A NEW START FOR MASSACHUSETTS' MIDDLE CITIES

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Pioneer's Mission

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.

This paper is a publication of the Center for Better Government, which seeks limited, accountable government by promoting competitive delivery of public services, elimination of unnecessary regulation, and a focus on core government functions. Current initiatives promote reform of how the state builds, manages, repairs and finances its transportation assets as well as public employee benefit reform.

The Center for School Reform seeks to increase the education options available to parents and students, drive system-wide reform, and ensure accountability in public education. The Center's work builds on Pioneer's legacy as a recognized leader in the charter public school movement, and as a champion of greater academic rigor in Massachusetts' elementary and secondary schools. Current initiatives promote choice and competition, school-based management, and enhanced academic performance in public schools.

The Center for Economic Opportunity seeks to keep Massachusetts competitive by promoting a healthy business climate, transparent regulation, small business creation in urban areas and sound environmental and development policy. Current initiatives promote market reforms to increase the supply of affordable housing, reduce the cost of doing business, and revitalize urban areas.

The Center for Health Care Solutions seeks to refocus the Massachusetts conversation about health care costs away from government-imposed interventions, toward market-based reforms. Current initiatives include driving public discourse on Medicaid; presenting a strong consumer perspective as the state considers a dramatic overhaul of the health care payment process; and supporting thoughtful tort reforms.

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Introduction

Important progress has been made over the past half-dozen years by the state's older, industrialized cities outside of Greater Boston. A number of the cities have undertaken policing and business permitting reforms; Lawrence has demonstrated that a district-wide receivership can catalyze innovations and leverage private partnerships to address, at least partially, student needs; and the Patrick administration created, for the first time, a single point of contact within the administration to improve coordination of state resources and provide support to these important cities.

Any objective observer would have to come away disappointed by the relatively small degree of progress that has been made.

Still, any objective observer would have to come away disappointed by the relatively small degree of progress that has been made in the last decade in ameliorating the profound problems confronting Massachusetts older industrialized communities. Our older cities face the challenges that come with age, including significant infrastructure degradation, a greater concentration of poverty, a higher structural cost of routine government services, the continued under-performance of public schools, lagging real estate values, disproportionate need for social services, and ongoing public safety challenges. While cities like Boston and Cambridge stand out among Massachusetts cities for their robust industry, commerce, and real estate development, they have inherent advantages that other older, industrial communities lack, including the national prominence of their institutions, geography, comprehensive transportation resources, and their "central" location politically.

The strong sense held by residents outside of Greater Boston is that a disproportionate share of state investment has been targeted inside the Route 128 belt while communities beyond have been treated as little more than an after-thought. They sense that communities inside the Route 128 belt have been treated as the "center" and they the "periphery." As underscored in our recent "Ten Years Later: Trends in Urban Redevelopment" report,[1] as well as by over a dozen studies on Massachusetts Middle Cities,[2] the reality for these cities is often distinct from what Boston and Cambridge face. Accordingly, the Middle Cities demand a different set of policy solutions.

For most of the last decade, Pioneer Institute and MassINC have dedicated significant resources to researching these issues and convening leaders to discuss ways to make the revitalization of our Middle or Gateway Cities, as we have called them respectively, a top state priority (see Appendix A). Our institutions have engaged in the public conversation by taking on complementary issues that affect these communities. MassINC has focused on numerous issues including the importance of placemaking, institutional partnerships and criminal justice, among others.[3] Pioneer's work is based on the hypothesis that with the loss of defining industries and the long-term effects described above, revitalizing our Middle Cities will take a two-pronged strategy: (1) a relentless focus on improving the quality of life and prospects for economic mobility in these cities via a sustained focus on education, public safety, financial management and job creation; and (2) significant new infrastructure investments in the communities that can catalyze new development but only if the investments are used as incentives to modernize services directly related to the aforementioned components of quality of life.

MIDDLE CITIES	
Brockton	Lowell
Chicopee	Lynn
Fall River	New Bedford
Fitchburg	Pittsfield
Holyoke	Springfield
Lawrence	Taunton
Leominster	Worcester

Much good work has been done by state and local officials over the last decade. As our recent "Ten Years Later" report made clear, however, the extent of this progress has been inadequate. Important policy discussions are currently underway regarding charter and vocational-technical schools, and an economic development package that places greater priority on the communities outside the Boston area. In this brief, we seek to map out a strategy to complement these promising developments by outlining a highly focused infrastructure fund for the Middle Cities, the reforms it

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should seek to leverage, and how to capitalize the fund.

Our goal is to reset the conversation so that state policy is supportive of those cities that have made strong progress already and catalytic to ones that have shown less progress, toward the goal we all share — making these urban centers into communities where individuals and families can rise economically and have a fair chance at prosperity.

Background

Just prior to the last recession, a lively policy discussion developed in Massachusetts and elsewhere in the country regarding cities which, after the hollowing out of a previous generation of industries, experienced long-term economic decline, a distinct concentration of poverty, and even large population declines.[4]

This discussion was an early version of the income inequality debate, focusing on urban condition, before the national conversation embraced the term to describe income inequality of ninety-nine and one percent, etc. In Pioneer's "Ten Years Later" report, we show that, with some exceptions, the same troubling trends continue.[5] While there has been improvement relative to 2009 in key service areas such as education, public safety, and fiscal management, and on metrics of economic prosperity, the long-term data suggest continued stagnation or decline.

