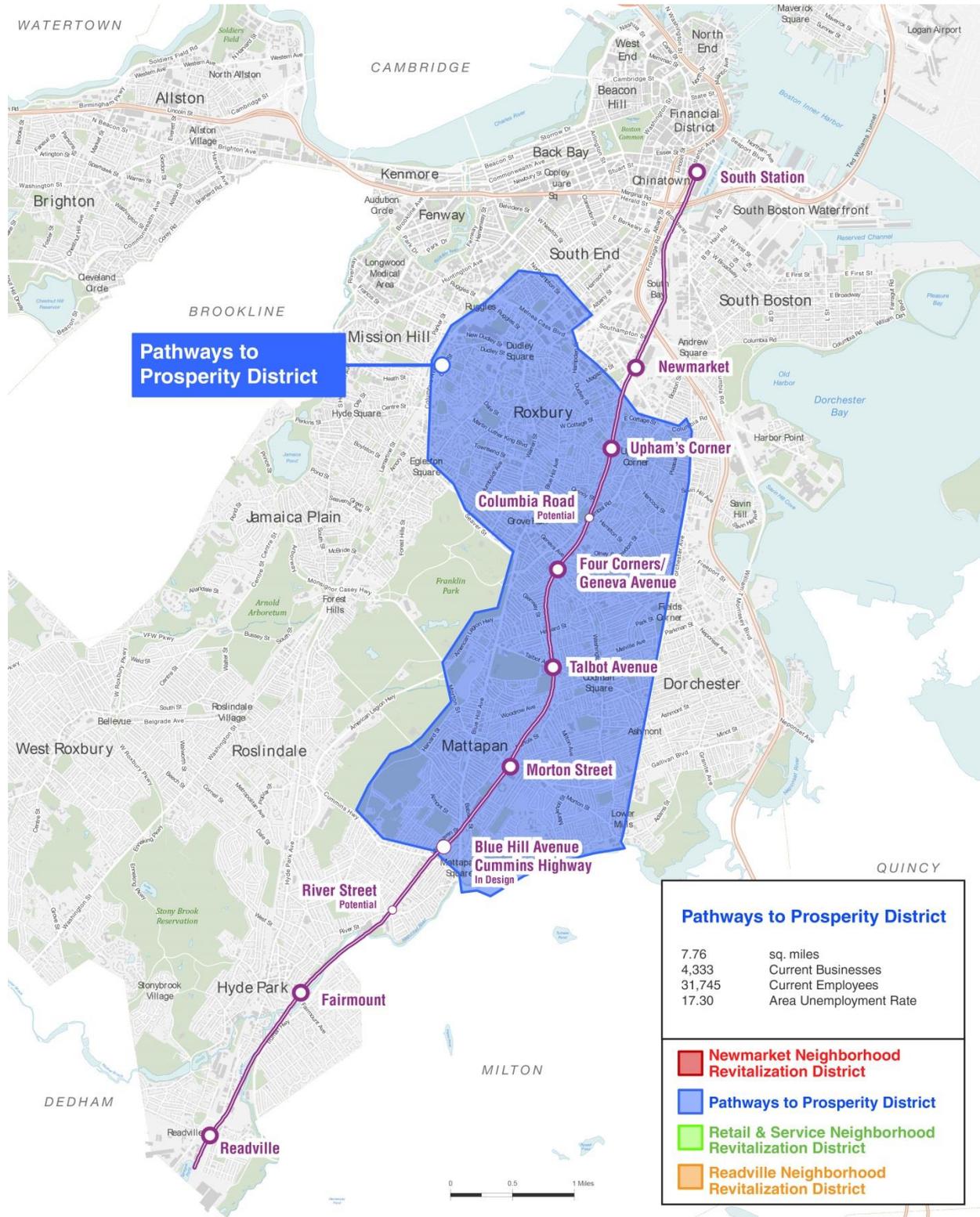
Upham's Corner is immediately south of Newmarket. The area between this station and the proposed Blue Hill/Cummins Highway station to the south has the highest population density, the highest rates of children 18 and under, the highest rates of poverty, the highest rates of unemployment and highest rates of people with only high school diplomas or less in all the areas along the Fairmount Line. These statistics paint a picture substantially worse than the average for Boston overall. This area also closely fits the profile of the areas in the state enterprise zone study used to estimate job creation numbers for the proposed Neighborhood Revitalization Districts. These are the residents who could benefit most from such a program. The current proposal includes a plan to improve the quality of life and income for the people in this area by incorporating this area as a primary recipient of incentives.

