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Rehabbing Urban Redevelopment

Center for Economic Opportunity Working Paper

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CONTENTS

Executive Summary

Massachusetts, like many other eastern seaboard and Rust Belt states, has old cities that face the challenges that come with age, such as significant infrastructure degradation and a higher structural cost of doing business. While cities like Boston and Cambridge stand out for industry and commerce, they are unique, given their institutions and functions.

This report surveys 14 Massachusetts cities outside the immediate Boston metropolitan market, which other studies have identified as "weak market" or "gateway" cities. While useful designations, this report employs the term "Middle Cities."[1] Middle Cities denotes not only their operational size, but also their being in a sort of limbo, floating without specific functional purpose between bedroom communities and the thriving metropolitan area around the capital, and without political cohesion between the traditionally powerful Boston leadership of Beacon Hill and the burgeoning strength of suburban voters. The intention behind the term is to focus on the long-term performance and promise, not the current condition, of Middle Cities. The purpose of this research is similar—to lay out a policy blueprint that can re-establish a significant economic and social function for the Middle Cities within their respective regions, the state, and beyond.

A number of the Commonwealth's cities have had difficulty adapting to large-scale changes in the national and global economies. The hollowing out of the industrial and commercial bases and subsequent flight of the middle class have undermined the vitality and functional purpose of these cities. Day in and day out local officials struggle with these concerns and seek engagement from the private sector and state and federal partners to find solutions. With important exceptions, such as was the case of Lowell, effective coordination has not been forthcoming. As a result, these cities face the familiar litany of dysfunctional dynamics—the loss of a sense of order in the public square, the inability to maintain a revenue base, poor delivery of key services, and sometimes a sclerosis of institutions or, worse, instances of organized crime.

Most, though not all, Middle Cities fare poorly on measures of performance in key service areas—such as education, public safety, and fiscal management—and on metrics of economic prosperity. The trends, in most cases, are stagnant or worsening. This poor performance comes notwithstanding substantial state aid to these localities. On an annual basis, the state provides Middle Cities with almost $1.5 billion in state aid, equivalent to 38 percent of local aid going to 18 percent of the Commonwealth's population. The $7,244 allocated per pupil in Middle Cities through Chapter 70 (versus $2,761 per pupil in municipalities other than the Middle Cities, Boston, and Cambridge) makes the state a majority shareholder in the Middle Cities' education systems.

In addition, over the past years, the state has annually spent an average of $67+ million on or in Middle Cities through grant programs, large project ribbon cuttings, technical assistance and receivership or control board interventions. (In addition, Middle Cities have the ability to apply for some portion of the over $400 million in favorable loan programs funded through the Clean and Drinking Water Sate Revolving Fund and MassDevelopment programs.)

Is the lax performance the fault of the cities? The fact is, state policy on cities and the revitalization of cities has many spokes but no axle. The number of efforts, whether local aid supporting key quality of life services, direct investment or ribbon cuttings, or grant programs come without a coordinated plan or a goal in mind. So, for example, the state's education aid fails to come with any consideration of the number of non-education issues that impact educational outcomes. It is not news that not only is the state hard to deal with, because of the numerous points of contact, but that the right hand does not see what the left is doing.

The state's need to resort to receiverships points to a significant political and institutional problem in all cities: City leaders cannot be elected or conduct the business of government without being responsive to any number of entrenched interests—whether union, neighborhood, or advocacy interests—which in turn lessens their ability to drive change. Given the number and complexity of his or her challenges, the city's CEO must not only want and have the clout and constitution to drive change, but s/he must be able to carry it, in a focused manner, through economic downturns. That is a tall order for the CEO of any company let alone the elected official in charge of a corporation as complex and fraught with public trust issues as a city.

The bankruptcy of additional cities is not far-fetched, and as the creditor of last resort, the state must know that one or more of these and other cities, if not reformed dramatically, could become major liabilities. Over the past decade and a half, there have been several state interventions, most significantly the receivership in Chelsea and currently the control board experience in Springfield. While it is obvious that it does not make sense to put more money into the Middle Cities without accountability, the state has also learned how disruptive to local life and expensive to the state interventions can be.

The Chelsea and Springfield interventions are, however, the instances where the state has explored a variety of policy solutions and seen what has worked, and what has not. This paper argues that we need to learn the positive lessons from the state interventions and create a preventive policy that will reduce the likelihood of future receiverships. What is needed is a new partnership between the State and its Middle Cities that ensures the involvement of the private market, as the public sector cannot afford to and should not seek to undertake the revitalization of its Middle cities alone. Specifically, the major recommendations are:

1. Attract private capital to downtown areas through a sustained focus on improving management and quality of life services, business climate and fiscal management, by
   - Undertaking a benchmarking initiative, seeking to identify progress on key education, public order, business development and community redevelopment, and fiscal management measures. The benchmarking here advocated is city-specific—that is, it measures a city's improvement on measures over previous years rather than comparing performance across cities. The metrics suggested in this paper are meant to be a starting point for a dialogue on what the right benchmark measures should be.
   - Paying for performance on the basis of a municipal scorecard covering the benchmark categories. The scale of incentives should be meaningful but not such as to threaten the municipalities with insolvency. Something on the order of up to a 6-point spread on (97 to 103 percent of) current or future funding might be sensible. For example, in 2006, Lawrence received a total of $140 million dollars in local aid. The best/worst case scenario to Lawrence, based upon performance, would be +/- $4.2 million. To be politically feasible, it may be necessary to attach this pay-for-performance proposal to new local aid.

Benchmarking will encourage, through incentives, a long-term focus on improving key services and change the incentives so that it is easier for a reform-minded mayor or city manager to keep improving key services. These tools do not alleviate the need for local leadership, but they can help bolster such leaders.

2. Create a single point of contact within the Governor's office for Middle Cities, so as to improve coordination of state resources and provide support to these important cities. The team within the Governor's office would be tasked with

   - Coordinating technical assistance for each city and developing a plan in partnership for reinvestment in target city neighborhoods with regional and local leaders.
   - Working with city leaders to ensure that commitments to improve performance in the areas of education, public safety, business climate and fiscal management are fulfilled. The offer to develop a state-regional-local plan and fund its implementation would be based on key threshold actions. Of the communities fulfilling their commitments, priority would go those cities where local aid accounts for in excess of 50 percent of the total local budget
   - To ensure focus on achievable and measurable outcomes, delivering in a focused, planned and timely manner grant money and program resources from across the state agencies at a level equivalent to the average expended by state agencies in recent years ($67+ million).

Finally, the gubernatorial designees would convene a working group of Middle City mayors and managers to advance best practices and to suggest state policy and legislative reforms. Included in the discussions would be reforms to the Urban Renewal Development Fund, the Tax Increment Financing program, and housing and permitting programs to allow for greater flexibility and broader involvement of the private market in housing and business development in anchor neighborhoods.

I. Introduction: Middle Cities Today

Massachusetts, like many other northeastern seaboard and Rust Belt states, has old cities that face the challenges that come with age, such as significant infrastructure degradation and a higher structural cost of doing business. However, the more important challenges that our cities face are the results of a loss of functional purpose, the hollowing out of the industrial and commercial base, with the long-term effects of the flight of the middle-class and the concentration of a near permanent underclass. What followed in nearly every case was the sclerosis of the political class, the poor delivery of key services such as education, the loss of a sense of public order, and sometimes even the flourishing of organized crime.

Massachusetts certainly has a number of cities that have been able to attract business and improve quality of life due to the development of new high-tech business sectors and an influx of younger workers. For example, Cambridge and Boston have profited greatly from the high number of first-rate educational institutions and the workers and businesses these spawn. In addition, there are some smaller localities outside of Boston and Cambridge that are outcompeting the Middle Cities, such as Andover, the home of Raytheon, Billerica with Millipore, and Marlborough with Cytyc Corp. and Sepracor, Inc.

Development pressures and lower land values have driven development past 128 to the 495 beltway. Currently, Worcester is experiencing growth as the development barrier continues to expand westward. Notwithstanding underutilized housing, older cities across the Commonwealth have been a limited asset in addressing the housing shortfall that has driven up prices faster in Eastern and Central Massachusetts than in all but one metropolitan area in the United States. This paper seeks to understand how these "Middle Cities" can be catalyzed to grow by understanding what got them where they are today, how they are performing at present, and what state measures have been most effective in the past.

For the purposes of this paper, we have defined Middle Cities based on three objective factors—population, income per capita, and equalized valuation (i.e., "EQV," a measure of property value) per capita. We have allowed, however, certain exceptions based on two slightly more subjective measures—geographical distribution and separation from the Boston economy. We analyzed those cities with populations greater than 40,000, income per capita of less than $20,000, and EQV per capita of less than $80,000. These cities generally have seen a significant influx of immigrant populations and have also had persistent difficulties creating, attracting, or retaining businesses. For the sake of geographical distribution, we have also included Fitchburg and Pittsfield, although the former is just below the population cutoff and the latter has a higher per capita income than our threshold. Some of the Middle Cities, it is worth noting, have been performing better than others, with Lowell being the closest to a success story and other cities in the sample having shown strong improvement in certain areas of service or economic growth.

Pioneer Institute's Middle Cities Initiative focuses on the fourteen cities shown in Figure 1-1 below, which are home to more than 1.1 million residents, or 18 percent of the state's residents. The significance of this population is best emphasized by comparing it to the "inner core" of the Metropolitan Boston area, which has 23 percent of the state's population.[2]

The issue of how best to work with Middle Cities has interested a number of important scholars, developers and community development corporations, business organizations, and federal, state and local government officials. Many prominent academics and policy actors have examined the challenges facing cities in the United States. Harvard Professor Michael Porter initiated a broad (and often contentious) discussion of the economic potential of urban areas with the publication of "The Competitive Advantage of the Inner City," emphasizing the strengths and opportunities of existing inner city communities and market-based solutions to promoting their growth. Other academics have looked more closely at demographic data to determine which cities are growing and examined commonalities across high-growth cities. For example, in a series of papers,[3] the Harvard economist Ed Glaeser has identified a number of trends common to growing urban centers—high human capital, strong service industries (as opposed to a dependence on manufacturing), warm weather climates, and "sprawling" automobile-focused design.

Other studies have tightened their focus on "weak market cities." The Metropolitan Policy Program of the Brookings Institution has defined weak market cities as those ranked in the bottom third for long-term employment growth, per capita income growth, unemployment rate, poverty rate, and labor force participation. Kimberly Furdell and Harold Wolman, in their "Toward Understanding Urban Pathology: Creating A Typology of 'Weak Market' Cities," have notably incorporated other measures like annual payroll growth, growth in business formation, median household income, and labor-force participation rate.

Within Massachusetts, several studies have begun to grapple with city-level and state-level policies to revitalize urban centers. In 2000, the Worcester Municipal Research Bureau published "Revitalizing Worcester's Neighborhoods," emphasizing the role of neighborhoods and aggressive property-related measures. More recently, the Center for Urban and Regional Policy at Northeastern published "The Rebirth of Older Industrial Cities," a synthesis of interviews with business leaders and commercial real estate developers that focused on the barriers to urban development in five Massachusetts cities. The study identified a number of key barriers and proposed remedies. In December 2006, the Citizens' Housing Planning Association and the Massachusetts Association of Community Development Corporations produced "The State of the Cities—Revitalization Strategies for Smaller Cities in Massachusetts." This report combined an analysis of demographic data with case studies to draw several lessons on revitalization, identify community-specific policies, and propose a number of new policies.

This paper seeks to build on this previous work by bringing together the available macro-data on Middle Cities, a detailed accounting of state funding, and an examination of two recent state interventions. On this foundation of data and experience, it provides a detailed, systematic roadmap for state-level public policy makers interested in engaging Middle Cities on a positive pathway forward.

While the recent interest in the potential of Massachusetts' Middle Cities is certainly encouraging, the implementation of systematic thinking on practical measures to revive them has been weak. The focus has too often been on how to ensure that development does not force long-term residents and users out of the market as development pressures mount in Massachusetts' strong market areas. As a result, state policy makers lack tools and frameworks for coordination, and local officials have far too few resources at hand. State efforts to stimulate redevelopment in Middle Cities often is based on large public works "ribbon cuttings," an uncoordinated mix of agency grant or loan programs, or technical assistance. Few of these have had long-term measurable impact, and state agencies working in the same city are often at cross-purposes.

This state of affairs stems from the lack of an overall vision as to what the state can accomplish, a lack of clarity as to whether it has the political will to engage in this endeavor, and a lack of debate about its proper role. To be specific, the state has not meaningfully incorporated a means of attracting the private market to its Middle Cities. Many of the relevant state programs are meant to stem the effects of development pressures in hot housing markets and, therefore, are not conceived in a manner that seeks to maximize private sector involvement. However, given their size and regional importance, only the private sector has the resources to fully and stably revive the Middle Cities.

As we compete with other states (and other nations) for businesses and jobs, we cannot afford to write off the nearly a fifth of the state's population residing in our 14 Middle Cities, ignore the drag these cities exert on the state's economic competitiveness, or disregard the opportunity cost (what they could contribute economically if functioning well). One could argue that, if the economic function of these cities has disappeared, it may make more sense to leave the "places" alone and invest in "people." However, this view ignores the fact that cities do not just disappear, and that the state remains the creditor of last resort. Because the bulk of their former employment bases are gone for good, these cities, together with the business community, must reinvent themselves if they are to thrive, or even survive, in the coming century. Such an endeavor will require a significant effort to ensure that the cities hold the main ingredients to achieve some level of appeal, including a well-educated workforce, safe places to live, and fiscal management that employers can rely on not to increase their costs every year. The challenges in each of these areas are persistent and substantial. They are in great part defined by the vital economic role that these cities played historically and causes of their decline.

Figure 1-1 reveals change in population in Middle Cities since 1970. In fact, in terms of numbers, little has changed. In 1970, there were 1.17 million residents in the 14 cities in the sample, and in 2006, 1.15 million. That obscures, however, the important demographic and economic shifts, with steep increases in temporary, immigrant, and even illegal immigrant populations. There have also been large changes in the immigrant population itself, with a large influx of southeast Asians and Spanish- and Portuguese-speaking immigrants.

Figure 1-1. *Middle City Populations*

Municipality	2005	% Change 1970-2005
Brockton	94,632	6.3%
Chicopee	54,680	–18.0%
Fall River	91,802	–5.3%
Fitchburg	40,045	–7.6%
Holyoke	39,958	–20.3%
Lawrence	71,314	6.6%
Leominster	41,804	26.9%
Lowell	103,111	9.4%
Lynn	88,792	–1.7%
New Bedford	93,102	–8.5%
Pittsfield	43,860	–23.1%
Springfield	151,732	–7.4%
Taunton	56,251	28.6%
Worcester	175,898	–0.4%
Middle Cities Total	**1,146,981**	**–2.3%**
State Total	**6,398,743**	**12.5%**

Figure 1-2 presents a geographic summary of population trends during the last 35 years. Brockton and Taunton, together with Leominster, are growing steadily. Lawrence and Lowell lost population in the 1970s, but have been growing ever since. (Lynn and Worcester have behaved similarly, but from 1970 to 2005 there has been little absolute change in population in either city.) Half the cities in the sample have steadily lost population over the last third of a century. Falling into this category are Chicopee, Holyoke, Springfield, Pittsfield, Fall River, New Bedford, and Fitchburg.[4]

Figure 1-2. *Middle City Population Changes, percent, since 1970*

	Post-1970 MC Pop.% Change
Boston Loop	7.4%
Northeast	8.2%
Southeast	–6.9%
Central	1.9%
West	–14.1%
Middle City Average	**–2.3%**
State Average	**12.5%**

What is remarkable is that, in spite of considerable negative trends in educational attainment, public order, business and job growth, and fiscal management, these numbers have not fallen substantially in more than half a century. The Middle Cities have become more and more centers of immigrant populations and have increasingly served either as the springboard toward social mobility outside the city or an impediment to assimilation. The fear that these cities become traps for immigrants, where they remain marginalized from the rest of society is not unwarranted—especially after the seemingly permanent under-class in New Orleans came into the clear view of all Americans after Hurricane Katrina.

The physical identities of these cities are conditioned in great part by the historically significant manufacturing role they played in the Massachusetts economy. The design and layout of many of these communities represents the industrial operations of a century ago. Lawrence, Holyoke, and other cities are all designed around industries no longer present, requiring major infrastructure changes to shift existing structures to new economic opportunities. During their respective golden ages, many of these Middle Cities experienced strong population and economic growth. For example, the textile industry powered the growth of Lawrence and Lowell in the Merrimack Valley. Textile production and a world-class fisheries industry drove the growth and regional predominance of Fall River and New Bedford. Brockton and Lynn were centers of shoe manufacturing and leather processing, while the plastics industry was once integral to the growth of Leominster. Manufacturing, in forms ranging from electrical components to armaments and machine tools, was the driving force behind industrial development in Pittsfield and Springfield.

Most of the Middle Cities played a role in the Revolution, and they were economic successes during the United States' economic expansion during the 19th century and rise to a global superpower during the late 19th and early 20th century. Since the mid-20th century, however, the Middle Cities have been in steady decline. Factories have closed in large numbers, and there has been a significant exodus of commerce and financial institutions.