- Per-capita income in the 14 Middle Cities is between 31 percent and 66 percent below the statewide average and has been falling for more than 30 years. It was 82 percent of the state average in 1979, but fell to 53 percent by 2009. The story is similar for median household income. It averages between $30,000 and $50,000 annually in the 14 cities; 12 to 53 percent below the state average of $66,866 from 2009 to 2013.
- All 14 cities underperform state averages on MCAS. In 2015, 91 percent of Massachusetts students scored "Advanced" or "Proficient" on MCAS English language arts tests, compared to between 67 percent and 89 percent in Middle Cities. In math, more than 15 percent of Middle Cities' students scored in the "Warning/Failing" category—nearly double the state average. The dropout rate in Middle Cities is nearly twice the state average and students attend college at a lower rate.
- In terms of equalized valuation, which compares the value of property assets, statewide values grew at an annual rate of 7.92 percent between 1992 and 2012. During the same period, Middle Cities' property values rose by only 2.66 percent annually, just over one-third the statewide growth rate.
- In the aggregate, population in the 14 cities fell by 0.3 percent from 1970 to 2013, while the state population grew by 17.6 percent. The level of population decline is especially alarming in western Massachusetts, where Chicopee, Holyoke and Pittsfield saw decreases of 16.4 to 22.7 percent.

These troubling trends have many causes, including larger national and even global shifts in the economy, long-standing alliances and interests that drive political sclerosis and anti-growth policy decisions, state policies that too often concentrate on providing short-term low-income assistance (such as affordable housing and other social services) to these cities while providing large impact, consequential economic development assistance to the Boston area, to name just a few.

But the trends mentioned above also have developed despite substantial local aid and state grant funding. In 2016, the Middle Cities, which constitute 17.6 percent of the Commonwealth's population, are receiving over $2 billion in state aid, roughly equivalent to 40 percent of total local aid. The state allocates around three times more to Middle Cities students through Chapter 70 funding than it does to other Massachusetts students; while that is justifiable as a way to ensure funding equity, it underscores the extent to which the state is a majority stakeholder in the choices made in our urban school systems.

The Commonwealth has moral and political, accountability and financial interests in the Middle Cities.

The Commonwealth, as the entity representing the public interest, has moral and political justifications, including funding for the landmark Massachusetts Education Reform Act of 1993, to increase substantially local aid to the Middle Cities. The state has an "accountability" interest in ensuring the effectiveness of local aid funding, which constitutes one of the largest items in the state budget. And, finally, as the de facto creditor of last resort, the state has a potential liability.

An analysis of local aid distribution since passage of Proposition 2 1/2 demonstrates the following:

- A disproportionate and growing percentage of local aid has been directed to financially distressed communities. In FY2016, the state provided $5.23 billion in local aid. The 14 Middle Cities, representing 17.6 percent of

Massachusetts' population, receive 39.6 percent of total state aid, or $2.07 billion of $5.23 billion of annual state aid.

- Almost two-thirds of Massachusetts communities receive less than 15 percent of their total local expenditures from local aid. Even when focusing on urban centers, it is worthy of note that Boston and Cambridge have received 114 and 117 percent increases in per capita local aid, respectively, from 1981 to 2016. Over the same period of time, local aid per capita increased in Lawrence, Brockton and Springfield by 1032, 722, and 592 percent, respectively.

The point of underscoring these fiscal facts is not to place blame or even to say that funding for the Middle Cities should be curtailed. Rather, it is to say that the state's commitment of spending in these cities makes sense if current policies are putting the Middle Cities on a pathway to improved educational outcomes and safer streets, and greater job growth and fiscal sustainability. But the data points in the opposite direction, notwithstanding the fact that the state's annual operating stake in the Middle Cities has reached a troubling 47.8 percent of the cities' total local receipts (see Figure 1). That is, we need to craft a new set of policies that will make the investment pay off for the residents of the Middle Cities.

Figure 1. Middle Cities State Aid as a Percentage of Total Local Revenue

Municipality	State Aid as % of Total Revenue 1981	State Aid as % of Total Revenue 2016	State Aid per Capita 1981	State Aid per Capita 2016
Brockton	25.6%	48.2%	$250.74	$2,060.34
Chicopee	31.2%	37.0%	$257.83	$1,310.79
Fall River	42.8%	46.1%	$360.32	$1,508.66
Fitchburg	24.9%	43.2%	$206.20	$1,450.44
Holyoke	39.1%	53.3%	$373.56	$2,051.93
Lawrence	35.3%	66.9%	$234.05	$2,649.42
Leominster	26.8%	35.4%	$171.48	$1,247.23
Lowell	36.0%	47.2%	$235.53	$1,557.74
Lynn	26.7%	55.5%	$251.41	$1,940.33
New Bedford	38.6%	46.4%	$307.97	$1,622.22
Pittsfield	20.5%	34.1%	$222.84	$1,201.83
Springfield	36.4%	59.4%	$345.40	$2,391.43
Taunton	36.4%	29.1%	$210.38	$1,147.24
Worcester	24.5%	41.5%	$244.97	$1,567.90
Total Middle Cities	**31.4%**	**47.8%**	**$270.05**	**$1,770.47**
Total Non-Middle Cities	**17.7%**	**14.4%**	**$151.15**	**$577.27**
Boston	**22.7%**	**14.7%**	**$313.20**	**$671.37**
Cambridge	**10.5%**	**5.3%**	**$141.13**	**$306.43**

In addition to operating budget transfers through local aid, the state also spends over $50 million annually in the Middle Cities through grant programs, large project ribbon cuttings, technical assistance, interventions, as well as favorable loan programs like the Clean and Drinking Water State Revolving Fund and MassDevelopment.