Neighborhood Revitalization District Proposal

The profiles and characteristics of these areas lead to the conclusion that there should be three separate districts for attracting and preserving businesses and creating jobs, and a fourth which defines a district for businesses to target hiring (**Figure 3**). These are the districts:

1. Newmarket Commercial/Industrial Neighborhood Revitalization District (**Figure 4**)
2. Readville Commercial/Industrial Neighborhood Revitalization District (**Figure 5**)
3. Main Street Retail and Services Neighborhood Revitalization District along the Fairmount Line through portions of Roxbury, Dorchester and Mattapan (**Figure 6**)
4. A beneficiary catchment area or "**Pathways to Prosperity**" District encompassing most of Roxbury, Dorchester and Mattapan. This district closely matches the demographic profile of the median enterprise zone residents found in 1989 study. This district should be the primary employee targets as businesses enter or grow in the other three areas. Businesses in the commercial areas would receive special incentive tax breaks if they hire a percentage of people residing in the Pathways to Prosperity district. The boundaries of proposed Pathways to Prosperity Neighborhood Revitalization district are illustrated below. (**Figure 3**).

Figure 3: Pathways to Prosperity Neighborhood Revitalization District



Geographical Boundaries

The Fairmount Indigo Planning Initiative constrained its focus to areas within one-half mile of the Fairmount Line. Their goal was to develop the area in the immediate vicinity of the transportation line. However, there is no reason to constrain the current proposal to this limited area. There are strong reasons to expand this neighborhood revitalization district's boundary beyond the immediate Fairmount boundaries. Naturally the Fairmount Line is most convenient for those closest to the stations. Yet, it is reasonable to assume that as the revitalization district areas prosper and more people from the region are employed, many more residents will require transportation and will find the train line convenient for commuting or reaching local commercial centers.

Certainly the districts should target residents immediately along the rail line. However, significant poverty and unemployment lie well beyond that limited area, especially in Roxbury, Dorchester and Mattapan. These additional residents should not be excluded from an opportunity to benefit. Like their neighbors, they should be given every chance to succeed, hence the formation of the expanded Pathways to Prosperity District.

The Newmarket area has great development potential. But much of its greatest commercial/industrial region lies beyond the half-mile radius. Since the goal of the revitalization districts is increased employment through business development, Newmarket also expands beyond the traditionally accepted boundaries.

Commercial/Industrial Revitalization Districts

As described above, both the Newmarket and Readville areas have a large proportion of land devoted to commercial or industrial uses. Both areas also contain buildings and land that are currently underutilized. Hence both have opportunities for new businesses, business expansion, increased hiring and upgrading of the structures.

Making new jobs and improvements a reality requires that Boston and the Commonwealth of Massachusetts take decisive action. Policies must be adopted within these two districts that target directly all of the potential opportunities. This goal requires special legislation. Specifically, within the commercial/industrial revitalization districts there must be legislation

1. Eliminating the state unemployment payroll tax for qualifying new employees drawn from the Pathways to Prosperity District.
2. Excluding these qualifying new employees from the state income tax on the first \$30,000 of income earned in a revitalization district. To assure that all benefit from this deduction, the qualifying employees could have a choice between the existing personal deductions and the \$30,000 exclusion, whichever is larger.

3. Reducing the state corporate tax by 50 percent for new or expanding businesses in the area that hire at least 35 percent of employees from the Pathways to Prosperity District²⁰.
4. Eliminating the state's 5.25 percent capital gains tax for the new or expanding businesses that hire at least 35 percent qualifying employees²¹ should the business or partnership be eventually sold. This provision would apply only to the *initial* investor/owner²²
5. Reducing by 50 percent the city property tax for new or expanding businesses that hire the qualifying number of employees from the Pathways to Prosperity District.