Each one of these economic success stories has been followed by varying degrees of decline, as textile, shoe, and other manufacturing moved to lower cost, higher technology centers domestically and abroad, fisheries suffered from declining stocks and overseas competition, and the defense industry consolidated in other parts of the country. After the loss of manufacturing jobs, these communities have struggled to reinvent themselves, even as surrounding communities have thrived, attracting new businesses, cultivating local business opportunities, improving educational outcomes, and maintaining safe neighborhoods.

The Rise of a Permanent Underclass

The loss of businesses and jobs was not followed by new small business creation. The flight of the middle class has often been described as a drain in resources and access to capital. But, in truth, its more important impacts are more accurately described as both a brain drain and an equity drain. While capital became scarce in the 1970s, the passage of the Community Reinvestment Act (CRA) in the 1970s ensured that some measure of capital was available through the 1980s—and then the wave of bank mergers in the 1990s made billions of dollars available to downtown reinvestment across the country. Some measure of progress came, but the promised impact of the CRA money has not materialized. It is at least arguable that this is because, while access to capital is important, you need to have real people who can buy the goods and services offered. That is, we may have solved the access to capital issue, but cities need to have people with equity—people who represent the demand side of the equation. You need a flourishing middle class, and that is not what we have in our Middle Cities.

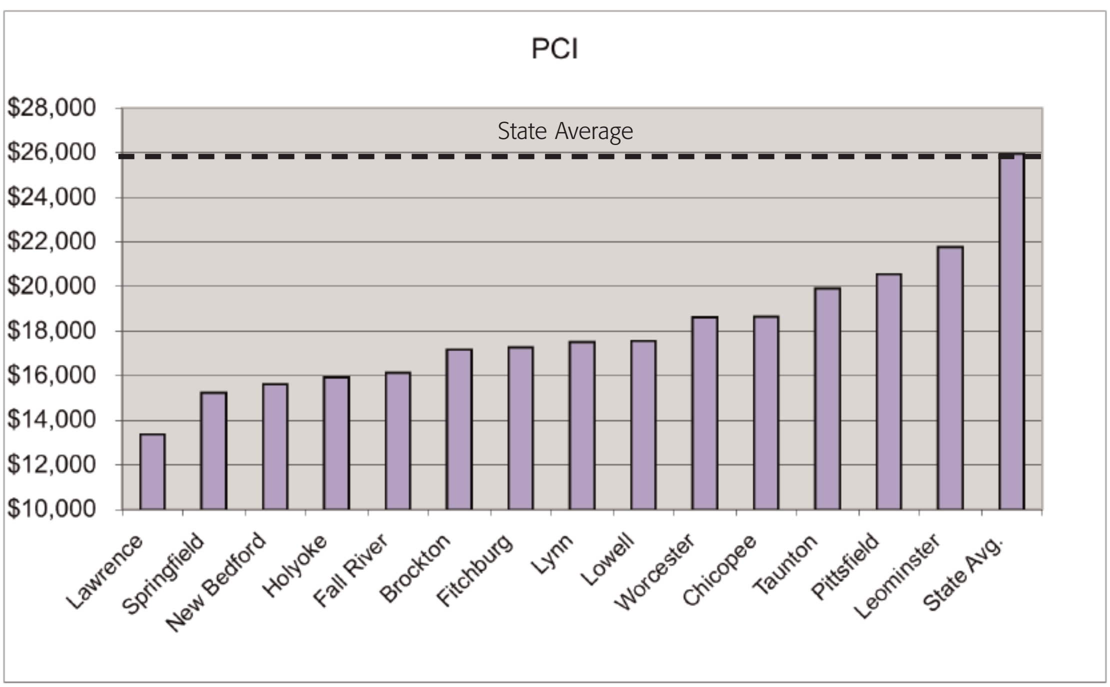
On the contrary, we have an increasingly permanent underclass. Figure 1-3 shows the unemployment levels for these cities in 1990, 2000, and 2005. In each of these years, all 14 cities have higher levels of unemployment than the state average, with the exception of Pittsfield in 2005, which tied the state average.[5] Probably more importantly, of these cities, only Chicopee, Fitchburg, and Brockton have made substantial progress on reducing their unemployment levels. (New Bedford and Fall River have reduced their unemployment rates but are still more than three points higher than the state average.) This lack of self-direction is further underscored by the fact that these trends occur over the period of welfare reform, which lowered the unemployment numbers in urban areas, and because official unemployment figures generally underreport actual unemployment.

The depth of poverty can be illustrated by comparing per capita income (PCI) in the Middle Cities to that of the state. While PCI varies across the Middle Cities, as a whole they have a much higher concentration of poverty. Figure 1-4A shows that in 1999, PCI in the Middle Cities was between $4,000 and $12,000, or 16 to 50 percent, lower than the state average.[6] The same picture is painted by median household and family income data (see Appendix A).

Figure 1-3. *Middle City Unemployment, Percentage of Overall Workforce*

Municipality	1990	2000	2005
Worcester	7.3%	3.3%	5.3%
Springfield	7.6%	4.4%	6.7%
Lowell	8.2%	3.3%	6.3%
Brockton	9.0%	3.6%	5.7%
New Bedford	12.0%	6.5%	7.8%
Fall River	12.3%	5.0%	7.6%
Lynn	7.5%	3.4%	5.8%
Lawrence	11.4%	6.4%	9.8%
Taunton	8.0%	3.2%	4.8%
Chicopee	6.7%	3.3%	5.3%
Pittsfield	6.7%	3.6%	4.5%
Leominster	7.2%	3.2%	5.4%
Holyoke	8.3%	4.2%	6.7%
Fitchburg	8.9%	4.0%	6.3%
State Average	**6.0%**	**2.6%**	**4.5%**

Figure 1-4A. *Per Capita Income, 1999, in the Middle Cities*



The Middle Cities' PCI is not only lower but declining relative to the state average. Figure 1-4B shows that the Middle Cities' PCI stood at 82 percent of the state average in 1979, but declined to 74 percent in 1989 and further to 68 percent in 1999.

Figure 1-5 shows changes in the equalized (property) valuation (EQV) in Middle Cities from 1992 to 2004. Equalized property valuation captures the value of the property assets of a community (from which property tax revenues, the most material of the local sources of funds, is derived). Changes in property value also reflect the amount of growth in a community as well as increases in valuation that stem indirectly from a number of factors—among others, improved schools, safer streets, increased employment.

The standard figure for the property value in a community is the "Equalized Valuation" that is produced by the State Department of Revenue and defined as "an estimate of fair cash value of all taxable property in each city and town as of January 1 of each…[and]… a measure of the relative property wealth in each municipality."

Trends in EQV for the Middle Cities tell a compelling story, and foreshadow their fiscal difficulties, particularly for those in western Massachusetts.

While the EQV for the entire state grew at a rate of 13 percent from 1992 to 2004, the Middle Cities grew at a rate less than half of that, 6 percent. Most notably, the Middle Cities in western Massachusetts (as well as Brockton) grew at dra-

Figure 1-4B. *Per capita Income, 1999, in the Middle Cities, Average vs. State Average*

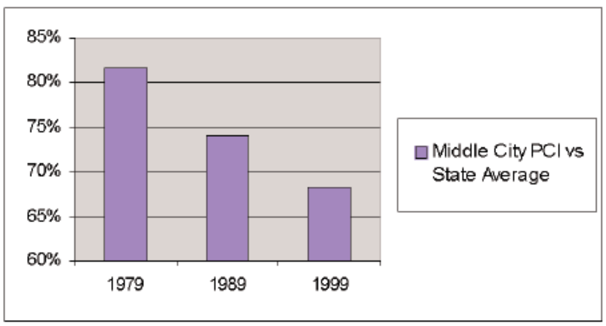


Figure 1-5. *Middle Cities Equalized (Property) Valuations: 1992–2004 ($Billions)*

	1992	1994	1996	1998	2000	2002	2004	Annual Growth Rate
Brockton	3.56	3.04	2.81	2.89	3.33	4.42	6.00	2%
Chicopee	2.31	2.17	2.01	2.02	2.09	2.25	2.67	2%
Fall River	2.91	2.76	2.81	2.93	2.87	3.17	4.34	7%
Fitchburg	1.42	1.31	1.18	1.18	1.27	1.50	2.04	6%
Holyoke	1.54	1.37	1.12	1.26	1.45	1.49	1.69	2%
Lawrence	2.04	1.34	1.12	1.20	1.45	2.02	2.88	6%
Leominster	1.90	1.72	1.71	1.73	1.95	2.36	3.06	8%
Lowell	3.82	3.17	2.64	2.71	3.13	4.16	5.83	7%
Lynn	3.21	2.63	2.45	2.48	3.00	4.13	5.89	11%
New Bedford	3.10	3.01	2.95	2.83	2.83	3.28	4.69	7%
Pittsfield	2.37	2.04	1.98	2.05	2.05	2.25	2.55	1%
Springfield	5.32	4.78	4.10	3.93	4.26	4.86	5.78	1%
Taunton	2.14	2.08	2.25	2.39	2.60	3.19	4.54	13%
Worcester	6.84	5.79	5.41	5.54	6.01	7.25	9.69	6%
Total	**42.48**	**37.22**	**34.56**	**35.13**	**38.28**	**46.31**	**61.67**	**6%**

Source: MA Department of Revenue Division of Local Services Muncipal Data Bank website, http://www.mass.gov/Ador/docs/dls/mdmstuf/PropertyTax/Eqv7004.xls, last accessed 1/8/07 matically slower rates than the average—2 percent or lower for Chicopee, Holyoke, Springfield, and Pittsfield. The decline of the Middle Cities might be indicated by the startling statistic embedded in the above table: in aggregate, the Middle Cities shed over $7 billion dollars in property value from 1992 to 1998. Only significant rebounds in 2002 and 2004 provide growth over the time series.

In order to make our urban centers places where local businesses can be created and where entrepreneurs may want to invest, cities and the state must look to make them attractive to an educated workforce and to the middle class. That will require attention to basic quality of life concerns, not only public order and educational opportunity but also good fiscal management and economic development. Before providing a comprehensive strategy for driving good outcomes in these four areas of policy, we present data on three of these quality of life measures.

A Punishing Lack of Public Order

The Commonwealth's Middle Cities have crime rates well above per capita averages for the rest of the state. The elevated level of crime—whether violent crimes, property crimes, or arson—is, together with education, one of the most significant hurdles to the reinvention and revitalization of the Middle Cities as residential and commercial centers.[7]

Figures 1-6A and 1-6B show a broad data set of crimes per 1,000 in these cities. High crime rates are not a given for urban areas as can be seen in the variations across the range of Middle Cities. For example, Chicopee's violent crime rate is one-third that of Springfield. Worcester's property crime rate is not significantly different from that of the entire state, while Holyoke's and Springfield's are strikingly high. Lawrence's violent and property crime rates are comparatively low (as are their fire and arson rates, shown in Figure 1-7 subsequently). These variations may result from the varied reporting methodologies, which could skew the data. The variations also could be caused by variations in the crime-fighting and prevention strategies used by the departments, suggesting that there is an opportunity to disseminate best practices and affect the level of crimes across the cities.[8]

The rates of fires and arsons per 1,000 vary widely across Middle Cities, as do the financial damage totals caused by fires and arson. Figure 1-7 shows that Worcester (18.2), Holyoke (8.3), Springfield (7.1), and Pittsfield (6.5) have the highest per capita fire rates. The same cities have the highest per capita arson rates. Again, fire hazard rates vary across the Middle Cities with no discernable pattern, which suggests possible reporting and methodological problems. The existence of the wide variation of performance on these measures may indicate an opportunity to disseminate effective strategies and practices

Figure 1-6A. *Middle City Violent Crime Rate Crime Value/1,000*

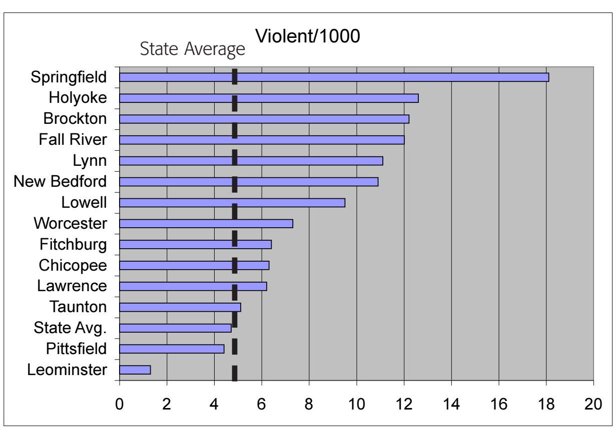


Figure 1-6B. *Middle City Property*

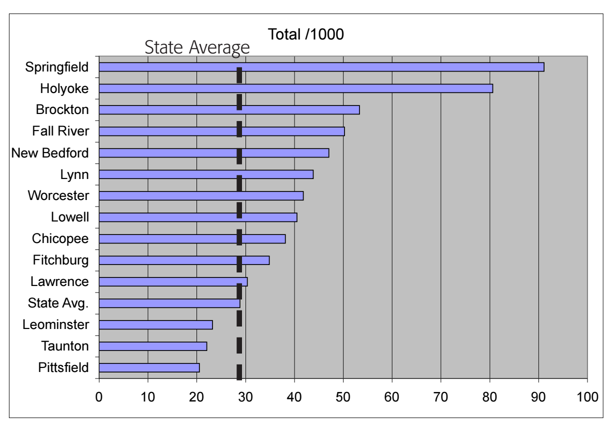


Figure 1-7. *2004 Middle City Fire and Arson Statistics*

City	Fire/1000	Arson/1000
Worcester	18.2	0.78
Springfield	7.1	0.41
Lowell	0.57	0.02
Brockton	2.0	0.08
New Bedford	3.9	0.39
Fall River	5.6	0.37
Lynn	0.93	0.02
Lawrence	5.4	0.24
Taunton	1.06	0.11
Chicopee	4.4	0.07
Pittsfield	6.5	0.59
Leominster	6.4	0.33
Holyoke	8.3	0.45
Fitchburg	3.6	0.32

for making these communities safer, but it also is an indicator of the challenges of utilizing currently available data.

The data presented here are not meant to be exhaustive, but rather present a snapshot of the state of public order in our Middle Cities. Certainly, city managers will consider a variety of other data on crime and the impact of fires and arson.

Failing School Systems

It is well-known that students enrolled in the Middle City public schools perform considerably worse than elsewhere in the Commonwealth. Figures 1-8 and 1-9 provide an overview of 10th grade education achievement on standardized tests in the Middle Cities.[9] While on average in Massachusetts, 65 percent of students perform at an "Advanced" or "Proficient" level in 10th Grade English Language Arts, in the 14 Middle Cities none come close, with a range of 29 percent to 55 percent at that level. A majority of the cities fall between the 30 to 49 percent range. Statewide, 25 percent of students "Need Improvement" in 10th Grade ELA, yet in most of the Middle Cities more than a third of students "Need Improvement." The most sobering finding is that while statewide 10 percent of the students are classified as "Warning/Failing," the majority of Middle Cities have more than 20 percent of their students in this category.