If the state's various forms of financial assistance are not changing the trajectory of our Middle Cities, what other policy options should we explore?

If the state's various forms of financial assistance are not changing the trajectory of our Middle Cities, what other policy options should we explore? The Commonwealth has in some cases resorted to receiverships and interventions with some success; for example, in Chelsea, Springfield and Lawrence. But state interventions are reactive, not positive policy actions, and they are expensive for the state and disruptive to local communities. Most importantly, they are artificial and temporary solutions to a significant political and institutional problem: It is difficult to elect leaders in the Middle Cities who seek to modernize government operations. After all, mayors and city councilors cannot be elected or conduct the business of government without being responsive to any number of entrenched interests, which in turn lessens their ability to drive change. Given the number and complexity of the challenges before these elected officials, the city's CEO or councilor must not only want and have the clout to drive change, but s/he must remain focused on reforms even through economic downturns. That is a tall order for the CEO of any company let alone an elected official in charge of a corporation as complex and entwined with public trust issues as a city.

A Catalytic Redevelopment Strategy

Lessons from previous emergency actions

There are many lessons to be learned from both the way in which the state has gone about urban redevelopment and the strategy it has used to address fiscal emergencies in urban centers. The state's urban redevelopment and receivership efforts provide at least five *positive policy lessons*:

1. A significant change of direction in a city often requires an objective power that breaks local gridlock, especially if reforms cut against vested and entrenched local interests.
2. Enhanced state involvement and technical assistance can ensure that troubled cities have adequate financial tools, standardized procedures, and established goals and policies; e.g., as regards cost savings, competitive bidding, privatization, enterprise accounts, long-term liabilities, and tax title fast-tracking.
3. Economic development must be seen not just as an integral city government function, but also a goal framed by broader regional interests, opportunities, and impacts.
4. Economic development and reinvestment strategies presume public order. The state's public safety agencies and court system can provide useful technical and strategic assistance as well as regional coordination.
5. Attracting and retaining working families requires a focus on improving educational options and promoting public safety.

The *negative policy lessons* of state interventions include:

1. Lack of an effective state urban policy has left cities like Chelsea, Springfield and Lawrence to deteriorate into various forms of receivership, taking a toll on taxpayers and city residents.
2. State officials frequently live and work in the Boston area and therefore lack familiarity with conditions in the rest of the Commonwealth.
3. The state's one-year budget cycle and project-specific framing of capital investment are insufficient for the kind of medium-term commitment needed to put our older cities on a sustainable path toward recovery and growth.

A new deal: State infrastructure investment as an incentive for local reforms

It is not enough to recognize (or bemoan) the fact that the Massachusetts economy has become a tale of two cities, which juxtaposes Greater Boston against the rest of the Commonwealth's less economically vibrant or even stagnant cities. State policymakers should draw lessons from the history of emergency actions to craft a positive, pro-active agenda for the Middle Cities. Pioneer believes that the state should develop a partnership that will continue to invest in the operating budgets of our cities while simultaneously using competition for infrastructure to apply positive pressure on the cities to modernize.

One could say the state has no business involving itself in how cities fare on education, public safety, financial management and economic policy. As noted above, the Commonwealth does have a political and moral, as well as a financial interest in its cities. That said, the reality is that our system of government functions best when the state and its localities partner in pursuit of a common purpose — without the heavy hand of a receivership or direct state intervention. By partnering with its cities, the Commonwealth can cajole and offer inducements to leverage local action, but it should not direct strategies or actions. In other words, cities should be able to opt into the partnership or choose not to do so. The focus of the effort should be to modernize those public services that most impact quality of life: access to a good education, public safety, the availability of jobs and management of the city's finances.

What we are proposing is the creation of a Middle Cities Infrastructure Investment Fund (IIF).

There are numerous and long-standing precedents for federal and state incentives to promote changes in local policy. In our view, the state should not seek to impose policy choices on partner cities — effective partnerships only work when both levels of government buy into the vision. By the same token, the state would be unwise to make large infrastructure investments in cities that do not want to modernize their delivery of critical services. In those cities that cannot or will not do their part, it is unlikely that the state would get a sufficient return on investment in the form of increased economic development.

What we are proposing is the creation of a Middle Cities Infrastructure Investment Fund (IIF), coordinated with state grants and technical assistance, in exchange for municipal education, public safety, economic development and fiscal management reforms.

We suggest that between 2017 and 2034, $20 million annually be redirected to an IIF for projects in the Middle Cities and certain neighborhoods of Cambridge and Boston. The fund should be managed directly by the state's Executive Office for Administration and Finance (EOAF), and leverage the expertise and resources of Mass Development to ensure that the priorities of the fund are not forced to compete with general state capital budget priorities. EOAF should be authorized to draw excess funds from the Massachusetts Convention Center Fund (MCCF) to jumpstart economic activity in parts of Massachusetts that have not benefited from downtown Boston's boom.