The first two tax benefits are designed to reduce the wedge disincentive for hiring employees from the area. Employer's costs are lowered and employees are shielded from having to pay the 5.25 percent state income tax on most or all of their wages. Lowering the gross cost to employers of hiring targeted residents creates benefits for both employers and employees. While employers pay a reduced gross cost, employees continue to receive roughly the same net wage (perhaps a little more), while also entering the labor force and learning skills. Both employers in those revitalization districts and those targeted employees receive special state payroll tax reductions and other employment incentives. In addition the employees receive employable on-the-job training at no additional government cost.²³

The third and fourth benefits target the business risk disincentive by directly increasing the potential return on any investment. The capital gains exemption compensates the initial investors/owners for undertaking the added risk of committing to the enterprise zone areas. Hence, the additional risk carries the imperative augmented return on investment.

The fifth benefit is Boston's contribution towards attaining the goals, and provides substantial incentive to businesses to relocate to target areas.

Some may worry about the "cost" to the government. For most of the tax incentives proposed, there would be little if any loss of revenue. The jobs from which unemployment tax is excluded and taxable income is reduced do not currently exist. If the decision is to maintain policy status quo there will never be jobs or income created. There will not be an improvement in the buildings and property tax base in either the commercial/industrial revitalization districts or the Pathways to Prosperity District. There will not be a reduction in demand for social services.

²⁰ Equivalently, one-half of income could be excluded and the rate remains unchanged.

²¹ Monitoring of this percentage could perhaps be accomplished through the employer's tax withholding payments statement to the Department of Revenue.

²² The benefit is limited to only the initial owner, because the purpose of the revitalization district is to encourage initial investment in businesses and jobs, not encourage repeated "flipping" of ownership. An additional wrinkle is that the initial investor may still have ownership at the time of death. In such cases the tax benefit should be extended to estate taxes, perhaps by eliminating the value of the business from the estate.

²³ An additional possibility to reduce the gross cost of hiring is a reduced minimum wage for workers age 21 or younger. Since it is very important to get these individuals into the workforce and on a path towards higher earnings, a smaller wage is an investment in the future. The reduced wage essentially is a payment for on-the-job training in a relevant occupation that can produce returns (higher wages) throughout the employee's lifetime.

So the tax reduction has no immediate cost. In fact if the plan is successful, reducing assistance levels and stabilizing neighborhoods, it is reasonable to assume that the city and state will have smaller net (benefits minus tax revenues) demand on their budgets.

The boundaries of the proposed Commercial /Industrial Neighborhood Revitalization Districts are illustrated below (**Figure 4 & 5**).