Math scores are even worse—especially in the "Warning/Failing" category, where in most of the Middle Cities more than 25 percent of their students, compared to 15 percent statewide, are ranked as such. While across Massachusetts, 62 percent of students are "Advanced" or "Proficient" in the 10th Grade Mathematics test, in all Middle

Figure 1-8. *2005 10th Grade ELA MCAS Performance*[10]

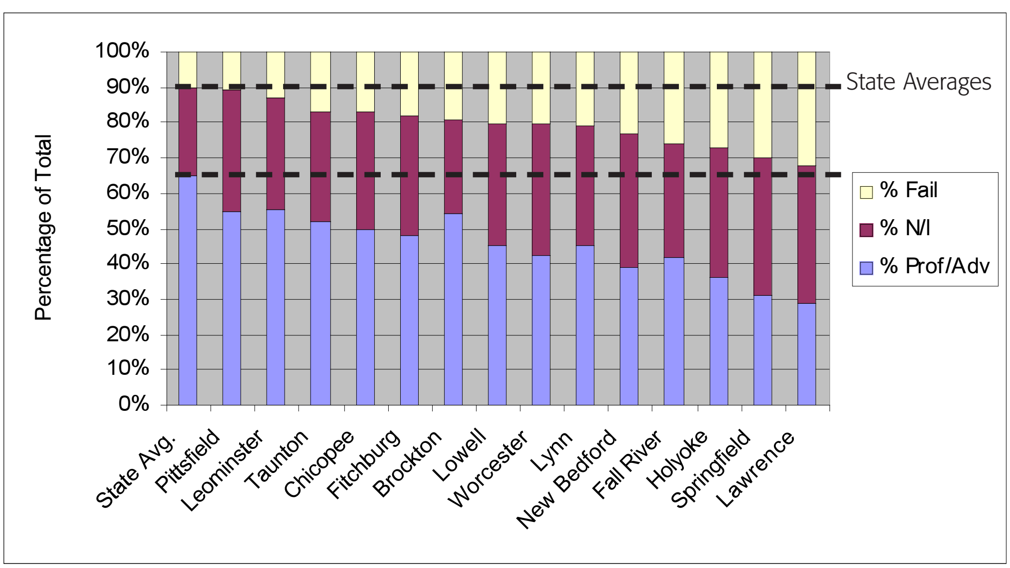
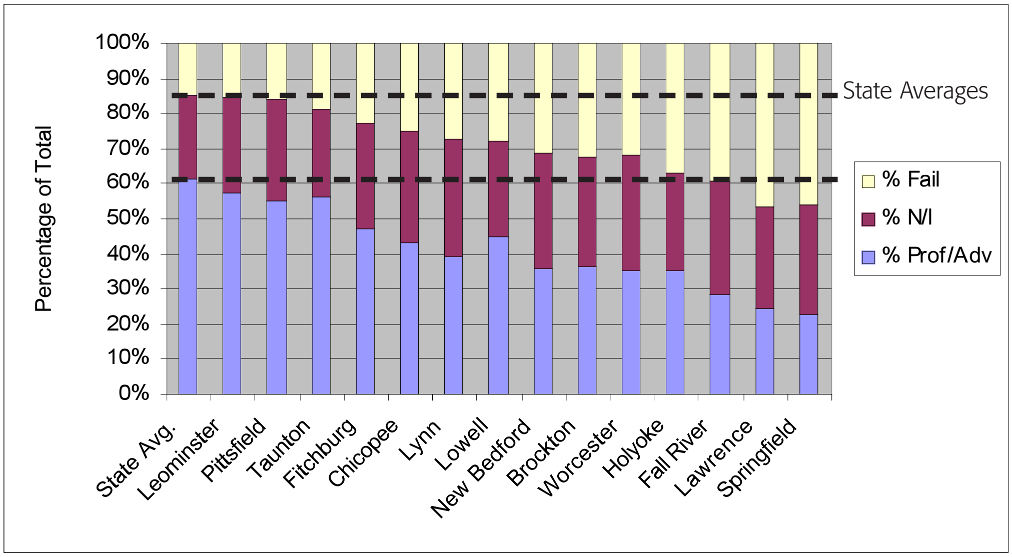


Figure 1-9. *2005 10th Grade Math MCAS Performance*[11]



Cities but Taunton (56 percent), Pittsfield (55 percent), and Leominster (57 percent), less than half the students score that high. In some cities it is worse—23 percent in Springfield, 28 percent in Fall River, 24 percent in Lawrence, and 35 percent in Holyoke and Worcester.

Figure 1-10 shows that high school graduates from the Middle Cities also attend college at lower rates than the state average. Although it is encouraging that more Middle Cities high school graduates attend two-year colleges/universities than the state average, far fewer attend a four-year college. In the six cities furthest to the right in the figure, the number of graduates planning to go to a four-year college is 40 percent or more below the state average. The aggregate number of high school seniors entering college is below the state average, except for Pittsfield, Worcester and Brockton. Given the low graduation rates for two-year colleges (only 18.9 percent graduate within a three-year window), it is probable that many fewer Middle Cities high school graduates attending state or community colleges actually obtain some type of college degree.

Dropout rates in the Middle Cities are also higher than the state average (see Figure 1-11 below). In the 2003-2004 school year, the dropout rate in every Middle City was higher than the state average of 3.7 percent. Fitchburg, New Bedford, and Fall River were at or near 10 percent and Holyoke and Lawrence close to 11 percent. The dropout rate of all the Middle Cities, taken as an average, was roughly 7.3 percent, almost double the state average.[13] Recently, the Department of Education presented cumulative dropout data covering the duration of high school rather than the single year rates presented below. According to the DOE, between approximately 14 and 18 percent of students drop out over the course of high school in Leominster, Worcester, Lowell, Brockton and Lynn; between 23 and 26 percent in Chicopee, Taunton, Pittsfield, New Bedford and Fitchburg; and between 34 and 40 percent in Springfield, Holyoke, Fall River and Lawrence.

Because of low educational achievement, even when employers settle into a Middle City, as MassMutual and Bay State Medical have done in Springfield, they are as likely to hire from outside the city as within, leaving much of the underclass untouched and unemployed. Informal interviews suggest that roughly 35,000 of the 77,000 people working in Springfield commute in from outside the city limits.

Figure 1-10. *2004 Plan of High School Graduates*[iii]

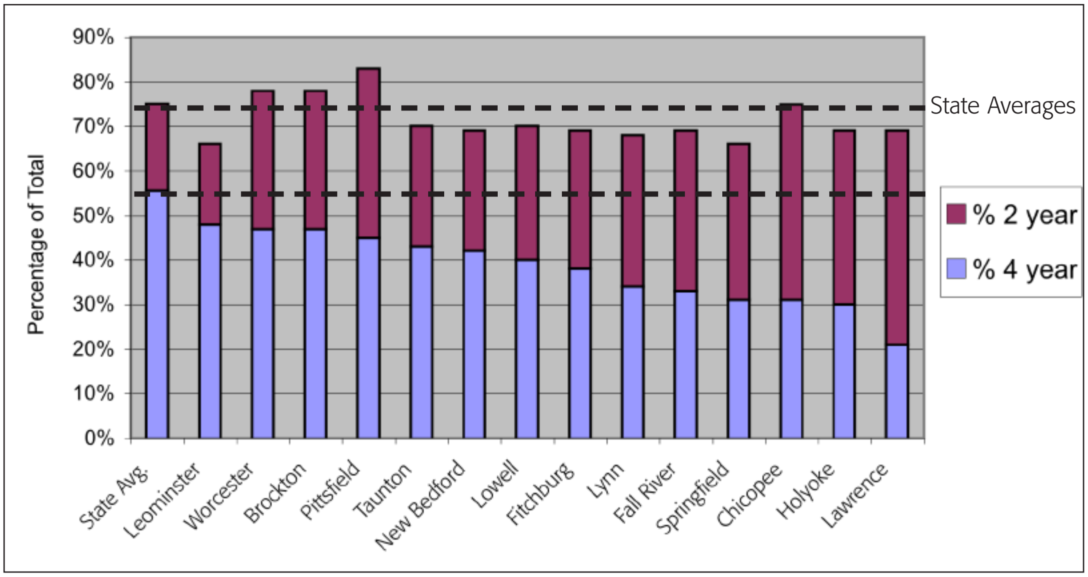
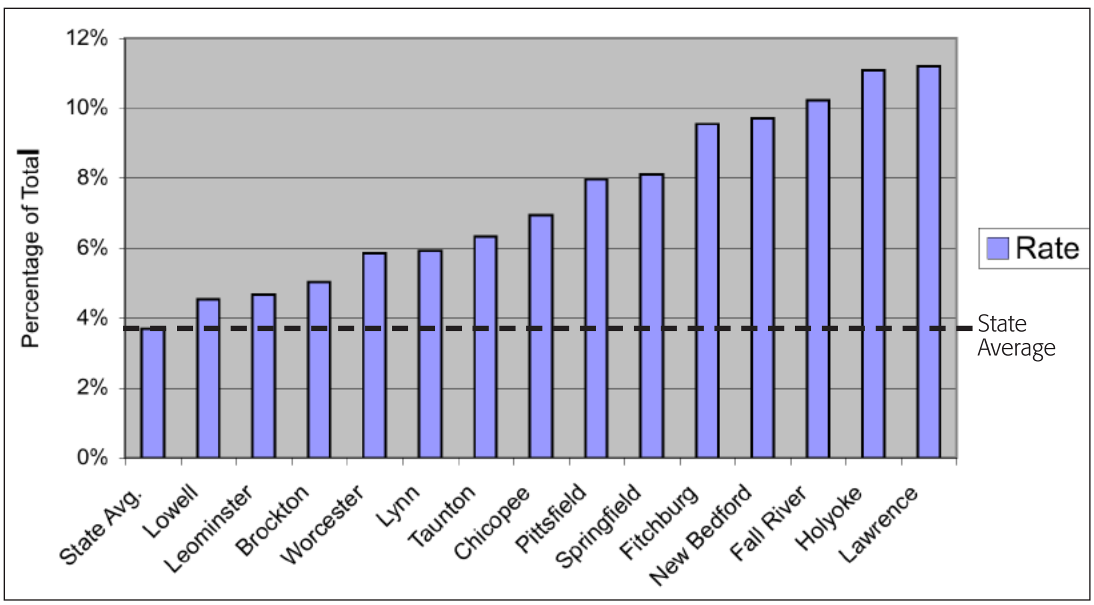


Figure 1-11. *High School Dropout Rates, 2003-2004*



Debilitated Municipal Fiscal Health

The fiscal sustainability of the Middle Cities is a function of good management and having the residential and commercial property base sufficient (together with fees) to maintain the level of core service provision adequate to a good quality of life. In urban areas, key services start with public education and public order. Some indicators of fiscal health include bond ratings and the fiscal sustainability of the city given its long-term commitments on such things as health care benefits and pensions.

Figure 1-12 summarizes the bond ratings for Middle Cities from 1990 to 2005. Bond ratings present a snapshot of a community's relative fiscal health, but they should be viewed with certain reservations. Bond ratings are generated by independent rating agencies with vast experience as objective analysts of municipal finance. However, the reduction of such a complex set of data into a single data point requires simplification. Moreover, while a strong bond rating is desirable and indicative of sustainable financial management, achieving the topmost rating may not be the most effective way to manage a municipality.

As a frame of reference, for 2006, 230 of the 266 rated municipalities in the state are rated in the "A" range, including Boston. According to Moody's, ratings in the B range are for investments that "lack outstanding investment characteristics and, in fact, have speculative characteristics as well." Seven of the thirteen Middle Cities have bond ratings in the B range, with Springfield as the weakest at Baa3. Brockton, Chicopee, Leominster, Lowell, Taunton, and Worcester have ratings in the A range.

One of the key factors underlying the bond ratings is the sustainability of the debt load of each community. Figure 1-13 summarizes a key debt load metric—the ratio of a community's total debt versus the value of its property. The numerator takes into account all the debt obligations facing a community while the denominator, EQV, again captures the value of the property assets of a community (from which property tax revenues, the most material of the local sources of funds, is derived).

It should be noted, however, that it can be a sound financial strategy for communities, particularly Middle Cities, to take on debt for major capital projects. Thus we might expect their debt ratio to be higher than the state average, especially since there are a number of smaller communities with minimal infrastructure needs and little or no debt embedded in the state average. We can remove some of this skew by calculating a "Debtors of Scale" average, counting only those communities that have borrowed more than the state average over the past six years and who have outstanding debt in 2006. However, even this adjusted average is meant for comparative purposes only, not as an upper threshold for the Middle Cities.

Figure 1-12. *Moody's Bond Ratings, Middle Cities*

	1990	1995	2000	2003	2004	2005	2006
Brockton	BA	Ba	A3	A2	A2	A2	A2
Chicopee	A	A	A3	A3	A3	A3	A3
Fall River	BAA1	BAA	Baa2	Baa1	Baa1	Baa1	Baa1
Fitchburg	BAA1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
Holyoke	BAA	Baa	Baa1	Baa1	Baa1	Baa1	Baa1
Lawrence	BA	Ba	Baa3	Baa2	Baa2	Baa2	Baa2
Leominster	AA	Baa1	Baa1	A2	A2	A2	A2
Lowell	BAA	BAA	A3	A2	A2		A3
Lynn	BAA1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
New Bedford	BAA	BAA	Baa3	Baa2	Baa2		Baa1
Pittsfield	A	A3	Baa2	Baa2	Baa2	Baa2	
Springfield	BAA	BAA	Baa3	Baa3	Baa3	Baa3	Baa3
Taunton	A	A	A3	A3	A3	A3	A3
Worcester	BAA1	BAA1	Baa1	A3	A3	A3	A3

Source: Massachusetts Department of Revenue Division of Local Services Muncipal Data Bank website, http://www.mass.gov/Ador/docs/dls/mdmstuf/Debt_OtherFinancialIndicators/moodybond.xls, last accessed 1/8/07.

NB—Moody's ratings run in declining order from Aaa to Aa to A to Baa to Ba to B. In 1997, Moody's added numbers to its rating system to provide additional guidance—each letter grade had 1, 2, and 3 added to it, with 1 representing the top third of that letter grade down to 3 representing the lower third.

Figure 1-13. *Total Debt to Total Value of a Community's Property (EQV), 2002, 2004, 2006*

Municipality	Equalized Valuation 2002	Equalized Valuation 2004	Equalized Valuation 2006	FY02 Total Outstanding Debt	FY04 Total Outstanding Debt	FY06 Total Outstanding Debt	2002 Debt/ EQV	2004 Debt/ EQV	2006 Debt/ EQV
Brockton	4,420,483,600	6,003,792,100	7,755,218,300	82,339,746	72,719,476	86,930,065	1.9%	1.2%	1.1%
Chicopee	2,245,227,200	2,671,988,900	3,205,345,300	21,317,987	16,875,069	16,733,166	0.9%	0.6%	0.5%
Fall River	3,166,310,800	4,343,771,700	6,393,670,700	92,167,815	190,451,247	198,787,069	2.9%	4.4%	3.1%
Fitchburg	1,496,433,500	2,038,991,700	2,666,511,900	75,852,305	72,584,838	74,437,967	5.1%	3.6%	2.8%
Holyoke	1,489,955,600	1,688,257,400	2,080,918,800	68,845,000	58,500,001	53,135,002	4.6%	3.5%	2.6%
Lawrence	2,022,345,300	2,879,962,100	3,750,838,800	132,280,433	122,356,096	125,751,360	6.5%	4.2%	3.4%
Leominster	2,360,140,400	3,064,606,000	3,983,376,300	28,381,497	31,234,120	31,485,680	1.2%	1.0%	0.8%
Lowell	4,160,223,600	5,834,289,000	7,265,307,200	191,715,984	196,992,865	189,502,376	4.6%	3.4%	2.6%
Lynn	4,129,696,800	5,892,730,000	7,240,287,700	105,139,110	95,819,110	89,140,000	2.5%	1.6%	1.2%
New Bedford	3,278,457,000	4,687,147,600	6,311,715,700	207,099,856	187,296,103	n/a	6.3%	4.0%	n/a
Pittsfield	2,248,345,900	2,551,381,300	3,058,928,100	74,390,000	65,430,000	n/a	3.3%	2.6%	n/a
Springfield	4,855,465,800	5,778,583,600	6,954,124,300	253,268,877	296,764,150	284,514,775	5.2%	5.1%	4.1%
Taunton	3,187,799,600	4,540,568,000	6,075,770,600	83,066,916	85,651,474	n/a	2.6%	1.9%	n/a
Worcester	7,248,688,400	9,694,617,900	12,571,998,500	554,019,365	555,556,877	570,847,682	7.6%	5.7%	4.5%
Middle Cities Total	**46,309,573,500**	**61,670,687,300**	**79,314,012,200**	**1,969,884,891**	**2,048,231,426**	**1,721,265,142**	**4.3%**	**3.3%**	**2.2%**
State Average	**1,825,866,734**	**2,324,852,758**	**2,815,347,242**	**27,198,555**	**30,510,511**	**22,920,619**	**1.5%**	**1.3%**	**0.8%**
State Average (Debtors of Scale)	**4,242,808,300**	**5,311,251,282**	**6,332,472,106**	**77,122,812**	**85,383,231**	**85,663,092**	**1.8%**	**1.6%**	**1.4%**

Source: MA Department of Revenue Division of Local Services Municipal Data Bank website, multiple webpages.

N.B. Debtors of Scale is defined as those communities that have outstanding debt in 2006 and have borrowed in excess of the state average for 2002, 2004, and 2006. This measure is designed to weed out many of the smaller communities that carry little or no debt.

A key complementary element of this measure is the completion and adherence to a comprehensive Capital Investment Plan in order to avoid encouraging deferred maintenance. It is unsurprising that the Middle Cities, with significant infrastructure needs, are utilizing debt. Rather, the intent of the measure is to prevent municipal borrowers from overburdening their tax base with unmanageable debt levels.