MassDevelopment's expertise at working with cities to ensure that state funds are rationed appropriately and used in conjunction with private capital is critical. At the same time, the oversight of the EOAF is important to ensure coordination of complementary actions across all relevant executive offices. Again, this program would commit the Commonwealth to an economic development program that focuses on the 14 Massachusetts cities outside of Greater Boston that are most in need of economic development.

Governance of the Fund and Ensuring Accountability

The defining goals of the capital incentive program are (1) to build support for leaders who commit to making changes that will ensure high-quality, affordable essential services such as education and public safety; and (2) to make it easier to grow jobs and businesses in the Middle Cities. Because of the state's overriding interest in the Middle Cities' fiscal sustainability and the need to coordinate the efforts of multiple agencies, we believe EOAF should lead the management team. Having a central player also allows for centralized interactions and negotiations with leaders in the Middle Cities.

Coordinating actions by various executive agency grant programs with the new IIF would ensure more significant impact than is currently possible given the executive branch's numerous splintered grant programs of modest size (See Appendix B). As noted above, over $50 million annually in state grant dollars is already being spent in the Middle Cities. But the grants are made in a siloed manner, without significant coordination across agencies or the benefit of supporting a city-specific strategy. Such a strategic overlay would require establishment of a grant "czar" for the Middle Cities, with strong ties to the governor, so that he or she could cut across state government siloes. That is, it would require that grant funds for the Middle Cities be treated as fungible across

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executive agencies. Coordination of funding across environmental, housing, and transportation agencies, for example, could allow the state and the city to target funds at critical neighborhoods, upgrading urban parks, facilities, streetscapes, abandoned housing, or undertaking other improvements in a more concerted way. It would additionally be important to have that funding continue over multiple years to maximize impact.

Such a change is in keeping with the consolidation of several programs under the coordinating rubric of the MassWorks Infrastructure Program, which the state touts as "a one-stop shop for municipalities and other eligible public entities seeking public infrastructure funding to support economic development and job creation."[6] MassWorks consolidates the Public Works Economic Development (PWED), Community Development Action Grants (CDAG), Massachusetts Opportunity Relocation and Expansion (MORE), Small Town Rural Assistance (STRAP), and Transit Oriented Development (TOD) programs, with EOHED, MassDOT and EOAF in the lead.

The proposed approach is a more intensive application of the philosophy behind MassWorks and the Community Compact Cabinet.

For the IIF to be effective, the team must be led by EOAF, with designees from the Executive Offices of Housing and Economic Development (EOHED), the Department of Revenue (DOR), Energy and Environmental Affairs (EOEEA), Public Safety and Security (EOPSS), and MassDOT. Moreover, it is important for the full range of development-related executive agencies to participate in a focused team that seeks to manage political, financial and economic development matters intensively and with fast response times. In addition to "hard" grant money and favorable loan programs, the state's "offer" should also include strategic and technical support to ensure that local investments have larger regional impacts (see Appendix C). Such an approach is merely a more intensive application of the Community Compact Cabinet, which "champions municipal interests across all executive secretariats and agencies" and works with municipalities to create "mutual standards and best practices," including "expectations and accountability for both partners." The administration can rely on the infrastructure and leaders of the Community Compact Cabinet for leadership of the technical assistance component of the initiative, but the management and oversight of an IIF will require leadership from EOAF.

The specific responsibilities of the EOAF-led team would be as follows:

- Clearly communicate expectations for reform to Middle Cities leaders and engage in conversation to aid in the articulation of a city's competitive application for funding through the IIF;
- Coordinate executive branch grants;
- Ensure delivery of state agency technical assistance;
- Provide IIF funding;
- Monitor the delivery of local reforms;
- Report to the governor and the legislature on investments made through the IIF and the state's suite of grant programs, city agreements signed, infrastructure project completion, and key city metrics related to education, public safety, economic development and financial management.

The Role of Middle Cities' Leaders

The cities' role in this initiative is to engage residents in developing a vision that includes both infrastructure improvements and a modernization plan for municipal services. Middle Cities seeking to participate in the IIF and coordinated grants program will have to compete for funding on the basis of the plan they put forward, which would include:

- *IIF & State Grant Programs*: A plan composed of infrastructure investment options developed through engagement with neighborhood, community and business leaders;
- *Education*: Immediate actions by the community and school district to improve service for students in Tier 4 and 5 categories whether through reforms, the creation of new schools or access to schools outside the district. Actions can include adoption of the school-based management approach outlined in the 1993 Massachusetts Education Reform Act (and implemented in Barnstable);[7] where appropriate (Springfield), an expansion of access to the METCO program and vocational-technical schools; and active promotion of other school models, including pilot, Commonwealth and Horace Mann charter schools;
- *Public safety*: Participation in a Middle Cities working group on crime and public order that focuses on performance measures beyond simple crime data

and that leads to uniform reporting methodology, a unified CitiStat-style database, and improvements and efficiencies in departmental command structures and officer deployment;

- *Economic development*: Streamline business and housing permitting time to under 65 days or adoption of Chapter 43D (including streamlined permitting for Brownfields sites); simplification of regulations for 25 "neighborhood" (quality of life and amenity) businesses so they are easier for residents to start; and together with EOHED a review of the organization and activities of municipal economic development and redevelopment agencies;
- *Fiscal management*: Working with the DOR, an audit of basic financial controls, long-term cost structures, opportunities for rationalization and reorganization, transparency, and accountability, and implementation of suggested reforms with a limited time horizon. (See Appendix D for a representative list of areas for review.)