Figure 4: Newmarket Neighborhood Revitalization District

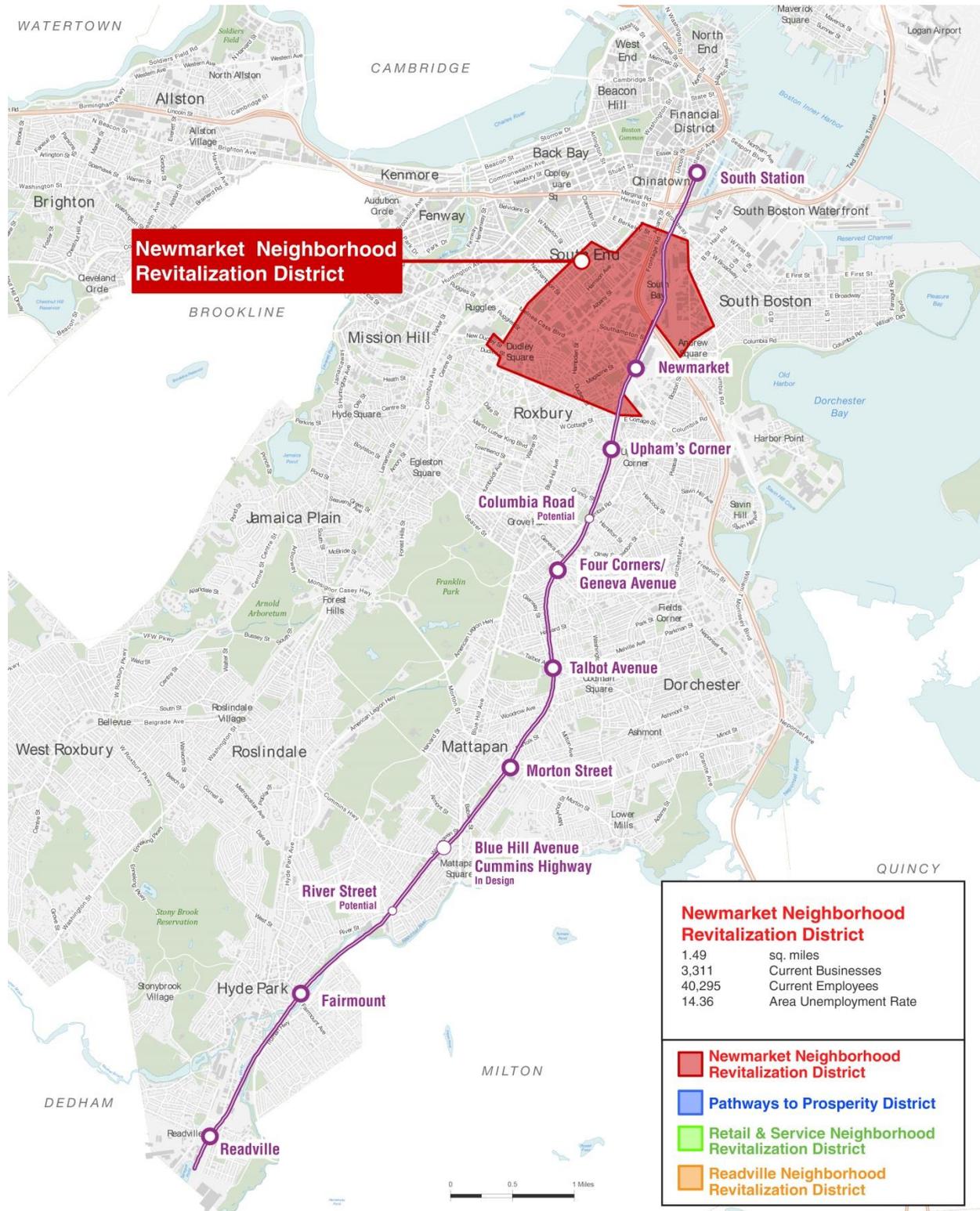
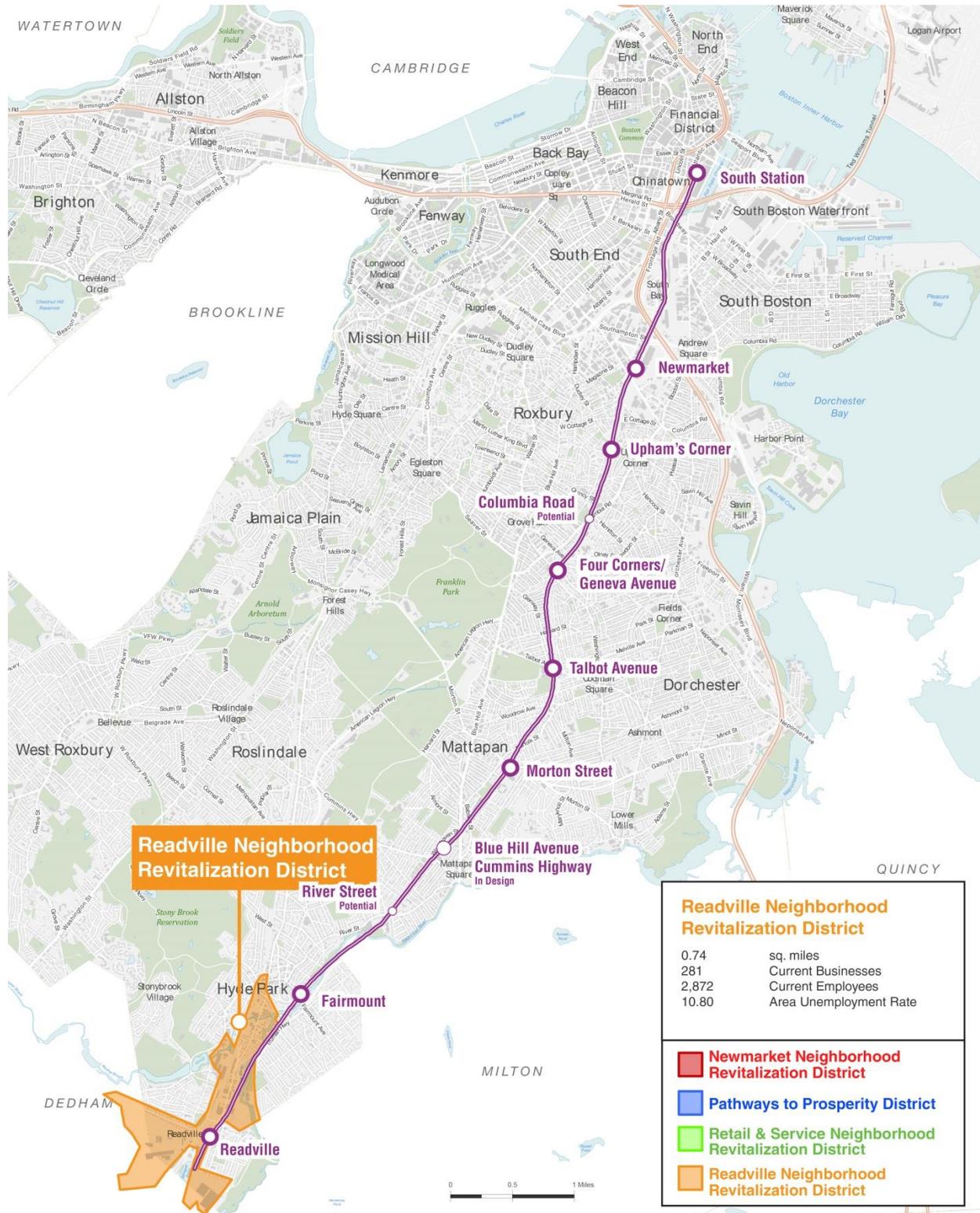