Examining the ratio produced by the comparison of debt level to EQV for the Middle Cities prompts several broad conclusions:

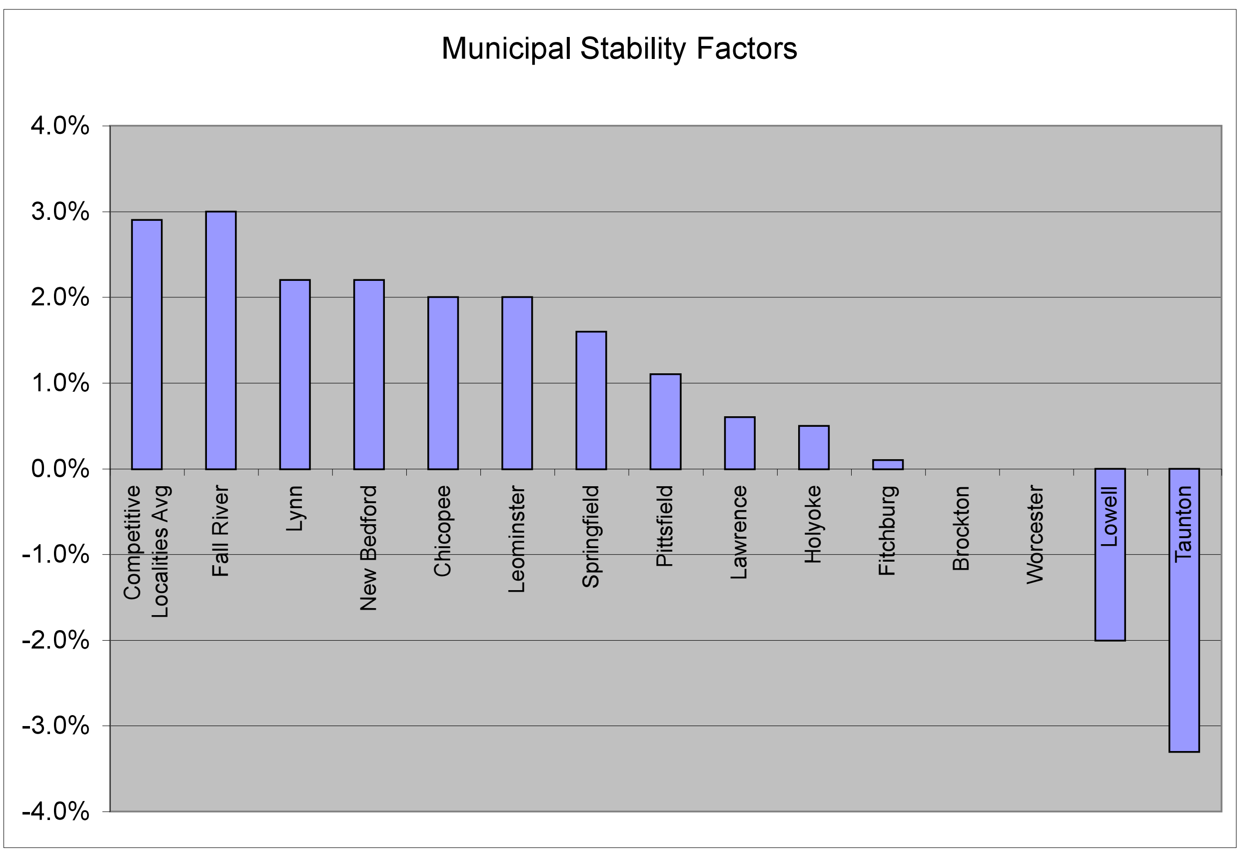
- The Middle Cities have largely controlled their debt from 2002 to 2006: With the notable exception of Fall River (and lacking 2006 data for three communities), the remaining Middle Cities have not increased their debt dramatically and many have decreased their debt. Coupled with increases in property valuations, this has resulted in declining Debt/EQV ratios, reflecting a stronger tax base and borrowing restraint.
- Middle Cities borrow relative to their property tax base at a rate of double or greater than the average city in the Commonwealth, and exceed significantly the rate of borrowing of "Debtors of Scale."

Excessive borrowing, particularly when it does not result in increased property values, is unhealthy for municipalities: it burdens future revenue streams with high debt payments. That said, debt financing can be a responsible strategy for financing the construction of assets with service lives similar to the debt incurred or that will generate additional tax revenue in excess of debt service payments. More controversially, debt financing can be a means for municipalities to convert unfunded liabilities (such as pensions or employee/retiree healthcare) into funded liabilities.

Another more forward-looking metric of fiscal sustainability is a side-by-side comparison of the "municipal stability factors" established by the Commonwealth's Executive Office for Administration and Finance (ANF) in 2005. Concerned by its localities' unsustainable long-term commitments, ANF sought a way to analyze whether a given municipality's discretionary spending (new programs, new collective bargaining agreements, etc.) was sustainable. It did this by comparing discretionary funds to discretionary spending—essentially, matching the revenue available to localities (property taxes, state aid, and local receipts) against long-term commitments (health care and pension costs). The result provides a measure of the sustainability of discretionary spending growth. It allows communities to determine if current increases in discretionary spending can be supported by increases in revenues.

Figure 1-14 charts Middle City MSFs versus those of Boston and Cambridge and the aforementioned competitive localities of Billerica, Marlboro, and Andover (listed as "Competitive Localities Avg."). With the exception of Fall River, which has been buoyed by significant property tax increases, MSFs in competitive localities are higher than those in the Middle Cities. The primary drivers for the Middle City inferiority are declining property tax bases, relatively flat state aid (upon which Middle Cities disproportionately rely), and significant pension and health insurance costs.

Figure 1-14. *ANF Fiscal Sustainability Factors*



Source: MA Department of Revenue, Municipal Stability Analysis http://www.mass.gov/Muni_dor/index.html. DOR Website has since eliminated Municipal Stability Analysis from its website.

The Municipal Stability Factor provides a framework for assessing the sustainability of discretionary spending by municipalities. It provides a ceiling for a sustainable level of increase in discretionary spending. If a community chooses to increase spending, through the introduction of new programs, expansion of current programs, or the negotiation of large collective bargaining increases at a level above the Municipal Stability Factor, then it is budgeting in a manner that is not sustained by current revenues. As part of the benchmarking process, the level of new spending for each community would have to be calculated, then each community would be assessed on the sustainability of its new spending.

There are many obstacles to fiscal stability in our Middle Cities. Weak economic growth, relative to the rest of the state, has impeded the growth of property values and the tax base. Local leadership has frequently found it difficult to manage the demands of public employees in the context of limited growth in property tax and state aid revenues. Municipal officials also struggle with the "chicken and egg" issue of deteriorating public infrastructure and the loss of employers.

The three measures selected as financial sustainability benchmarks—bond rating, total debt to the total value of property, and the municipal stability factor—provide broad metrics while giving public managers extensive latitude to manage. By making additional local aid dependent on performance on these metrics, local managers are rewarded with additional resources for managing their locality in a manner that prevents the need for more extensive state involvement.

II. How We Promote Revitalization in Massachusetts

When it does not attach money or incentives to tools or policy actions, the Commonwealth has struggled to change the direction of economic development. This is especially so regarding our urban centers, which have a number of special resistances that need to be overcome to achieve sustainable success. On the one hand, the Commonwealth should not misconstrue its role and micromanage municipalities, except in such extreme circumstances as a control board or a receivership. On the other, the Chelsea receivership and the Springfield Control Board have demonstrated that it has assets and expertise that could be useful to turning around localities, whether that is DOR, public order, environmental, economic development, or transportation staff, or whether through enhanced planning and policy direction that circumvents the local political imperative to please all at all times.

State receiverships have been granted consolidated executive and legislative-style powers that, combined with the state's desire to return to full local control at the earliest time that ensures long-term success, have made bold action and policy innovations possible that correct key misconceptions. The tools that it has are not effective unless the state partners effectively with local authorities, and initiatives rarely get the necessary local "buy-in" unless there is enough funding attached to change local incentives and to leverage local action.

After laying out the list of uncoordinated resources and tools that the state currently offers, we will describe some of the history and policy innovations associated with state interventions in Chelsea and Springfield, taking note of their similarities and differences (including local participation, bankruptcy rights, etc.). The goal is to set the stage for the final section, "Rehabbing Urban Redevelopment," which will present a comprehensive proposal for making Middle Cities healthy contributors to the state's economy again.

Current State Resources

The Commonwealth has a variety of funding and program offerings to localities, including the following:

- Local aid (Chapter 70, Lottery, and Additional Assistance)
- A variety of uncoordinated grant programs from across the executive agencies
- Large earmarks or "ribbon cuttings"
- Disparate and numerous technical assistance efforts
- Several favorable loan programs.

Notwithstanding these offerings, the state has a surprisingly limited ability to promote urban revitalization and economic development. The tools that it has are not effective unless the it partners effectively with local authorities, and initiatives rarely get the necessary local "buy-in" unless there is enough funding attached to change local incentives and to leverage local action. To date, the state has failed to effectively and efficiently use its major funding programs to improve the local business climate and, one could argue, ignored the fact the delivery of key services is closely tied to the economic development and the fiscal sustainability of its cities.

Figure 2-1 summarizes the amount of money received by Middle Cities through local aid mechanisms over the past eight years. The local aid numbers include Chapter 70, Lottery, and Additional Assistance. Each year the Commonwealth invests \$1.45 billion in Middle Cities through local aid.[14]

Figure 2-1. *Local Aid to Middle Cities, FY2000-2007*

City	Chapter 70	Lottery	Additional Asst.	Total
Worcester	$1,210,761,802	$244,614,664	$105,709,983	$1,561,086,449
Springfield	$1,667,281,222	$265,859,650	$16,376,875	$1,949,517,747
Lowell	$837,459,364	$157,015,589	$56,759,679	$1,051,234,632
Brockton	$856,953,803	$140,122,633	$38,584,806	$1,035,661,242
New Bedford	$776,694,603	$181,787,225	$6,411,612	$964,893,440
Fall River	$674,740,415	$175,210,581	$20,507,627	$870,458,623
Lynn	$751,019,153	$115,739,576	$84,838,779	$951,597,508
Lawrence	$878,731,693	$151,820,152	$1,707,058	$1,032,258,903
Taunton	$294,940,558	$68,282,371	$0	$363,222,929
Chicopee	$287,257,042	$78,246,006	$10,702,649	$376,205,697
Pittsfield	$226,925,028	$61,052,588	$7,879,930	$295,857,546
Leominster	$243,909,348	$43,396,684	$104,670	$287,410,702
Holyoke	$478,228,183	$74,380,161	$5,430,437	$558,038,781
Fitchburg	$282,514,529	$65,178,604	$1,922,899	$349,616,032
Middle Cities	**$9,467,416,743**	**$1,822,706,484**	**$356,937,004**	**$11,647,060,231**
State Total	**$21,230,954,271**	**$5,960,346,671**	**$3,388,333,076**	**$30,579,634,018**

With 38 percent of local aid going to the 18 percent of the population living in Middle Cities, it is clear that the state pours enormous resources into our larger cities. A full 44 percent of Chapter 70 money goes to the Middle Cities. Moreover, school aid reaches 90 percent and more of the total educational funding in places like Springfield. In terms of per-pupil Chapter 70 spending, $7,244 is allocated per pupil in Middle Cities versus $2,761 per pupil in municipalities other than the Middle Cities, Boston, and Cambridge.[15] It can be argued that the state is a majority shareholder in the urban education system. On an annual basis, the state provides the middle cities with **almost ($1.5 billion) in state aid, consisting of Chapter 70: ($1.18 billion); Lottery: ($228 million); Additional Assistance: ($45 million).**

The core grant programs within the Department of Housing and Community Development (DHCD), the Executive Offices of Environmental Affairs (EOEA), Public Safety (EOPS), and Transportation (EOT), as well as the Executive Office for Administration and Finance (ANF) that are dedicated to urban development and redevelopment are listed in Figure 2-2.

Figure 2-3 tallies expenditures to Middle Cities through grant programs within DHCD, EOEA, EOPS, and EOT over fiscal years 2000-2006. The data is a best effort at assembling the various expenditures, but certainly underestimates them, as there is no systematic data available to capture all state grants. According to Figure 2-3, on an annual basis, the state provides $30 million in grants to Middle Cities, with DHCD on average

An Opportunity and an Opportunity Cost

If the Middle Cities required an average level of local aid, the state would have spent $6.1 billion less in local aid on them ($5.5 billion rather than $11.6 billion), with $5.6 billion less in Chapter 70, $750 million less in Lottery, and $253 million more in Additional Assistance funding. On an annual basis, that would mean having the ability to shift $768 million to other priorities or geographic areas.

Figure 2-2. *Principal Executive Agency Grant Programs—Estimated 2005 Funds (in millions)*

DHCD		
Community Development Action Grants (CDAG)	$12	Streetscape improvements (sidewalk repair, crosswalk painting, traffic calming needs, street lighting, etc.)
Community Development Block Grants (CDBG)	variable	HOME funding for
Housing Stabilization Funds	$ 12	Rehabilitation and demolition of housing in poor condition
EOEA		
Self-Help	$5	Parkland, riverside and resource acquisition
Urban Self-Help	$5	Parks and public infrastructure in need of repair
Brownfields	$1	Assessment matching funds for targeted Brownfields sites
Urban RiverVisions	$0.8	Planning, implementation grants for parks, Brownfields and other issues around downtown rivers
EOPS		
Community Policing	$20.3	Grants to Muncipalities to fund community policing activities
(Police Station Grants)	$ 0.90	Grants to Muncipalities for construction of new police stations.
EOT		
Chapter 90	$100	Street and streetscape improvements (sidewalk repair, crosswalk painting, traffic calming needs, street lighting, etc.)
Small Town Road Assistance Program (STRAP)	$1.3	Street and streetscape improvements (sidewalk repair, crosswalk painting, traffic calming needs, street lighting, etc.)
Public Works Economic Develop (PWED)	$18.7	Significant streetscape work, connectivity related to economic development project / new jobs
Transit Oriented Development Funds (EOT/MBTA)	$8	Housing and other development around transit nodes
ANF		
Off-street parking	$5	Grants to municipalities to construct parking garages.

providing about $1.5 million, EOEA $4 million, EOPS $5.5 million, and EOT $20 million.

By relying on a single (and therefore comparable) data set, this table is a best faith but incomplete attempt to systematically estimate the total of state grant expenditures in the Middle Cities. Even a cursory look at the data points out glaring omissions. For example, the figures exclude the one-time expenditure of $10.1 million on New Bedford's harbor through the Seaport Council. Further, it underestimates the total spent in the Middle Cities by the Executive Office of Environmental Affairs (EOEA), which other data collected in preparation for this study suggests is closer to $17 million in FY05 and FY06 alone, as opposed to the $27 million shown for EOEA during the seven-year span represented in Figure 2-3. It is likely that a similar level of underestimation can be found for the other agencies represented in the table. (This alone underscores the lack of coordination among state agencies.) **Overall, the likely annual average of state grants to Middle Cities is on the order of $45 million per year.**

Figure 2-3 excludes some key funding streams to the Middle Cities. For example, there are the following:

- *Favorable loan programs that go to localities.* Among the programs are the Clean Water and Drinking Water State Revolving Fund (SRF),

Figure 2-3. *Program and Grant funding for Middle Cities redevelopment, 2000-2006*

City	DHCD (00-06)	EOEA (00-06)	EOPS (00-07)	EOT (00-06) Ch. 90 (00-07)	Total
Brockton	$0	$1,267,703	$4,029,768	$13,802,333	$19,099,804
Chicopee	$2,000,000	$1,149,683	$1,272,674	$6,533,352	$10,955,709
Fall River	$400,000	$922,940	$2,061,463	$9,687,464	$13,071,867
Fitchburg	$3,203,000	$1,330,085	$452,000	$5,389,547	$10,374,632
Holyoke	$715,000	$710,704	$2,832,706	$5,057,160	$9,315,570
Lawrence	$1,000,000	$879,072	$6,746,988	$9,525,552	$18,151,612
Leominster	$500,000	$3,145,579	$307,656	$6,935,078	$10,888,313
Lowell	$475,000	$1,054,852	$4,404,161	$13,151,444	$19,085,457
Lynn	$0	$1,804,693	$2,023,595	$7,145,667	$10,973,955
New Bedford	$826,000	$4,598,815	$2,135,388	$12,418,964	$19,979,167
Pittsfield	$1,000,000	$104,349	$2,197,481	$6,597,651	$9,899,481
Springfield	$1,500,000	$4,840,183	$6,283,040	$18,206,658	$30,829,881
Taunton	$0	$1,285,380	$437,000	$7,664,863	$9,387,243
Worcester	$0	$3,972,119	$5,380,899	$27,901,781	$37,254,799
Middle Cities Total	**$11,619,000**	**$27,066,157**	**$40,564,819**	**$150,017,513**	**$229,267,489**
Annual Average	**$1,657,000**	**$3,867,000**	**$5,071,000**	**$20,002,000**	**$30,597,000**

which aids all communities to address water infrastructure needs. The SRF program is critical to the Middle Cities, which are characterized by older infrastructure, leaky pipes, and extensive storm water and wastewater treatment issues. Every year about $400 million in favorable loans go to Massachusetts municipalities, with a substantial amount of that going to the Middle Cities. In addition, MassDevelopment offers flexible real estate and equipment loans, including the Brownfield Remediation Fund. MassDevelopment also provides low-rate, tax-exempt bond financing for manufacturers, nonprofits, environmental enterprises, and affordable rental housing. On an annual basis, MassDevelopment loans $40 million. Average annual outlay for entire state: $440 million in loans. No concrete number for Middle Cities.

- *Earmarks for "ribbon cuttings."* By "ribbon cutting" we mean vertical or horizontal projects worth more than several million dollars that are meant to drive economic redevelopment in the relevant city and that are decided generally outside the usual program selection process. For example, over the last decade, in Springfield there has been the Basketball Hall of Fame ($25M), the Convention Center ($66M), and initial funding of Union Station; in Worcester funds have been reserved for Union Station ($10M) and the City Square project ($25M). The recently passed Economic Stimulus package included $142 million in earmarks for ribbon cuttings. Average annual outlay: $10+ million.