Analysis: Creating an Infrastructure Incentive Fund

The Baker administration has put forth a $1 billion economic development plan to improve public infrastructure, renew brownfields and advance new technologies in Massachusetts. Core to his plan is the reinvigoration of parts of the state that have not participated in Greater Boston's economic boom, many of which have experienced declines in population, property values and overall economic health in the past several years. The administration hopes the bill's enactment will improve site readiness for commercial and industrial development, revitalize downtown districts, foster innovation center centers with public/private partnerships, remediate contaminated sites and transform so-called Gateway Cities into healthy economic centers.

The administration plan is funded by bond authorizations. Pioneer believes that, as a complement to that effort, there is an opportunity to create and leverage a new urban infrastructure fund of up to $20 million of annual operating money through 2034 by making a draw of that same amount from the surplus revenues generated by the Massachusetts Convention Center Fund (MCCF). Alternatively, the fund could be authorized to borrow against the Commonwealth's annual pledge of $20 million from the MCCF in order to support about $200 million of investment over five years.

As a complement to the Baker administration's economic development plan, there is an opportunity to create and leverage a new urban infrastructure fund of up to $20 million per year.

The MCCF was established in 1997 to pay for debt service on $687 million in special obligation bonds maturing in 2034 related to the construction of the Boston Convention and Exhibition Center (BCEC), the renovation of the Worcester Convention Center (now DCU Center) and the Springfield Civic Center (now MassMutual Center) and certain ongoing operations. According to the Official Statements of the 2004 bond issuance, monies deposited into the fund are from the following sources:

- a 2.75 percent room occupancy excise tax (the "Convention Center Financing Fee") imposed upon the amount paid for the occupancy of rooms in hotels, motels and other lodging establishments (collectively "hotel rooms") located within all the municipalities in the tax base, which includes the Boston/Cambridge Area, the Greater Springfield Area, the City of Worcester and two special taxing districts in Boston and Springfield within which certain Pledged Receipts are generated to pay interest on the bonds;
- a 5.7 percent room occupancy excise tax imposed by the Commonwealth upon the amount paid for the occupancy of certain hotel rooms in the cities of Boston, Cambridge and Springfield;
- an additional 4 percent room occupancy excise tax imposed by the Commonwealth upon the amount paid for the occupancy of certain hotel rooms in the City of Springfield (the foregoing room occupancy excise taxes are collectively referred to herein as the "Room Occupancy Taxes");
- a surcharge imposed by the Commonwealth on all vehicular rental transaction contracts in the City of Boston (the "Vehicular Rental Surcharge");
- retail sales tax (the "Sales Taxes") imposed by the Commonwealth on meals, beverages and tangible personal property sold in certain hotels and other retail establishments in the cities of Boston, Cambridge and Springfield;
- a 5 percent surcharge on the ticket price paid for water and land-based sightseeing tours and cruises in the City of Boston (the "Sightseeing Surcharge"); and

- a $2 per day parking surcharge on vehicles parking in any parking facility that may be built in conjunction with the 2004 Projects.

The related legislation required that a capital reserve fund be established at least equal to the maximum annual debt service. The bond covenants also require that the fund maintain a balance at least equal to 150 percent of adjusted debt service.

In 2014, the legislature approved $1 billion to expand the BCEC. However, the Baker administration put a halt to the project last year amid concerns that its projected economic impact was overstated. As of June 30, 2015, the MCCF had a balance of $133 million.

The existing MCCF balance and projected MCCF receipts net of operating expenses, capital expenditures and debt service provide the means for the Commonwealth to create an infrastructure fund that can accomplish the same basic goal of the BCEC expansion: growing the state economy. The funds could be repurposed to targeted investments in the state's older industrialized cities as well as in certain neighborhoods of Cambridge and Boston, leaving an MCCF surplus sufficient to meet the expectations of existing bondholders and needs of the BCEC at its current size.

As Figure 2 shows, the MCCF is projected to realize average annual net increases of $38 million from fiscal 2016 through fiscal 2034. The projection assumes 3 percent growth in related hotel room occupancy tax receipts, 2 percent escalation in convention district sales taxes and no growth in sightseeing and other surcharges already designated to the MCCF, without significant expansion of the BCEC. The analysis assumes 3 percent annual growth in operating expenses and $25 million in annual capital expenditures to be provided to the Massachusetts Convention Center Authority. It also assumes annual interest swap payments related a portion of the outstanding special obligation of $2 million through 2034. These projections are far more conservative than those made by the MCCA in support of the BCEC expansion proposal.