Figure 5: Readville Neighborhood Revitalization District



Main Street Retail and Services Neighborhood Revitalization District

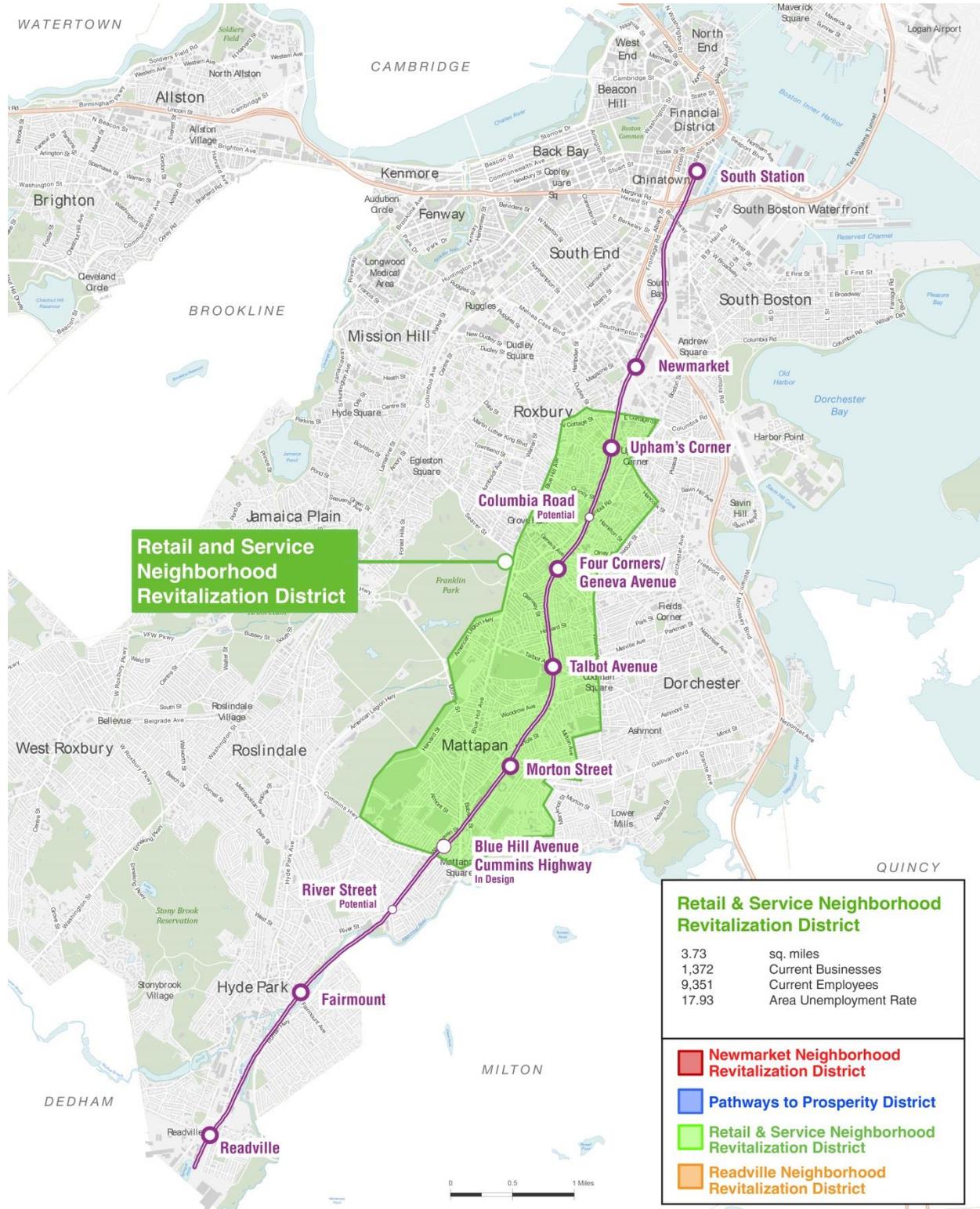
Like the other Neighborhood Revitalization Districts, the goal in the Main Street Retail and Services Neighborhood District is to attract and expand business, create new jobs for area residents and improve the surrounding neighborhoods. Unlike the other two (Newmarket and Readville), however, the primary focus is increasing foot traffic and sales at shops along the main commercial streets. **To encourage this activity, one more tax benefit is proposed - reducing sales tax by 50 percent.**

As stated previously, the best way to economically address an issue is with a direct policy. The desire is increased sales activity, and a reduced sales tax directly gives the store owners in this neighborhood revitalization district a marketable, competitive edge²⁴. If that edge is successful, not only will sales increase, but so too will income, employment and property values. As seen elsewhere in the city over the last few decades, as property values rise, owners invest in upgrading and maintaining buildings. Such improvements are likely to increase the value and quality of other buildings in the area.

Just because the focus is on retail activity, however, does not mean other types of enterprises are unlikely to come. As the neighborhood stabilizes and transportation improves, small service companies are likely to find the area attractive. The tax benefits associated with hiring residents of the Pathways to Prosperity District, and low rent, create an attractive environment for new companies.

²⁴ As pointed out in footnote 5, cutting the sales tax rates also has a positive effect on employees who are patrons at these stores. The sales tax reduces the value of a worker's take home pay. Cutting that tax therefore increases the net wage, reducing the wage "wedge".

Figure 6: Retail and Service Neighborhood Revitalization District



CALCULATING JOB AND BUSINESS GROWTH

Estimates of new jobs and new or expanded businesses in these revitalization districts require specific details of the designated areas. In particular the square mile area, the number of existing businesses plus the number of current employees provide a base from which to gauge the potential expansion. The estimates are determined by applying the results from 1989 state enterprise zone study to these base figures. **The current data for the three designated commercial areas are presented in Table 2.**

Table 2: The Current State of the Proposed Commercial/Industrial Revitalization Districts

DISTRICT	SQUARE MILES	BUSINESSES	EMPLOYEES
Newmarket Neighborhood Revitalization District	1.49	3311	40,295
Readville Neighborhood Revitalization District	0.74	281	2,872
Retail & Service Neighborhood Revitalization District	3.73	1372	9,351

While not the largest by area, Newmarket has far more businesses and employees than the other two designated districts. However, these initial figures can be deceiving. As stated in the previous description of the Newmarket area, there are quite a few governmental and nonprofit employers within the district boundaries. Since the proposed boundaries are expanded far beyond the Fairmount Initiative’s half mile radius, even more of these employers are included. For example, the Boston Medical Center and the Boston University School of Medicine lie within the proposed Newmarket district.