- *Numerous technical assistance programs.* The executive branch agencies all offer extensive technical assistance. Because these assistance programs are not coordinated and because they have accumulated over time, they are hard to track. A handful of interviews with business people and city officials indicate widely disparate views of how effective technical assistance programs have been. Some amount, in practical terms, to little more than tracking the progress of projects for which cities have received state funding. Overall, the

Executive Office of Housing and Economic Development (formerly Economic Affairs and DHCD), EOT, and EOEA estimate that dozens of employees are engaged in some form of technical assistance. It is probably not an overestimation to suggest that nearly 20 percent of that technical assistance goes to Middle Cities. In addition, there are technical assistance grants in several of the agencies. It is not unreasonable to assume that $2 million is being spent annually on technical assistance programs across the state in Middle Cities. Average annual outlay: $2 million.

- *Interventions.* The state has undertaken two major interventions in the past 14 years. In both cases, the amount of money dedicated to the operations was on the order of $50 million. (See below for more on these interventions.) Average annual outlay: $10 million+.

Figure 2-4 is a summary of the non-local aid resources that the state brings to localities in order to promote revitalization and economic development.

Figure 2-4. *State Resources and Average Annual Value*

Local Aid	Value
Chapter 70	$1180 million
Lottery	$228 million
Additional Assistance	$45 million
Total	$1453 million
State resources	**Value**
Grant programs	$45 million
Ribbon cuttings	$13.5 million
Technical Assistance	$2 million
Interventions	$10 million
Total	**$70.5 million**
Other	**Value**
Favorable loans	$0–440 million

If one includes major grant and non-grant programs as well as local aid, it is safe to suggest that the state spends in excess of $1.5 billion per year in our Middle Cities.

As was noted in the first half of this paper, the billions of dollars in state investment have not been effective in revitalizing these cities. Poverty persists. As for education, an incoming first-grader in any of the Middle Cities today runs the same risk of falling prey to a troubled future a full generation of students after the Education Reform Act of 1993. And, finally, with some notable exceptions, crime continues to be a major deterrent to redevelopment and attraction of new businesses.

As important as money is understanding the reasons for the current policy inadequacies and getting the policy right. The Office for Commonwealth Development (OCD) attempted to address some of the shortcomings of the current set of programs, but only made limited progress. The agglomeration of programs under the nominal control of OCD failed because:

1. They lacked coordination and measurable goals;
2. They were not sufficiently aimed at attracting private investment or involvement and therefore resulted in few broad redevelopment impacts and limited directly attributable ripple effects;
3. They did not include two critical components of redevelopment—access to educational opportunities and public order;
4. They suffered from geographic diffusion and/or insufficient funding;
5. The programs often worked at cross-purposes (redevelopment vs. maintenance of existing subsidized housing stock, public order vs. placement of substance treatment facilities, etc.).

Lasting, broad, and measurable impacts have not been accomplished with the current strings-of-your-shoes approach to economic redevelopment. For the state to be an effective catalyst for drawing private investment back into the Middle Cities, the state needs to set core, measurable goals for the results it seeks in the Middle Cities in return for its investment dollars; it needs to establish incentives to encourage achievement of those core goals; and it must develop a comprehensive approach that is staged and targeted, avoiding the current "provide all things to all Middle Cities at the same time" political deal. And, last but not least, it needs to engage HUD at the federal level as an active partner so that its resources, such as Community Development Block Grant (CDBG) funds, are directed in support of the plan drafted for each city.

A Tale of Two Cities: The Results of Direct State Intervention

The Chelsea and Springfield experiences were, effectively, the actions of a creditor and guarantor (the State) of last resort having to step in to avoid incurring additional liabilities itself and before allowing further damage to the lives of residents. They were both reactive policies in the extreme and the fact that there had to be two of them in the past decade and half only underscores the need for a preventive strategy focusing on the financial viability of our cities. In both cases, corruption, the lack of professional management, and a loss of faith in the future of the two cities had driven away hope, residents, and businesses, and therefore the value of home and commercial property, the source of most municipal revenue, collapsed.

The fact is that, although Boston and Cambridge do receive a great deal of money from the state, it is also directing great resources towards Middle Cities. Not only does the state cover about 90 percent of all school expenditures in Springfield, but the state's overall portion of the Springfield budget, predominantly restricted purpose funds, currently stands at close to $287 million, or more than 61 percent. In such cases, where the state is essentially the majority investor and shareholder, it should and can play a more coordinated role, assisting in defining the outcomes desired for revitalization as well as providing assistance in developing the framework within which services could be delivered.

In this section, we will compare the two cities' experiences to date and then identify policy innovations and lessons that have application beyond that of rescuing a financial hazard.

Similarities

On the face of it, the Chelsea and Springfield cases were similar in that both cities were facing bankruptcy and confronting difficulties that went beyond the purely fiscal. Chelsea had been poised on the edge of bankruptcy for some years, narrowly averting it until 1991, while Springfield had been managing against financial collapse since a state bailout authorized deficit-financed bonds in the mid-1980s. In addition, both faced a general economic free fall as jobs and the middle-class families began to depart for better schools in safer suburbs.

The essential distinction between receivership and a control board is the degree of local participation in the decision making. In Chelsea, the receiver, appointed by the state, was granted extraordinary executive authority, while the office of Mayor was vacated and the City Council only allowed to serve in an advisory capacity (though the receiver retained certain expedited authority to enact zoning changes). There was no large-scale line of credit provided, only sufficient funds to cover the expenses of the Receiver's Office. In Springfield, the Control Board, a five-member body (the state acting through the Secretary of Administration and Finance appointing three members), serves with the Mayor and the President of the City Council. Although they act together, meeting in open session, the Control Board uniquely possesses all executive and legislative authority along with the $52 million line of credit, disbursements being subject to the approval of the Secretary of Administration and Finance.

In both the Chelsea and Springfield interventions, the state made the establishment of professional management with a focus on fiscal management a key plank in its efforts. These teams had an impressive list of achievements in both cities:

1. They ensured, often starting from scratch, that there were adequate financial tools in place, including systems to ensure accurate and real-time access to financial, employment, and service contract data. They put into place computer systems, real-time data software and data capturing efforts, and pro-formas, among other useful tools.

2. They standardized and established policies. This included standardizing benefits packages, unifying the general fund, establishing general and fiscal policies, creating a capital budget, and establishing an operating budget encompassing all revenues and expenditures so that financial plans for future years as well as cash management in the immediate term were based on the full financial picture. The teams also established performance measures and missions, and began to track city employee performance accordingly.

3. They gained direct oversight over the city budget, municipal employees, external contracts, and the coordinated state resources. As part of this effort, there were full reviews of all expenditures in search of efficiencies in the delivery of services and access to all accounts, when necessary, to ensure that key services were maintained. The overall budget was brought back in line with existing revenues and opportunities for competitive bidding of services were firmly established including where appropriate privatization (in order to lower head counts and health care and pension liabilities) were undertaken. To the degree possible, both teams sought and seek to improve the provision of services. Finally, this work included oversight of contracts, especially ones related to infrastructure.

4. They coordinated and rationalized government structures. In Chelsea, staff from the receiver's office were placed on top of each of the core functional areas of government and advanced a top-down approach to reform. Despite their efforts, streamlining of government structures was limited until the very end of the three-year receivership, when the receiver working with the civic leaders sought and obtained community endorsement of a city manager form of government, which finally overhauled the overall structure and various offices reporting to the City Manager. In Springfield, at the administrative level this process started earlier, with the SFCB working to streamline deep within the existing structures and reduce the number of reports to the City Council and the Mayor. For example, there has been a reduction of direct reports to the Mayor from 38 to 11. The park and building departments have been combined, the planning, economic and community development and building code functions, and the health and human services functions. The Mayor has led

Lessons from the SFCB's oversight over the city budget

Other cities can draw from actions taken by the SFCB once it gained direct oversight of the City's fiscal management. The SFCB's direct oversight included ongoing review and sweeping of accounts on a revenue-expenditure basis. Another source of funds came when an analysis of the reconciliation of bond issues brought to light unexpended revenues. More importantly for the long-term financial health of the city, the SFCB changed health care plans to save money and put the city into a health insurance GIC (see Pioneer Institute Better Government Competition, Compendium of Winning Ideas, 2006). Finally, the SFCB folded the city's pension system into the Pension Retirement Investment Trust (PRIT), ending a practice that had cost the city $66.8 million over the previous ten years (see 2006 Pioneer Institute's pension white paper series: http://www.pioneerinstitute.org/pdf/06_pension_paper1.pdf and http://www.pioneerinstitute.org/pdf/06_pension_paper2.pdf).

the effort to make changes in the overall governance structure, seeking to increase minority participation in voting by expanding the city council from nine to 13 members, comprised of eight district councilors and five at-large councilors. A variety of groups have begun discussing lengthening the mayor's term from two to four years, as well as changing to a city manager form of government.

5. They have revamped the economic development function and put into place key economic growth measures to ensure a focus on increasing business growth.

6. They have redirected the municipal police department. In Chelsea, the critical action was the implementation of a department-wide community-based policing initiative. In Springfield, the push to have the previous police commissioner step aside, the involvement of the state police in revamping data use and tamping down critical crime in key neighborhoods, and finally the arrival of former EOPS Secretary Ed Flynn as commissioner have changed the way the Springfield Police Department does business.

Finally, both efforts were limited by timelines. Each action came with a three-year horizon, with, in the case of Chelsea, the EOAF retaining the ability to renew the receivership twice for an additional year. Springfield's initial term was similar, however, because of the open-ended nature of the project, the term of the Control Board may be extended until such time as the turn-around is complete, although discussions about a longer renewal, underway since spring 2006, have not been finalized. (The lack of a statutory, criteria-based exit, it should be noted does not reflect what should be a process based on objective analysis.)

Differences

Many of the differences between Chelsea and Springfield follow from Chelsea being a full receivership while in Springfield the state's control was mitigated by the creation of a control board. Others follow from Chelsea being closer to Boston, and other more local circumstances.

1. In Chelsea, the receivership, by being completely fresh and unconnected to the community relationships and power structures, made the hard decisions, but in turn, was not always as sensitive to local concerns and impacts. The focus during the initial phase should be to cut losses, cauterize the wound, and move on to the next problem. Later on, the focus shifts to rehabilitating what remains on the table and finally creating an effective form of government after the end of the receivership. In Chelsea, this took roughly four and a half years. In Springfield under the Control Board, the presence on the board of the Mayor and the City Council President has ensured that local concerns and needs are put on the table and are factored into each step of the decision making. By the very nature of the circumstances each community faced, the outsider status allowed and allows an independent approach to decision making, unhampered by the long tradition of close relationships endemic to such communities, which can stifle hard but necessary decisions. In practice, the votes and deliberation of the SFCB, as a multi-member body, are bound by the requirements of the open meeting law, and occur at public meetings, whereas in Chelsea the receiver could reach such decisions in the privacy of his office. There is a balancing act that must take place between the necessary and the acceptable, and while the Receivership could be more draconian in its approach, the Control Board has adopted a slower, steadier approach.

2. Chelsea's proximity to Boston gave it options and immediate opportunities for revenue generation that are not available to Springfield. Proximity to Boston and to Logan Airport meant that the Receiver could work with MassPort to move employee parking and rental car storage into Chelsea. In addition, MassPort

frontloaded its annual payments to Chelsea, resulting in a one time payment of roughly $5 million, allowing the City to cover some of its outstanding obligations.. The same use was made of the excise tax payments the city gained from the rental car business. Most importantly over the long-term, proximity to Boston meant that, once the pieces of baseline stability were in place, the city could hope to remake itself and benefit from the heated Boston housing market. The completion of the Zakim Bridge reduced the driving time to downtown Boston to only minutes. Springfield, like most other Middle Cities under consideration in this paper, lacks these options.

3. In Chelsea, the Weld administration's desire to see innovation implemented in the city led to a strong receivership that could undertake difficult reforms that went well beyond limited cost cutting and budget rationalizations such as reducing available surpluses in the assessing department overlay account held for tax abatements, implementation of a trash fee, and the imposition of increased fees. The receiver implemented a variety of far-reaching public construction, privatization, budget, and civil service reforms (see text box at right). In Springfield, the receivership-lite approach means that the existing structures have been involved to a much greater degree at every step resulting in a more process-oriented approach. To undertake change, consultants have been engaged to analyze existing conditions, develop work plans to improve the delivery of services, modernize, or replace management. Although there were a handful of small privatizations, the SFCB's focus was on competitive bidding opportunities, something not done in Chelsea.

4. In Chelsea, unlike in Springfield, the education system was in the middle of a significant restructuring of its own, through the Boston University/Chelsea Partnership. Significant change within the school walls, as well as the construction of new schools, gave a sense of renewal to the city. While Springfield has not seen the level of reform seen in other cities, such as Boston with its numerous charter schools, pilot schools, and METCO opportunities, the SFCB and Superintendent Burke have worked hard to negotiate merit/differential pay provisions in the new Springfield Education Association contract.

5. In Springfield, to a far higher degree than in Chelsea, there was a significant issue of uncollected property taxes liened and left uncollected on tax title properties, estimated at $38 million. At the time of the establishment of the SFCB, there were approximately 2,000 tax delinquent properties within the city. In response, the SFCB hired an outside consultant and several attorneys to work with the Land Court to fast-track tax foreclosure cases. Currently, the SFCB and the City have on file with the Land Court over 800 new cases and have collected over $18 million in back taxes.

6. The long-term impact in Chelsea is arguably deeper. The form of Chelsea's city govern-

A Desire for Innovation

Benefiting from the ability to get around the Massachusetts public construction procurement rule of seeking filed sub-bids, Chelsea, as part of the Boston University/Chelsea K-12 partnership, was able to save millions of dollars in building four new schools. By avoiding the filed sub-bid process, Chelsea was able to see these public schools built at a cost of $135 to $150 psf versus the cost in excess of $250 psf found in schools built without the benefit of alternative procurement methods (see Pioneer Institute White Paper No. 7 "The Cost of Inaction: Does Massachusetts Need Public Construction Reform?" 1999). In addition, the receiver privatized the public works system, removed civil service protections, centralized permitting and licensing, and established a water and sewer enterprise dedicated account to ensure adequate budgeting for the city's old water infrastructure.

ment has been changed substantially with the adoption of a city manager. The first two years of the city manager were, in effect, an extension of the receivership. For example, the City did not achieve an investment grade bond rating until after receivership. All of the financial and operational systems that had not been completed were completed during this final phase. As noted above, the City of Springfield's governmental structures have been adjusted modestly, with rationalization concentrated at the lower levels.

7. A final difference is that in 2005 the state complemented the SFCB's work with an effort to target transportation, environmental, and housing investments into three residential neighborhoods abutting the metro/downtown area. This initiative, undertaken by the EOAF and the OCD, and involving close coordination with the EOPS, coordinated existing development plans and attempted to focus redevelopment on areas of the city where EOPS' public order strategy was active. In June 2005, a package of $14 million in "small bore" investments was announced, including the following:
   - $800,000 in new roadway funds, matching $400,000 in local funds, went to repair sidewalks and do other streetscape work on commercial strips in target neighborhoods.
   - $1.75 million in Housing Stabilization funding enabled the creation of 16 new housing units.
   - Through the Urban Self-Help program within the EOEA and MassHighways, the state partnered with the city to reinvest in thirteen city parks.
   - PWED funding allowed development of the infrastructure in a 60-acre industrial park.
   - Additional MassHighways funding went to undertake significant streetscape work in target neighborhoods.
   - DEP undertook several enforcement actions and aided in the cleanup of dozens of nuisance sites in the city.

Although the coordination and full implementation of this program faltered with changes in personnel at the state level, the coordinated approach was invaluable for local officials and the target neighborhoods.

Principles for an Effective Redevelopment Strategy

There are many lessons to be learned from both the way in which the state has gone about urban redevelopment and the way in which it has stepped in to address fiscal emergencies in major urban centers. State officials should draw from the less than cheerful data and trends in the initial background section that the current silo approach, where dozens of agencies and offices have discrete relationships with certain officials at the city level in a hodge-podge of investments without geographic, thematic, or even broadly defined goals, should no longer be tolerated. They should equally draw from the variants undertaken in Chelsea and Springfield, as well as the experience across the country, that there are actions and approaches that have demonstrated positive results.

The *positive policy lessons* of the state's receivership operations include the following:

- Significant change often is helped by an objective power to break local gridlock, especially if reforms cut against vested and entrenched local interests, as is the case with public construction reforms, civil service reforms, and rationalization of government structures. Well intended local officials and managers have difficulty overcoming these local concerns even under the best of circumstances.
- Enhanced state involvement can ensure that troubled cities have adequate financial tools, standardized procedures, and established goals and policies. State technical assistance can help establish cost savings, competitive bidding, privatization, enterprise accounts, and focus on long-term liabilities.

- Economic development must be seen as an integral function of city government, not just an after-thought. To the extent possible, take advantage of a hot market or regional strengths.
- Economic development and reinvestment strategies presume public order. Therefore, an initial focus on the municipal police department's use of data, crime fighting strategies, and community policing are all top priorities.
- Having a coordinated state approach can help, whether in fast-tracking tax title cases or in establishing grant programs with a focused and measurable impact.
- Education reform gives a sense of renewed opportunity to cities. While much that is advocated in this paper will lead to some gentrification, improvements in the educational system can mitigate the impact by providing families with children an opportunity for success and social mobility.