Figure 2. Long-term MCCF Financing after IIF Draw

Fiscal Year	Total Receipts	Annual Debt Service	Est. Swap Payment	Operating Expenses (3% growth)	Capital Exp.	Total Deductions	Increase in CCF Balance	CCF Balance	Annual Draw for Econ Dev	Balance After Draw	150% Debt Service Req.	Surplus Over Debt Service Req.
2015	$123.3	$54.5	$1.6	$28.5	–	–	–	$133.9	–	–	–	–
2016	$125.6	$54.5	$2.0	$29.3	$25.0	$110.8	$14.8	$148.6	–	–	–	–
2017	$128.0	$54.5	$2.0	$30.2	$25.0	$111.7	$16.3	$164.9	$20.0	$144.9	$84.8	$60.1
2018	$131.1	$54.5	$2.0	$31.1	$25.0	$112.6	$18.5	$183.4	$20.0	$143.4	$84.7	$58.7
2019	$134.3	$54.6	$2.0	$32.0	$25.0	$113.6	$20.6	$204.0	$20.0	$144.0	$84.9	$59.1
2020	$137.5	$52.2	$2.0	$33.0	$25.0	$112.2	$25.3	$229.3	$20.0	$149.3	$81.3	$67.9
2021	$140.8	$52.3	$2.0	$34.0	$25.0	$113.3	$27.6	$256.8	$20.0	$156.8	$81.4	$75.4
2022	$144.3	$52.4	$2.0	$35.0	$25.0	$114.4	$29.9	$286.8	$20.0	$166.8	$81.5	$85.2
2023	$147.8	$52.4	$2.0	$36.1	$25.0	$115.5	$32.4	$319.1	$20.0	$179.1	$81.6	$97.5
2024	$151.5	$52.4	$2.0	$37.2	$25.0	$116.6	$34.9	$354.0	$20.0	$194.0	$81.6	$112.3
2025	$155.2	$52.5	$2.0	$38.3	$25.0	$117.7	$37.4	$391.4	$20.0	$211.4	$81.7	$129.7
2026	$159.0	$52.5	$2.0	$39.4	$25.0	$118.9	$40.1	$431.5	$20.0	$231.5	$81.8	$149.7
2027	$163.0	$52.6	$2.0	$40.6	$25.0	$120.2	$42.8	$474.3	$20.0	$254.3	$81.9	$172.5
2028	$167.0	$52.6	$2.0	$41.8	$25.0	$121.4	$45.6	$519.9	$20.0	$279.9	$81.9	$198.0
2029	$171.2	$52.7	$2.0	$43.1	$25.0	$122.8	$48.5	$568.4	$20.0	$308.4	$82.0	$226.3
2030	$175.5	$52.7	$2.0	$44.4	$25.0	$124.1	$51.4	$619.8	$20.0	$339.8	$82.1	$257.6
2031	$179.9	$52.8	$2.0	$45.7	$25.0	$125.5	$54.4	$674.2	$20.0	$374.2	$82.2	$292.0
2032	$184.5	$52.9	$2.0	$47.1	$25.0	$126.9	$57.5	$731.7	$20.0	$411.7	$82.3	$329.4
2033	$189.1	$52.9	$2.0	$48.5	$25.0	$128.4	$60.7	$792.4	$20.0	$452.4	$82.4	$370.0
2034	$193.9	$53.0	$2.0	$49.9	$25.0	$129.9	$64.0	$856.4	$20.0	$496.4	$82.5	$413.9
						Average $38.0						

The analysis indicates that even with an annual draw of $20 million to pledge towards an infrastructure fund, the MCCF will maintain a growing balance that is sufficient to meet its obligations.

Conclusion

This policy brief outlines how the Baker Administration's decision to halt the billion dollar convention center expansion project can be leveraged to create an opportunity to reinvest in the infrastructure of older, industrialized urban communities and not only achieve the same goal of growing the state's economic base but also do it in a way that affects the whole state.

Investment alone, however, will not put these cities and their residents on a path toward success. Our cities can and should work. By coordinating state efforts and measuring local results, we will achieve a higher rate of return from the investment of state and local funds. As development pressures continue to build in the Boston area, the opportunities to engage our Middle Cities can expand significantly. But, ultimately, if we want to revitalize our urban centers, state and local leaders will first need to rehabilitate their thinking and our policies to promote urban revitalization.

Appendix A. Middle Cities and Gateway Cities

MIDDLE CITIES	
Brockton	Lowell
Chicopee	Lynn
Fall River	New Bedford
Fitchburg	Pittsfield
Holyoke	Springfield
Lawrence	Taunton
Leominster	Worcester

GATEWAY CITIES	
Attleboro	Lynn
Barnstable	Malden
Brockton	Methuen
Chelsea	New Bedford
Chicopee	Peabody
Everett	Pittsfield
Fall River	Quincy
Fitchburg	Revere
Haverhill	Salem
Holyoke	Springfield
Lawrence	Taunton
Leominster	Westfield
Lowell	Worcester