Closer examination reveals that of the twelve largest employers in the Newmarket District, ten are either government organizations or nonprofit institutions. They account for 16,000 (40 percent) of the 40,000 people currently employed. This fact may be important, because government and nonprofit organizations are less affected by and therefore less sensitive to some of the economic incentives proposed in this report. Still, reduced labor costs are important in hiring decisions for even large nonprofits such as hospitals and schools²⁵.

The Readville Zone is the smallest by all three measures. But it is clustered around the existing train lines, offering convenient transportation for both employees and products. In contrast businesses in the Main Street Commercial/Industrial District are concentrated in small areas scattered within the district, reflecting the nature of consumer-oriented stores.

²⁵ The projections are based on the net number of jobs excluding these 16,000 government and nonprofit employees.

The growth projections are generated by comparing these current economic statistics to the results found in the 1989 Erickson and Friedman findings described in detail above²⁶. Based on that experience of the similar state enterprise zones in the early/mid 1980s, the city and state can expect significant return from taking the suggested steps. The modest tax incentives are likely to produce the type of results that residents and policymakers have sought for a long time. The projections are shown in Table 3.

Table 3: Projected Revitalization District Growth in the First Three Years

DISTRICT	NEW AND EXPANDED BUSINESSES	NEW JOBS CREATED
Newmarket Neighborhood Revitalization District	130	1300
Readville Neighborhood Revitalization District	15	180
Retail & Service Neighborhood Revitalization District	50	300
TOTAL	195	1780

Using that early 80's experience as a guide, within the first three years after official designation of the areas and implementation of the special preferences, 1,300 new jobs would be created in the Newmarket Revitalization District, 180 new jobs in Readville and 300 jobs in the Main Street District. Moreover, of the nearly 1,800 new positions, over 1,250 will go to the residents of Roxbury, Dorchester and Mattapan. There would be 130 new or expanding businesses in Newmarket, 15 in Readville and 50 new retail or service companies along Main Streets.

Notice that these estimates are only for the first three years, the duration of the 1989 study. Job and income creation do not stop at that point. In fact it is reasonable to estimate that the rate of creation could accelerate as a critical mass of new employers forms to demonstrate the benefits of the revitalization district program.²⁷ Hence job and income creation could be double the estimated amounts within 5-6 years. Imagine these areas with almost 4,000 additional people employed.

²⁶ The projections were created by comparing more than one result from the 1989 study to check for consistency. For example, Erickson and Friedman found that the median growth of jobs was 8.85 percent, but also that 10 jobs were created by every business. Where numbers differed, averages were used, sometimes including calculations from other results. In almost every case where rounding was employed the numbers were rounded downward.

²⁷ The results from the Erickson and Friedman study were for Enterprise Zones with diverse incentives. The current proposal has carefully crafted incentives, implying again that the results are likely to exceed these initial estimates.

CONCLUSIONS

The recent campaign for Mayor of Boston brought to the fore the pressing need to revitalize the southeastern part of the city. Community organizations in these regions have worked hard in recent years to work towards that goal. Yet these areas remain a long way from their economic potential. Politicians and leaders of the community groups continue to search for solutions. Neighborhood Revitalization Districts offer a realistic answer, with a clear path to implementation. By creating a proper array of incentives that involve little upfront cost to the city or state, they are a force to jump-start the economy of these areas. The conservatively estimated 200 new or expanded businesses and 1,800 new jobs within the first three years demonstrate the magnitude of the potential. Moreover, by incentivizing local hiring, businesses themselves become the job training engine that Boston so sorely needs.

APPENDIX 1: NEIGHBORHOOD REVITALIZATION DISTRICTS