The *negative policy* lessons of the receiverships include the following:

- Because the state did not have a coordinated cross-agency program, the situation in Chelsea and Springfield deteriorated until receiverships, strong or lite, were necessary, at a much higher cost in terms of money, staff, and commitment.
- Because state officials usually live and work in Boston and its more affluent suburbs, and because there are rarely reasons to travel to the Middle Cities, they lack familiarity with the local conditions and predicaments.
- Because the state labors under a one-year budget cycle, it suffers from a narrow and short attention span. While OCD showed a limited ability to commit to three-year cycles in funding, such medium-term commitments are necessary to putting a city on a stable path to recovery.
- The state has yet to develop the programs that are most needed by Middle Cities, for example, tax increment financing, favorable interest loans, retail development, and market housing development. Moreover, it needs to help localities seek complementary funding and, if necessary, waivers from federal agencies like HUD to make federal funding more effective.

These lessons, positive and negative, suggest the following four main principles for any state strategy promoting the redevelopment of the Middle Cities:

- *In driving demand, quality of life matters most.* A city can only thrive if people want to live there. No amount of public subsidy can draw people or a significant number of new businesses to a city that is not desirable. Demand on the part of residents and smaller commercial businesses that cater to residents ("everyday businesses") is premised on whether or not educational opportunities are available in the city, the streets are safe, taxes and fees are affordable, jobs are available, and there already is access to "everyday" businesses like groceries, convenience stores, laundromats, and restaurants. As quality of life drives the demand side of the redevelopment equation, there should be no thought given to larger investments, such as large ribbon cuttings, until quality of life has been raised sufficiently.
- *Of the two major elements of quality of life—public safety and access to a good education—public safety is more important to redevelopment.* However, focusing solely on public safety will lead to an exodus of families and quickened gentrification by young, childless urban professionals. A full and stable turnaround requires an equivalent focus on educational improvement.
- *Any effective redevelopment strategy should aim to induce and leverage private (including not-for-profit) investment and involvement.* The state, acting alone, will never have the resources to drive the redevelopment of its cities. At best, its resource levels are conducive

to priming specific projects and neighborhoods for private investment. Therefore, the majority of state investments should be used to encourage redevelopment and make improvements in quality of life. Programs such as the urban renewal redevelopment fund should target carefully chosen redevelopment projects, while the tax increment financing authority should be expanded to include market rate housing and, with sufficient controls in place, retail projects. A special target should be troubled residential neighborhoods that can be revived quickly by improving safety and coordinating with public housing authorities. The state's supply strategy should include large non-profit institutions, since the largest players in many of the Middle Cities are universities, which are likely to permanently maintain their location and are generally willing partners.

- *The state should ensure that its involvement is transparent and fair and that it is premised on measurable progress.* Setting community-based targets for performance on quality of life measures and allowing city officials to devise their own strategies for achieving those targets is the best way for the state to ensure progress. State micromanagement will run up against the fact that city officials often face immense pressures beyond their political control and will be far better at city politics than state officials can ever hope to be. The state should set clear expectations and complementary incentives that will make their goals a priority for city officials. Financial underwriting of the development of the plan will allow the state to fully participate in the process without feeling obligated to micro-manage the process, but rather to provide technical assistance to interested local officials. Such incentives can also make it easier for city officials to push for politically difficult changes. Once the city has devised its strategy, the state as an active partner should commit to multi-year project program funding. The gubernatorial designees should work closely with city officials in developing the plan, and then be positioned to fund its share of the strategy using all of the relevant state agencies.

- *Rebuilding the commercial and retail tax base is crucial to making services affordable to the broader population of our major urban centers.* Tax rates in Middle Cities are comparatively high for businesses and high for residents. The collapse of the commercial and industrial tax base has driven up costs for all, putting pressure on city officials to reduce services or make residents and businesses pay more for a reduced set of services. Making the climate in the Middle Cities attractive to businesses will require, in addition to greater public safety and better schools, convenient locations (access to a customer base or distribution network) and transparent, predictable, and low-cost approvals and regulations (expedited facility siting, by-right zoning, clear guidelines on mitigation for permits, coordinated city approval processes, and a streamlined permitting process).

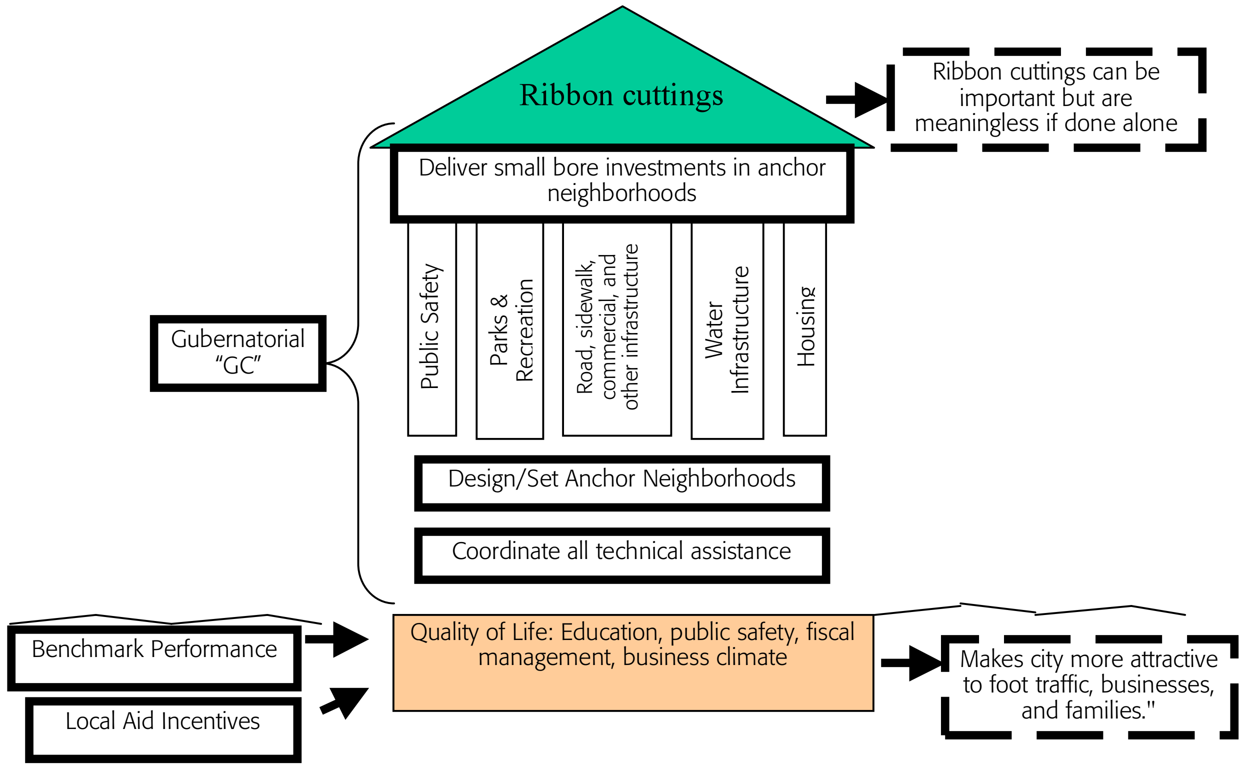
Given the educational attainment in many of these cities, any work on the commercial side of the ledger is likely to lead to a "hole in the donut" outcome, where the employees of the larger private and not-for-profit entities commute from outside the city, leaving the city empty by 5:30 p.m. While securing commercial tax revenues is important, given the relatively high price of housing in the Commonwealth and demographic trends that include an aging population and the inability to build sufficient housing due to local regulations in many suburban areas, there is an opportunity, within the eastern and central, as well as western parts of the state, to recreate sections of these cities as residential areas. For this reason, after outlining steps to improve the core issues of quality of life, the public investment strategy outlined later in the paper will focus primarily on the redevelopment of residential property.

III. Rehabbing Urban Redevelopment

The foregoing discussion of circumstances and response leads to our discussion of a comprehensive and detailed proactive strategy to prevent further receiverships. It is a blueprint of the actions and approaches appropriate to Massachusetts' Middle Cities given our history, the tools, and the specific structure of funding sources at the state level, while being respectful of the role, responsibilities, and leadership of local officials. One could compare the state strategy for urban redevelopment that we are recommending to the process of rehabilitating an old house. It requires a land survey and home inspection to understand the lot lines and the level of work to the existing structure(s) needed. It takes planning to understand the level of transformation possible. You have to shore up and at times do the hard work of significant correction to a foundation before moving to the upper stages of the construction effort. If you do not secure the foundation, the house will lean in one direction, be prone to cracks, and scare off prospective buyers. You can spruce things up with a coat of paint, but if one is to take on the project and hope for a long-term outcome, it needs to be done right, with planning, coordination, and knowledge as to the changes that will have to be made.

The key steps outlined below are:

- Identify those municipalities that potentially may benefit from a stronger partnership with the state. A nuanced formula might be negotiated over time to gain agreement from all relevant constituencies, but given the urgent need to act now, the state would be within its rights and interests to take a heightened interest in those communities where it is the major partner (i.e., where it is underwriting more than half the costs). The state should invite all Middle Cities to participate in the development of a local revitalization strategy, but focus participation on those communities receiving more than half their budget through state aid.
- Establish within the Governor's Office several gubernatorial designees to coordinate policy and program implementation in Middle Cities in order to promote an effective partnership between the state and the Middle Cities. Designees would serve as the "general contractor," ("GC") developing a plan together with the city, its residents, and its business leaders, coordinating the relevant state agencies, and ensuring that the city meet its own commitments. The state and the Middle Cities would form a partnership that would target the following:
  - Hard-wiring municipal best practices in education, public order, fiscal management, and business development through agency technical assistance.
  - Starting with a programmatic and baseline assessment of the target Middle City, designing a strategy that falls within the budget and emphasizes priority investment areas ("anchor sectors"). All funding would be for projects but not city personnel.
  - Making dramatic changes in education and public order in the anchor sectors (one or more parcels constituting isolated projects and targeted neighborhood areas).
  - Enlisting the support of existing business leaders in crafting actions in support of the plan.
  - Delivering numerous "small-bore" infrastructure investments to anchor neighborhoods during a three-year period.
  - Advocating together for federal (HUD and other) waivers, as well as project funding that complements the private market and infrastructure goals of the plan.
  - Establishing benchmarks and incentives for improved performance in quality-of-life



issues such as education, public safety, fiscal management, and business development.

– Reshaping state programs through policy and statutory changes so that they can support a home ownership and business development strategy.

The Foundation: Benchmarking and Incentives

As noted above, ribbon cuttings have often been the basis for episodic redevelopment efforts. Ribbon cutting may play an important role in the strategy, but they are meaningless without a strong foundation. That strong foundation is benchmarking the performance of the municipality—essentially, what it does with the money provided by the state. If the state is going to continue funding Middle City budgets, for education, public safety, and infrastructure improvements, or to prime the pump in order to attract residential and commercial investment, among other functions, it has the right and need to know how carefully that money is being spent, and what kind of results it is having.

Federal agencies have a much longer history in tracking state performance. They have a longer list of shared funding programs, and the concern among U.S. Senators and Representatives about getting their share of funding has brought about a greater level of benchmarking than is the case at the state level, where personalities play a greater role. In the past, this was probably a function of the smaller role that states played, but with greater devolution and far larger state budgets, it is only a matter of time before states require benchmarking be a component of the overall determination of local aid.

The Commonwealth has not sought to track performance consistently and therefore is in a poor position to ensure performance. From previous sections, however, it is clear that it is investing billions of dollars in its cities without measurable impact on core quality of life issues. Moreover, because of the lack of performance tracking and avenues for effective responsibility, cities like Springfield and Chelsea have been able to fall so critically ill that it finally had to take action and step in as the creditor of the last resort.

What to Benchmark?

A first-order question is whether to benchmark across cities or to take the approach of benchmarking a city against its past performance. For the purpose of creating incentives, the benchmarking that this paper advocates is city-specific and not across cities: it measures a city's improvement against previous years rather than comparing one city to another. Not only does the variety of cities and challenges each city faces make cross-city comparisons less meaningful, but benchmarking across cities is also less politically feasible. Further, reporting methodologies on crime and other services are often city-specific. Given all these factors, it makes greater sense to benchmark a city against its own past performance.

That said, after discussions with experts on the topic and city officials, it is the author's strong belief that benchmark measures across cities does make sense as a way to understand the relative progress of cities and to aid in the adjustment of the benchmark measures or to aid in moving toward uniform and useful data collection methods.

What follows are specific benchmark measures that we would suggest. In Appendix B, there is a sampling of other measures we have considered, as well as some justification as to why we have set them aside. Overall, several comments are in order regarding our selection of benchmarks. We have chosen measures that

- are outputs and results rather than inputs or process;
- are macro measures that do not prejudice local choices about the best way to achieve the goals set;
- are over a period of time within the control of public and private sector leaders;
- are, within reason, measures that can be tracked or are already being tracked in order to avoid the creation of additional red tape; and
- express the interests of the Commonwealth as a whole.

Education benchmarks

- MCAS test scores
- Drop-out rates
- Attendance rates

As the two major determinants of quality of life for parents or businesses, education and public safety are the most important items to benchmark. A variety of education measures could be considered. While MCAS scores are not the sole determinant of the quality of the schooling in a district, they are certainly key. In addition, the sense of order and safety in a school is important to parents—and therefore to businesses that want to attract the sort of employees who are concerned with the social and economic mobility of their children. Two easy short-hand measures that paint a good picture of the order and safety in a school system are drop-out and attendance rates.

As with education, a variety of public safety measures could be considered with an ideal mix consisting of crime rates, good police relations with the community and community involvement, and effective prevention and response. Given the difficulty in measuring certain items such as police relations, and some trepidation about how easy it is to manipulate response time measures, the proposed measures, in addition to crime and fire rates, include a community survey instrument, uniform across the Middle Cities, which seeks to understand community perceptions about safety in the public square and in their homes, responsiveness and other issues Such a survey was developed and its use in 12 cities tracked in 1998 by the Bureau of Justice Statistics and the Office of Community Policing Services—and could be employed as a template for the creation of such a survey instrument in Massachusetts.[16]

Public safety

- Murder rate
- Violent crime rate
- Property crime rates
- Fires and arson rate
- Community Survey

Actual crime rates should be sure to cover murder and other violent crime, as well as property crimes. Finally, it is not good enough to respond to fires, but some level of prevention is good policy. A reasonable approach to measuring prevention and response might be to monitor the number of fires and arsons.

The appropriate economic development benchmarks to measure a city's appeal as a place to live and do business should cover its competitiveness with surrounding and similarly sized competitors in the Commonwealth and the region, the strength of its business investment, and the difficulty of completing redevelopment projects. The following benchmarks, presented in the Introduction, are suggested:

BUSINESS CLIMATE

- Per capita income
- Unemployment
- Equalized Valuation
- Tax Title Properties
- Building Permits

- Per capita income: this reflects the ability to attract businesses that pay good wages and a workforce to fill those jobs;
- Unemployment: this reflects the ability to attract jobs for the community's home population; and
- EQV: this reflects the value of the community's property values, which in turn generate property tax revenues.

In order to round out these measures, it is important to have benchmarks that ensure that the city is working to reduce, through all means possible, significant abandoned land and to increase development activity. Therefore, these measures should be included in the list of economic development benchmarks:

- The reduction in the number of tax title properties from year to year: reductions in the number of properties on the tax collector's list reflect improved tax compliance and improvements in attracting businesses and residents. This benchmark would be paired with a threshold value (based on a percentage of housing stock) under which a community would receive credit for its performance. At some low level of tax title properties, it should be acknowledged that further improvement would be costly and provide diminishing returns.
- Increases in the number and value of building permits.

A variety of measures might be possible as regards the base fiscal management of the city, a concern of both businesses and those who are considering moving to a city. Clearly, prospective homebuyers are often not going to go into any level of detail on the city's fiscal management, but they will get scared off by newspaper stories discussing long-term obligations, lack of fairness, or chaotic fiscal management. Fiscal management is crucial to economic development in the city, as investors will look to the stability of the city's tax rates, for example, in order to estimate what long-term value may or not be in the city. Effective fiscal management also sends a clear signal about the effectiveness of governance more generally. The following benchmarks are suggested:

FISCAL MANAGEMENT

- Bond ratings
- EOAF's "municipal stability factors"
- Debt/Equalized valuation

- Bond ratings: this reflects the overall fiscal management of the community;
- Municipal Stability Factors versus spending: an assessment of available funds for discretionary spending against spending increases;
- Sustainability of debt measure (debt/equalized valuation): this demonstrates the level of debt incurred by a community against their primary asset for funding debt, property assets. Given the expectation that the debt ratio will be higher than the state average (see discussion around Figure 1-13), there will need to be an adjustment through the calculation of a "Debtors of Scale" average, counting

only those communities that have borrowed more than the state average over the past six years and who have outstanding debt in 2006.