Appendix B. Gateway Cities Grant Programs

Program Title	Administering Agency
Brownfields Programs	
Site Assessment (financing for environmental assessment)	MassDevelopment
Remediation Loan (loans for clean-up)	MassDevelopment
MassBRAC (environmental insurance)	Business Development Corporation of New England
Tax Credit (tax credit for property remediation)	MADOR
Chapter 43D Expedited Permitting	EOHED, MassDOT, EOAF
Chapter 40R Smart Growth Zoning Overlay District Act	DHCD
Chapter 90	MassDOT
Community Development Block Grant	DHCD/HUD
Community Investment Tax Credit Program	DHCD
District Improvement Financing	EOHED, MassDOT, EOAF
Economic Development Incentive Program	EACC/MOBD
Financial Literacy Trust Fund	Massachusetts State Treasurer's Office
Gateway Cities Loans	MassDevelopment
Gateway City Parks Program	EOEEA
HOME Investment Partnerships Program	HUD/DHCD
Housing Development Incentive Program	DHCD
I-Cubed (Infrastructure Investment Incentive) Program	MassDevelopment
Massachusetts Cultural Facilities Fund	Mass Cultural Council, MassDevelopment
Massachusetts Growth Capital Corporation	Massachusetts Growth Capital Corporation
MassHistoric Commission: Survey and Planning Grants	MassHistorical Commission
Massachusetts Preservation Projects Fund	MassHistorical Commission
MassWorks Infrastucture Programs	EOHED, MassDOT, EOAF
Public Works Economic Development (PWED)	EOHED, MassDOT, EOAF
Community Development Action Grant (CDAG)	EOHED, MassDOT, EOAF
Growth Districts Initiative (GDI)	EOHED, MassDOT, EOAF
Mass. Opportunity Relocation & Expansion (MORE)	EOHED, MassDOT, EOAF
Small Town Rural Assistance (STRAP)	EOHED, MassDOT, EOAF
Transit Oriented Development (TOD)	EOHED, MassDOT, EOAF
Safe and Successful Youth Initiative	Governor's Office of Community Affairs
Shannon Grants	EOPSS
Smart Growth Districts	DHCD
Tax-Exempt Bonds	MassDevelopment
Urban Renewal Program	DHCD

* http://www.mass.gov/hed/docs/dhcd/cd/gateway/stateresourcessupportingrevitalizationofgatewaycities.pdf

Appendix C. Strategic and Technical Assistance

The Commonwealth offers numerous assistance programs. The following is a partial but representative list of the kinds of strategic and technical support potentially available in the four service areas outlined in this report:

- *Education*: District and school audits; technical assistance in producing data reports and data availability; and relief from some regulatory burdens in the schools.
- *Public safety*: State Police assistance on Hot Spot patrols; technical assistance in creating a single platform of benchmark measures and unified CitiStat-style database; and advice on departmental command structures and budgetary streamlining.
- *Economic development*: Cooperation between city treasurers and the Land Court on foreclosures; targeted expansion of the scope of tax increment financing (TIF) to include market rate housing and, with sufficient controls, retail projects; relaxation of deed restriction requirements on housing funds so that funds can be used for housing demolition and rehabilitation costs; permit streamlining through Chapter 43D; advice to consolidate or rationalize municipal approvals in a coordinated process; advice to improve grant applications; detailed information on the labor force and business cost issues (energy, utilities, etc.); and collaboration in producing market studies and marketing strategy.
- *Fiscal management*: Resources of the Department of Revenue to support comprehensive financial management approach (see Appendix D); advice on reasonable targets for debt management, tax delinquency, health care, pension and contract negotiations with city employees.

Appendix D. Fiscal Thresholds

Core Elements

- Demonstrate the existence of or cooperate with DOR to develop basic budget and forecasting tools, including a comprehensive capital investment plan, a five-year financial forecast, and key enterprise accounts.
- Ensure strong financial management and payroll systems.
- Implement a multi-year financial planning process.
- Include strong control on al expenditures (including those based on transfers and grants) in the budget.
- Assess long-term (pension and retiree health care benefits) liabilities.

Capture long-Term Cost Certainty and Savings

- Purchase health benefits through the Group Insurance Commission or achieve comparable savings through changes in plan design.
- Out-perform the Pension Retirement Investment Trust (PRIT) over 10 years or transfer local pension system into PRIT.
- Transfer all eligible retirees to Medicare.
- Remove ineligible participants from health and pension benefits. Particular scrutiny should be paid to grant-funded and part-time employees.
- Settle workers compensation claims.
- Enter into sustainable collective bargaining agreements.
- Examine energy costs for savings.

Rationalize Fiscal Management

- Collect back taxes
- Systematize budgeting and payroll, adopting MUNIS (or a similar financial budget management software package) and ADP automatic payroll service (or similar).
- Budget for expected expenses.
- Account for collection issues.
- Segregate funds, such as a health care trust fud, to protect employee contributions.
- Avoid short-term borrowing.
- Reconcile accounts.
- Avoid liabilities to the IRS for tax filings and withholding problems by paying taxes.

Reorganize Operations

- As appropriate, reduce and or rationalize the number of reports to the city's chief executive.
- As appropriate, collocate related departments to encourage cross-function communication and ease application processes.
- Scrutinize allocation of employees and organization of departments.

Create Transparency

- Provide regular reports, i.e., weekly and monthly financial statements.
- Put vendor payments and municipal employee salaries online
- Systematize and plan for capital needs, with management structures to identify needs, oversee projects and protect assets that are built. This would involve a capital committee, budgeting by capital department, and the prioritization of maintenance.
- Implement work order systems, increasing the number of building maintenance work orders completed.

Embed Accountability

- Develop performance-based contracts for certain employees, such as teachers and principals.
- Use technology to track assets and performance; e.g., GPS and/or cameras in certain municipal vehicles.
- Enact drug/alcohol policies, including conditional drug testing.
- Implement CitiStat to provide continuous review of the quality of municipal operations.
- Build 311 capability.