These are good macros measures of desired results—results that the Commonwealth should like to see occur in our Middle Cities. Certainly, many improvements can be made, but the larger point is that the state needs to determine the performance data that it truly wants—that is the results it wants to see—and then and only then see if there are ways to cobble together the federal data. Having the cities assemble the data that the state wants is, moreover, a way to ensure that the cities learn the state's priorities. Clearly, a more concrete way for the state to make this clear is by attaching actual funding to these benchmarks.

Pay for Performance

> The Worcester Regional Research Bureau's benchmarking reports are available at http://www.wrrb.org/reports.php.

We have argued that if, as was established earlier, the state annually expends upwards of $1.6 billion in local and other forms of aid and grants to the Middle Cities and if the state provides in many cases more than 50 percent of the total municipal budget through aid and grants, the state should have some accounting for whether the funding is achieving important results. The benchmarking framework outlined above seeks to delimit critical, though by no means exhaustive, measures of performance in four major policy categories—public education, public safety, economic development, and fiscal management. Here in Massachusetts, the Worcester Regional Research Bureau (WRRB) has provided the most thorough-going and systematic treatment of performance (as opposed to input) benchmarks. The author recognizes his intellectual debt to WRRB in laying out the previous and current sections (though they are not responsible for the specific measures we suggest, which are more of a macro nature than what WRRB has suggested and implemented in Worcester). Although in the longer term, such a program of benchmarking could and should be available to all municipalities, at this time focusing a pilot program on the Middle Cities is a means of working out the programmatic aspects while focusing the state's attention where it is most needed.

There are certainly numerous and long-standing precedents for this sort of benchmarking, whether at the state-level through the National Governors Association, and in the states of Virginia, Texas and Wisconsin; or at the federal level, such as at the Federal Transit Administration, the Federal Highways Administration, and the Veterans' Administration. Internationally, this is an accepted practice, with much discussion, for example, occurring in regard to the British Health Service performance measures on clinical outcomes and satisfaction.

In many of these cases, performance is not only measured and the data stored, but rather it is used to determine salary increases and budgets. That is, there is a sort of pay-for-performance mechanism put into place, where improvements in service are rewarded and lack of effectiveness either receives no financial inducement or is penalized.

A municipal scorecard of this kind was created by the state recently to advance municipal capacity for smart growth (Commonwealth Capital). There are two important differences, however, between the City Benchmarking Scorecard and Commonwealth Capital. First, the City Benchmarking measures are for performance not capacity, which make the City Benchmarking metrics clearer and less open to subjective interpretation. Second, the City Benchmarking Scorecard emphasizes dynamic change in performance rather than static condition. The suggestion is that the state recognize that Middle Cities start out at different points on the spectrum of performance and concentrate on measuring dynamic progress. There need to be clear end-goals regarding what is meaningful achievement of excellence, but given that in most cases the cities will not reach these goals in the short term, the scorecard should be "markable" based on dynamic change in performance. Some examples:

- (Education) MCAS score improvement across the district of four points overall, or attainment of an average district score of >235 points;
- (Public Safety) A decrease in the composite crime rate of three percent, or between x and y murders per 1000 residents;
- (Fiscal management) Achievement of above investment grade status (“A”).

As noted above, the use of benchmarks is important to provide clarity to municipalities as to the larger statewide goals that accompany the billions of dollars in state aid to localities. But even as it provides clear measures (and implicit goals), the Commonwealth should ensure considerable flexibility to municipalities regarding how they achieve these goals. In addition, it bears underscoring that these are measures of current performance against past performance within a city. For the purpose of creating incentives, the state should be looking to push improvement—not set communities against themselves. The format by which the cities might be judged is summarized in a City Benchmarking Scorecard (Figure 3-1).

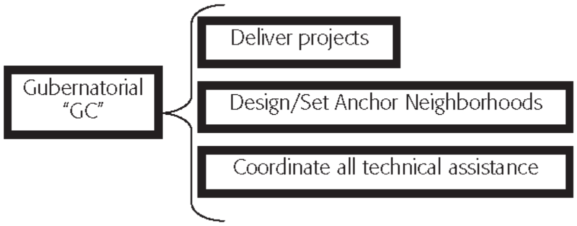
The GC: Gubernatorial Designee

Interviews with chambers of commerce, people who have worked on redevelopment across the country, and many local officials have reinforced the view that greater coordination and focus is needed in addressing the persistent lack of progress in Middle Cities. The effort undertaken in Springfield is interesting in that the Commonwealth, on the one hand, had a close

Figure 3-1. *Municipal Scorecard*

Municipality:______________________ Date:______________ Designee:_________________________

CRITERIA		MEETS PERFORMANCE STANDARD	IMPROVEMENT
1. PUBLIC EDUCATION (25)			
a.	MCAS Score (13)		
b.	Attendance Rate (6)		
c.	Drop-out Rate (6)		
2. PUBLIC SAFETY (25)			
a.	Murder Rate (6)		
b.	Violent Crime Rate (6)		
c.	Property Crime Rate (7)		
d.	Fire and Arson Rate (6)		
3. ECONOMIC DEVELOPMENT (25)			
a.	Per Capita Income (5)		
b.	Unemployment (6)		
c.	EQV(5)		
d.	Tax Title Properties (4)		
e.	Building Permits (5)		
4. FISCAL MANAGEMENT (25)			
a.	Bond ratings (8)		
b.	Debt/ EQV (8)		
c.	Municipal Stability Factor (9)		
	SCORE (100)		



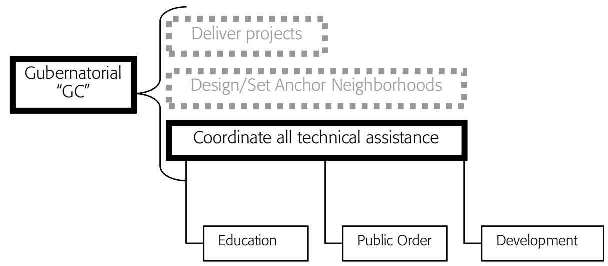
working relationship with the city through the SFCB, which was driving numerous important fiscal, bureaucratic, and economic development reforms and, on the other, it brought together the EOAF, the OCD, and the EOPS to complement the SFCB and city efforts with a series of state investments from across a number of agencies targeted at three Springfield neighborhoods.

The ongoing work of reform at the city level and the backing from an office able to cut through agency silos was crucial for the establishing of a plan, a timeline for delivery, and the premises for actual implementation. It also allowed for the identification of complementary small efforts within the agencies. Moreover, the resulting speed and extent of support, as well as heightened focus (essentially, the effort becomes that of a Governor rather than of individual secretaries), is crucial to the success that any Governor would like to have in addressing the revitalization of the Commonwealth's cities.

To make coordination across agencies and with the Middle Cities effective and meaningful, a team of designees could be developed as a gubernatorial initiative. These designees would be responsible for making sure that it is clear what is expected of the Middle Cities in terms of reform, and the coordination of grants and funds would occur on the basis of a targeted plan that would be created together.

The designee would organize and direct the work of key agencies as it relates to identification of issues and opportunities, benchmarking, the selection of anchor neighborhoods, implementation of the state's projects, and the success of drawing in private sector investment into the Middle Cities. Initially, the designee and the city together would reach out to major employers, large not-for profit institutions, community groups, retail associations, small business representatives, and community/neighborhood groups with an eye to taking an inventory of the citywide and neighborhood-specific issues as well as neighborhood capacity.

Hard-Wiring the City for Success: Citywide Technical Assistance



There is a great deal that the state can do to share effective practices. The first thing is to look at the broad landscape of policies at the municipal level. Building on the idea behind the meetings of the Metropolitan Mayors Coalition, the state should assemble a Middle Cities Coalition, composed of the Governor's Middle Cities designees and Mayors and/or City Managers, and chaired by the Lieutenant Governor. The MCC would have two primary functions:

- *Discuss practices in each of the cities on education, public order, business development, and fiscal management.* The idea would be to share the policies and practices that have led to good outcomes in some cities and less effective outcomes in others.
- *Discuss state mandates and other issues that increase the cost of governing a city,* such as pensions, health care (and health care benefits for retirees), and special education. The idea would be to work together to reduce the number of mandates that inhibit good management of local services and to develop solutions to large liability burdens.

The state can also provide targeted technical assistance to cities. Again, this effort should be undertaken only in tandem with a system of

CHANGES TO MEET THE CHALLENGE:
BROAD CHANGE IN EDUCATION POLICY

While the technical assistance actions described here can be helpful, it is necessary to keep the plight of the residents of these cities in perspective. We have spent $40 billion since the start of the education reform in 1993, with little benefit to the Middle Cities. Just as we must continue to work to improve district schools a generation of students after MERA, we need to give parents and students immediate options, increasing METCO, pilot school, and Commonwealth and Horace Mann charter school options. These are policy and legislative changes—not technical assistance.

rewards from the state on the basis of performance targets. Moreover, it should be undertaken not in the usual piecemeal fashion, but coordinated through a state designee acting as the point person for interactions with the city.

Commitment to reform actions and best practices by the city and commitments in the provision of technical assistance by the state will need to cut across education, public order, business development and community redevelopment, and local fiscal management.

Education: Accountability reporting mechanisms are already in place. What is needed is for the DOE to use the reporting mechanisms as the basis for a technical assistance plan that its staffers would use in working with superintendents, school committee members, district-level administrations, and principals. This will require a shift in thinking and structure within the DOE, which, ever since the late 1980s, when its regional offices were folded into Quincy, then Malden, has been far too centralized and had little interest or capacity to provide statewide technical assistance to schools or districts. The following actions are needed to allow for change to occur:

- The DOE's district-level technical assistance should be driven by the findings of reports authored by the Office of Educational Quality and Accountability (EQA).
- The DOE's school-level technical assistance should be driven by the Program Quality Assurance's Coordinated Program Reviews (CPRs).

Public Safety: The Executive Office of Public Safety (EOPS) has limited resources to apply to direct technical assistance for improving and standardizing crime prevention strategies and techniques. While EOPS should strengthen its role as a partner in driving local department improvements, it should not do so by bulking up its employment rolls and doing the work itself. Rather, a more effective approach is for the state to fund a working group on crime prevention in the Middle Cities that involves outside consulting help and local officials in developing a single platform of benchmark measures, a uniform reporting methodology, a unified CitiStat-style database, and recommendations for improvements in departmental command structures. Such an effort would play to the state's strengths—acting as a convening power and providing a point of reference for municipalities. Included in the scope of work to be undertaken would be the development of measures that go beyond pure and simple crime data. (As noted in the previous section, the majority of the work done by public order professionals is not crime related).

In addition, other state agencies can help to re-establish a sense of public order. For example, Environmental Affairs can help advance urban land management partnerships with non-profits, land trusts, and local and regional economic development councils to promote neighborhood gardens and/or recreational open space through "community land trusts" where appropriate according to a plan developed by the state, regional and local partners.

Business Development and Community Redevelopment: The transportation, environmental, housing, and economic development agencies should work together to provide technical assistance to help articulate the city's appeal as a place to live and do business (including the Scorecard metrics), and to address other Scorecard metrics, such as high-density by-right zoning, Brownfields redevelopment, and local permitting. Some recommended specific measures:

- Develop detailed information to market the city and its neighborhoods to business entrepreneurs and investors. The Executive Office of Housing and Economic Development (HED) should work with the city and relevant regions to develop detailed information on labor force, cost of labor, energy, utilities, land, and taxation, and articulate a business recruitment strategy. Each city, with the help of HED funding, should produce a market study, possibly in conjunction with the Regional Planning Agencies.
- Provide sector-specific technical assistance, including TIF and DIF opportunities, through HED and the Office for Technical Assistance within the Environmental Secretariat. Tax increment financing (TIF) and district increment financing (DIF) are based upon the premise that a locality can spur a turnaround by foregoing anticipated new growth tax revenue in the immediate term in the hopes of attracting businesses and homeowners that will, in the long-term, increase taxable property and income. Because TIFs are tied by law to job creation, they are, at present, of limited use to Middle Cities, being neither applicable to vacant or abandoned property or to much of retail. Restaurants, for example, are considered to be too speculative to count for job creation. The state should consider pilot programs that expand the scope of TIFs to include market rate housing and, with the appropriate controls in place, retail development.
- Undertake permit streamlining whether through adoption of Chapter 43D or implementation of a single permit board, such as is currently allowed under Chapter 40B for affordable housing projects. Together with business groups, chambers of commerce, and local retail (and ethnic) associations, HED and OTA should promote the adoption of Chapter 43D (An Act Relative to Speeding and Streamlining the Permitting Process in the Commonwealth), which can provide state incentives in exchange for a commitment from localities to streamline the permitting process so that entrepreneurs and developers receive a permit determination within 180 days of application, and then outline priority areas for permit streamlining in each of the cities. With or without the adoption of Chapter 43D, Middle Cities should be helped to abandon sequential permitting processes where various departments and boards each get "a bite at the apple." For Middle Cities, where costs are higher and where risk is higher, ease of permitting can be a way to attract business.

CHANGES TO MEET THE CHALLENGE:
ADJUST THE TIF PROGRAM

To be a tool that is effective in Middle Cities revitalization, the scope of TIFs needs to be expanded to include retail and market rate housing projects.

Fiscal Management: Designees from the EOAF, the Division of Local Services (in the DOR), the Treasurer's Office, and the Land Court should form a team to advise the cities on fiscal management. Two recommended specific measures:

- Provide up-front advice on reasonable targets for debt management, tax delinquency, health care, pension and other negotiations with city employees, and the establishment of enterprise accounts. Have EOAF staff advise municipal officials on appropriate levels of debt and debt management practices. Use the DOR to determine sustainable levels of salary increases and benefit grants during collective bargaining.

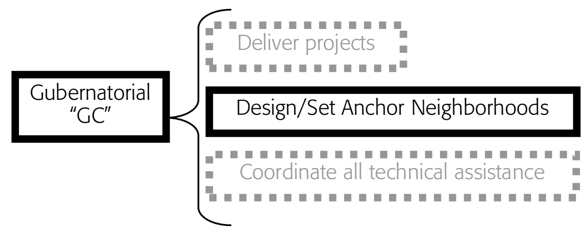
CHANGES TO MEET THE CHALLENGE:
STREAMLINE THE FORECLOSURE PROCESS

The Treasurer should work with the Land Court to reduce the time it takes to complete the foreclosure process by expediting cases from target Middle Cities (see below section entitled "Building up anchor neighborhoods")—or even considering a special session for tax lien-foreclosure cases in Middle Cities as a whole.

- Streamline the tax lien-foreclosure-disposition process. To move properties off the tax title rolls, there needs to be a coordinated effort spanning the placing of a tax lien to foreclosure and disposition. That will require a "front end" reform by the city, as well as a "back end" (disposition) reform to the process employed by the Treasurer and the Land Court. To start, the city should be advised to hire outside counsel that can work in bulk more cost effectively than the generalist practice required by the average municipal law department, and implement strict and timely enforcement, filing, and foreclosure. Upon foreclosure, the city should move to develop criteria in response to local conditions that employ both auctions and request for proposal, depending on the condition, revenue potential, and redevelopment goals of the community. In addition, to make sure that filings with the Treasurer and the Land Court do not get backed up, city lawyers will need to be advised as to the essential information and checks that the Treasurer and the Land Court need to move the cases more quickly through the queue. In addition, the Treasurer should work with the Land Court to reduce the time it takes to complete the foreclosure process by expediting cases from target Middle Cities (see the following section) or even considering a special session for tax lien-foreclosure cases in Middle Cities as a whole.

There is a lot the state can offer. There is no way for even the best staffed and most efficient city to be able to navigate even a substantial number of agency offerings, as they are each separate and unto themselves. Having a gubernatorial designee working with each city, not only will help keep the state focused, but it will not be lost upon any city official how much more effective having one point of contact could make the state and local relationship.

Building Up Anchor Neighborhoods



The blueprint for action described above has been aimed at improving outcomes citywide. Its goal is to make the city more attractive on the demand side (for current and prospective residents and businesses) and on the supply side (for businesses currently and prospectively considering doing business in the city). As the state does not have the resources, and as a general proposition should not seek, to invest and revitalize cities on a comprehensive scale, it needs to focus all of its technical, policy, and investment resources on target areas of each city.

The state currently has about $50 to $60 million that it gives in housing, transportation, and environmental (especially park and recreational) grants. There are other funds that municipalities make use of, such as the $400 million-plus in water supply and sewer infrastructure loans from EOEA's State Revolving Fund, but these take years to obtain and come with strings and costs. As noted earlier, these resources generally flow to cities in an uncoordinated fashion.

It is, further, no secret that the recipient list for public safety programs such as Community

Policing Grants, Brownfields funding through MassDevelopment, and other key programs have had a history of being determined on a case-by-case or even political basis rather than from a strategic plan. As funding for the individual programs is more a function of the agencies' respective abilities to work with legislators, there is no reason to think that the various programs would be used in any other way. To change the dynamic in project selection, the gubernatorial designee would work with the city to develop a strategy and coordinate state agencies to deliver on the plan.