Middle Cities Initiative

General

Ten Years Later: Trends in Urban Redevelopment (February 2016) by Aaron Beitman

Driving the New Urban Agenda (July 2009) by Jim Stergios and Maria Ortiz Perez

Rehabbing Urban Redevelopment (February 2007) by Jim Stergios

Extending the Stat Model Across the Commonwealth (2007)

Educational Excellence

*Municipal Benchmarks for Massachusetts Middle Cities: Educational Achievement (*April 2010) by Dr. Robert D. Gaudet

Economic Development

Municipal Benchmarks for Massachusetts Middle Cities: A Look at Economic Growth (May 2010) by Ezra Haber Glenn, AICP

New Business Creation and the Urban Economy (January 2008) by John H. Friar

Housing and Land Use Policy in Massachusetts (February 2007) by Amy Dain

Housing Programs in Weak Market Neighborhoods (December 2006) by Peter A. Gagliardi

Navigating Regulations Guides for Urban Entrepreneurs, now available for 10 cities.

Effective Fiscal Management

Testimony before the Joint Committee on Public Service of the General Court of the Commonwealth of Massachusetts Regarding the Fiscal Condition of Local Retirement Systems (January 2014) by Iliya Atanasov

A Practitioner's Guide to Outsourcing (July 2011) by Stephen Lisauskas

Learning from Springfield: An Asset Management Approach to Tax Title Collection (February 2009) by David Panagore

Regionalization: Case Studies of Success and Failure in Massachusetts (October 2008) by DeWayne Lehman and Charles Chieppo

GIC Consolidation (June 2008) by Steve Poftak

Learning from Springfield: Lessons in Effective Fiscal Management (April 2008) by Steve Poftak

Guide to Sound Fiscal Management for Municipalities

Leaving Money on the Table: The 106 Pension Systems of Massachusetts; Public Employee Benefits Series: Part 2 (May 2006) by Ken Ardon

Competition & Government Services: Can Massachusetts Still Afford the Pacheco Law? (October 2002) by Geoffrey F. Segal, Adrian T. Moore, and Adam B. Summers

Public Safety

Where Are the Public Safety Funds Going? (July 2010) by Brenda Bond, PhD., and Gabrielle Aydnwylde

Facing the Economic Crisis: Challenges for Massachusetts Police Chiefs (April 2010) by Brenda Bond, PhD., and Gabrielle Aydnwylde

Endnotes

1. **Available at http://pioneerinstitute.org/better_government/continuing-decline-over-last-decade-in-massachusetts-middle-cities/**.
2. In addition to general urban policy papers such as **Rehabbing Urban Redevelopment, Driving the New Urban Agenda, and Learning from Springfield**, the Institute has produced an extensive body of work on urban education, as well as numerous papers on urban economic development, such as our series of "Navigating Regulations" guides for urban entrepreneurs, **New Business Creation and The Urban Economy, Municipal Benchmarks for Massachusetts Middle Cities: Educational Achievement, Housing and Land Use Policy in Massachusetts, Housing Programs in Weak Market Neighborhoods, and Municipal Benchmarks for Massachusetts Middle Cities: A Look at Economic Growth**; in fiscal management, a Guide to Sound Fiscal Management for Municipalities, and papers on GIC Consolidation, A Practitioner's Guide to Outsourcing, Regionalization: Case Studies of Success and Failure in Massachusetts, Testimony concerning the Fiscal Condition of Local Retirement Systems, Leaving Money on the Table: The 106 Pension Systems of Massachusetts Public Employee Benefits Series: Part 2, and Competition & Government Services: Can Massachusetts Still Afford the Pacheco Law; in public safety, Where Are the Public Safety Funds Going? and Facing the Economic Crisis: Challenges for Massachusetts Police Chiefs.
3. As stated on MassINC's website, the Gateway Cities Innovation Institute works to "strengthen connections across communities" and "help Gateway City leaders develop and advance a shared policy agenda." For more information, see: **http://massinc.org/our-work/policy-center/gateway-cities/**.
4. Pioneer, Rehabbing Urban Redevelopment (2007, No. 38), MassINC, Reconnecting Massachusetts Gateway Cities (2007), Smart Growth Alliance of Massachusetts, ***Voices from Forgotten Cities: Innovative Revitalization Coalitions in America's Older Small Cities*** (2007). See Edward Glaeser's "Are Cities Dying?" Journal of Economic Perspectives 12, no. 2, Spring 1998, available at **http://www.gonzalo.depeco.econo.unlp.edu.ar/EU1UTDT/glaeser1998.pdf** and Jordan Rappaport's "U.S. Urban Decline and Growth, 1950 to 2000", Economic Review: Federal Reserve Bank of Kansas City, no. 3, 2003, available at **https://www.kansascityfed.org/publicat/econrev/pdf/3q03rapp.pdf**.
5. In "Ten Years Later", data for Leominster and Taunton revealed anomalous trends relative to the rest of the Middle Cities.
6. See **http://www.mass.gov/hed/economic/eohed/pro/infrastructure/massworks/what-is-it/**.
7. See **http://pioneerinstitute.org/news/school-based-management-a-practical-path-to-school-district-reform/**.

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