Which cities would have access to "anchor neighborhood" funding?

At the current level of funding, and with the varied agencies from which the awards come, the state cannot be expected to fund projects across all areas of all the cities. To be successful, the state will need to engage city, neighborhood, and private concerns which are interested in turning around their cities. This means securing a commitment from local leadership to undertake significant reform in the areas of education, public order, economic development, and fiscal management. The following are recommendations for "thresholds"—commitments that cities would have to make in order to gain funding for the development of a state-regional-local plan and coordinated state investments in "anchor neighborhoods."

Education threshold

- Undertake immediate action to address failing schools: For all schools failing to achieve a 60 percent passing rate on the 10th grade MCAS, allow immediate utilization of METCO, pilot school, and Commonwealth and Horace Mann charter school options.

Public safety threshold

- The single threshold for communities that would like to partner with the state is to participate in the Middle Cities working group on crime and public order. This group would, again, focus on the development of measures that go beyond pure and simple crime data, a single platform of benchmark measures, a uniform reporting methodology, a unified CitiStat-style database, and recommendations for improvements on departmental command structures.

Economic development threshold

- Streamlined local permitting or adoption of Chapter 43D (see above), including streamlined permitting for Brownfields sites;
- High-density by-right zoning (more than 50 percent of total commercial and total residential land mass) that shows openness to new development;
- Existence of a viable redevelopment agency and participating local chamber of commerce.

Fiscal thresholds

- Cooperation with DOR to develop basic budget and forecasting tools, including a comprehensive capital investment plan, a five-year financial forecast, and key (such as water infrastructure) enterprise accounts;[17]
- Either outperformance of the Pension Retirement Investment Trust (PRIT) over ten years or inclusion of the local pension system into PRIT;
- Inclusion of all expenditures (including those based on transfers and grants) in the budget;
- Assessment of long-term (pension and retiree health care benefits) liability.

Again, these are not actions that the state can or should impose on the Middle Cities. An effective state-local partnership will only work with local buy-in, which means that local leaders need to commit to the completion of certain actions that will increase the likelihood of the revitalization effort. The state should not, however, commit itself to enhanced investments in cities that will not commit to such key action items as these, because it is unlikely to get a sufficient return on its investment.

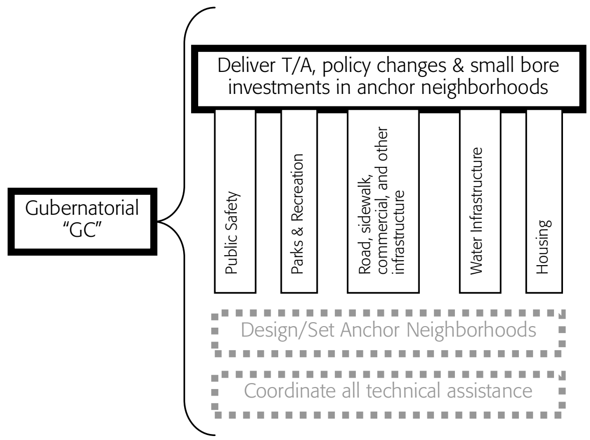
Defining Anchor Neighborhoods

Cities that commit to thresholds, as identified above, would be targets for state investment and coordinated attention. To be successful in planning and delivering key projects, the state will need to engage city, neighborhood, and private concerns intensely in the process of determining which neighborhoods to focus on—what we call "anchor neighborhoods"—and which projects make most sense for those neighborhoods. The gubernatorial designee would need to coordinate and represent all relevant state agencies and work with city and federal partners, as well as specific neighborhood associations, to determine two or three anchor neighborhoods in each city, about six to ten blocks in area each.

The ultimate "anchor neighborhoods chosen would need to be based upon a plan developed by state, regional and local interests, working together to think through how best to re-establish a regional and local economic purpose and brand for the city. Figure 3-2 provides suggestions as to the type of neighborhood concerns to evaluate in thinking through such a plan, together with data sources and suggested preferences. For example, location within the city is an obvious matter to consider, as proximity to core retail/commercial centers and complementary impacts on abutting residential neighborhoods will allow for ripple effects beyond the revitalization of a single neighborhood. As with any good strategy, the ultimate choices made by those involved in developing such a plan must meet the cost-benefit test of achieving the maximum while spending the minimum.

It must be remembered that these are meant to be suggestions. There will always be art and, more importantly, judgment involved in determining the right neighborhoods for anchor investments, as there will be neighborhoods that are more enthusiastic about the reinvestment strategy. And local support is worth dollars every time; after all, the collection of good data will always be dependent on the cooperation of neighborhood groups and the city.

State Investments in Anchor Neighborhoods



If one goes back to the analogy of the rehab project, after closing up the perimeter walls and roof and re-doing general systems and wiring, the GC needs to address core areas of concern—areas that risk undermining or that, if fixed, would add significantly to the value of the project. Unless the contractor wants to pay for all the improvements himself, he will need to show that the property has value to a potential buyer and have that buyer put in the additional investments.

If we put the state into a comparable position, the state, again, has so many commitments, it cannot hope to pay for the renovation of an entire city. It needs to promote its overall interests, but seek to bring in the private market as soon as possible. Once the state-regional-local partnership has developed a plan focused on bringing back anchor neighborhoods of the Middle City in question, the state—led by the gubernatorial designee—should work with these partners to provide a mix of investments with technical assistance and bold policy steps.

This was one of the positive lessons of the Springfield experience—except that the office through which the funding was to come lacked the connection to the governor to see all of the projects through. In the case of the targeted investments in Springfield, there was strong state pressure exerted through the FCB to ensure that

Figure 3-2. *Measuring neighborhoods and preferences for the selection of anchor neighborhoods*

Measure	Data Source	Anchor preferences
School buildings	SBA Program	Renovation or construction underway or recently completed, or relatively small dollar new project
Educational attainment	DOE	Willingness of superintendent to make significant changes in neighborhood school(s)
Crime and delinquency	City, Bureau of multi-pronged Crime Statistics, EOPS; neighborhoods, and EOPS GIS	Solvable crime issues (community policing > crime and gang-related activities)
Small streetscape improvements, including repair of hazardous sidewalks, crosswalk painting, traffic calming needs, street lighting, etc.	City, Neighborhood	Interesting and solvable traffic issues (speeding, connectivity deficiencies, etc.) rather than capital-intensive projects such as redirecting highways
The location, ownership, housing type, and number of tax lien properties. Existence of market rate versus subsidized/affordable housing.	City	Proximity to employment, significant number of low expenditure fixes, etc.
The location, ownership, and housing type of housing in blighted condition, abandoned, boarded-up, or in need of demolition	City, Neighborhood	Housing stock that does not have unsolvable issues (not all abandoned high-rises with asbestos, Brownfields, etc.)
Nuisance sites (illegal dumping, businesses violating environmental regulations, etc.)	City, Neighborhood	Numerous issues may represent an opportunity for coordination with DEP
Parks and public infrastructure requiring repair	City, Neighborhood	Significant resources (rivers, parks, historic sites) that need investment and additional access
Employers willing to partner with the state and federal officials in homebuyer assistance for their employees in the target neighborhoods	Businesses	Necessary
Issues slowing business in retail districts	Businesses	More easily resolved issues; for example, not involving the wholesale removal of a homeless shelter or a bridge
Presence and ownership of neighborhood serving retailers such as groceries and supermarkets, drug and convenience stores, shoe repair, dry cleaners, barber and hair product shops.	City, Neighborhood	Retail spines that are degraded
Cultural or other branding of retail spines/areas	City, Businesses, Neighborhood	Strength and direction of retail association
Zoning flexibility	City, Businesses, Neighborhood	Necessary
Neighborhood capacity to be effective supporters and partners	City, Businesses, Neighborhood	Neighborhood (community) capacity—neighborhood associations that are effective and not prone to in-fighting and political grandstanding

cooperation occurred and that the investment strategy was folded into larger, more significant actions within the city, in partnership with local businesses and not-for-profits. The investments came last, after a lot of work on the ground reforming city processes and undertaking targeted actions regarding public order and code enforcement, and preparing and choosing the right neighborhoods and projects. It should be emphasized that, in all of this, the investments must, in order to be effective, come last. Money is a necessary, but not sufficient factor. In fact, it can exacerbate problems if invested without attention to the incentives in place and the needs of the city in question.

Defining the uses for and assembling a significant level of funding to invest in Middle Cities will, again, require a strong hand near to the governor, so that he or she can cut through the silos of state government. For the purposes of revitalization efforts, the $67+ million in current state grant and program money shown to be currently dedicated to Middle Cities, albeit episodically, should be fungible across agencies. The appropriate use for the money would be based on a community's needs—whether they needed parks, facilities, streetscape, or other improvements—and would be determined as part of a state-regional-local partnership provided that the investments were targeted in two or three neighborhoods.

In addition to "hard" grant money and favorable loan programs, it should not be lost in the discussion that there are any number of "soft" investment opportunities within the agencies. A good example of this is the flexibility that the Commissioner of the Department of Environmental Protection has to waive the reimbursement required of towns when the department is involved in the clean-up of a Brownfield site. Requiring that the department waive a certain number of repayments in Middle Cities participating in the development of a plan would be an additional form of investment and could quicken the rate at which these cities can refashion a new economic purpose.

Policy and Legislative Changes to Meet the Challenge of Revitalizing Middle Cities

Finally, beyond a plan and coordination across the agencies in delivering on that plan, there are a number of policy changes—and legislative changes—that would help. Some are corrections to policies that are harmful to the Middle Cities. Others are ideas that could help complete the state's toolbox. In laying out the action steps of this paper, we have identified a number of state policies and statutes that would need examination and possible revision in order for the state to form a more effective partnership with the Middle Cities. None of these actions is possible without the involvement of the state legislative delegations from the Middle Cities. Pushing for legislation, while difficult, accomplishes or, at least, allows for the attainment of the following goals:

Development and Business Climate Goals

- To expedite collection of delinquent taxes, shorten the period during which owners can redeem property with liens on them. Currently in Massachusetts the norm is on the order of years. Ohio, through a variety of reforms, has brought down its timelines significantly.
- Either create a mechanism to foster cooperation between city treasurers and Land Court to reduce the time it takes to complete the foreclosure process, or consider the creation of a special session of the court for tax lien-foreclosure cases in Middle Cities in order to expedite dispositions.
- Expand the scope of tax increment financing (TIF) to include, when conditions require, market rate housing and, with sufficient controls, retail projects. Making such a change will help communities attract new investors to the market, when a financial analysis, reviewed and approved by the state, indicates that the project would otherwise be economically infeasible.

CHANGES TO MEET THE CHALLENGE:
ADJUST STATE HOUSING PROGRAMS

Deed restrictions on funds for demolition and rehabilitation, while justifiable in the Boston and Cambridge markets, are often counterproductive in the Middle Cities. See Housing Programs in Weak Market Neighborhoods at http://www.pioneerinstitute.org/pdf/06_housing_programs.pdf

- Make the housing programs capable of fulfilling the potential of the Middle Cities, by relaxing deed restriction requirements on housing funds going to these cities, so that funds can be used for housing demolition and rehabilitation costs associated with the development of workforce housing. Also, reduce the time the restrictions are in place. As a recently released Pioneer paper by Peter Gagliardi, Executive Director of HAP, Inc., in Springfield noted, deed restrictions on funds for demolition and rehabilitation, while justifiable in the Boston and Cambridge markets, are often counterproductive in the Middle Cities.
- Strengthen housing code violation enforcement. State delegations from Middle Cities should work together with city housing officials to recognize the reality of housing code violations in their cities. The Middle Cities are among the most frequent locales where property owners (or tenants) allow overcrowding in apartments and houses. The relevant mayors and city housing departments should work with state representatives to send strong signals through citations and penalties. Housing court jurisdictions should be expanded or special housing code sessions should be established, as fines and penalties are only one half of the effective enforcement program.
- Require that tenants deposit at least a significant portion of their rent in an escrow account when there are complaints filed against landlords regarding building and other code violations.

Access to Educational Opportunities

In Middle City school districts where at least 60 percent of students score below standard on the MCAS test, give parents access to educational opportunities and get them further involed in their children's school life by augmenting significantly parental choice across public schools. This can be accomplished by

- Lifting the three caps on Commonwealth and Horace Mann charter schools.
- Requiring the establishment of a certain percentage of pilot schools.
- Expanding Metropolitan Council for Education Opportunity, Inc. (METCO) programs in all Massachusetts cities.

Public Safety

Maintain and strengthen the competitive application process for the Charles Shannon Community Safety Initiative. The Shannon CSI grants, passed in December 2005, is a competitive grant program that gives $11 million in state funds to support comprehensive, regional, and multi-disciplinary strategies to combat gang and youth violence. Fifteen applicants and 34 communities received grant for 2006-07. In each case, the applicant must demonstrate a regional, multi-disciplinary strategy to combat gang and youth violence, and a documented gang or youth violence problem. The Shannon grants were a significant improvement over the way that community policing money had been parceled out in the past, which was largely on the basis of political strength. The Shannon grants seek to ensure that the funding is targeted at communities based on need, but in order to broker an agreement, the final reform held community funding levels harmless and additional money was put into targeting communities with specific violent and gang crime issues.

Improvements in Fiscal Management

- Promote or even require that Middle Cities underperforming the Public Retirement Investment Trust (PRIT) over a ten-year period place all of their pension funds into PRIT (see Appendix C).
- Promote or even require that Middle City health care benefits be placed under the umbrella of the Group Insurance Commission.

Conclusion

Through this paper we have hoped to start a dialogue about the integration of state policy initiatives and local performance. It is perhaps too poetic for a policy contribution premised on nuts and bolts action, but, nonetheless, it is worth saying that cities are in many ways the expression of our collective imagination and history. They are an expression of how our style of private enterprise meshes with our ability to solve common problems—or more aptly, perhaps, the many problems of the commons brought about by living face to face with fellow citizens.

In showing that we expend literally hundreds of millions on Middle Cities every year, we have not even begun to scratch the surface of overall expenditures, as we have purposefully avoided consideration of the hundreds of millions of dollars that go to additional crime fighting, crowded courts, jails, and youth and human services. Our purpose has been to lay out in useful terms the impact (or lack of impact) of our current policies; the funding available should we determine that a more coordinated, pro-active approach is warranted; lessons from reactive policy (receiverships); and, finally, a systematic approach to supporting strong local leadership and private market investment that can create a new economic and social function for the Middle Cities.

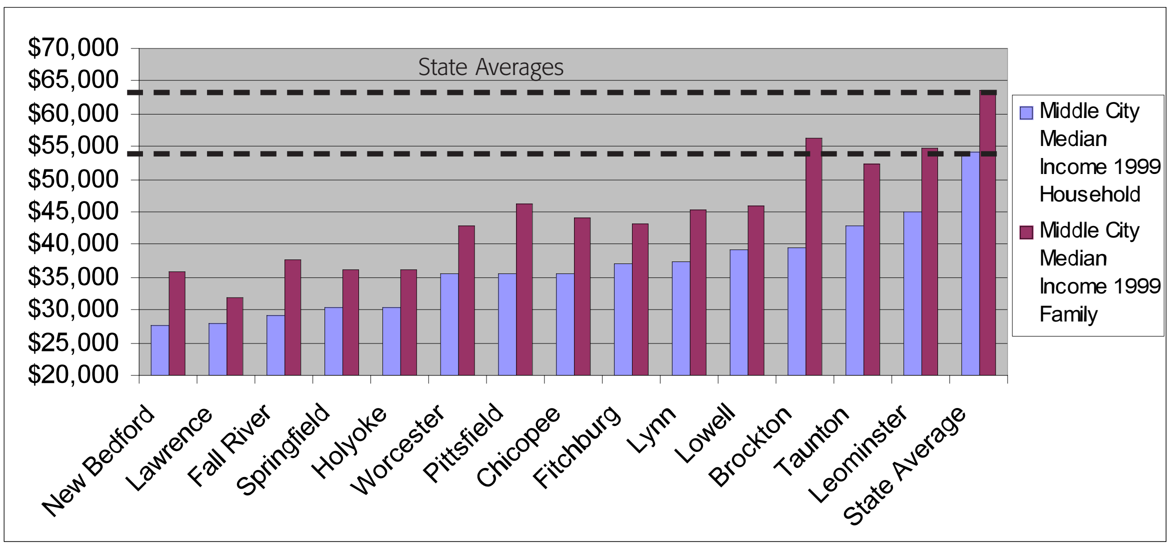
Fellow citizens living in our Middle Cities are not destined to be a permanent underclass. Our cities should and can work. By coordinating state efforts and measuring local results, we will achieve a higher rate of return from the investment of state and local funds. As development pressures continue to build in the greater 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.

V. Appendices

Appendix A: Household Income

Figure A-1 shows that in the Middle Cities, the median household and family incomes are significantly lower than the state averages. The median household income in 1999 in Massachusetts was $54,077, and the median family income was $63,706. In most of the Middle Cities in 1999, median household incomes were in the high $20,000 to mid-$30,000 range. Median family incomes were in the mid-$30,000 to mid-$40,000 range with a couple of exceptions in the low to mid-$50,000 range. On both measures, Middle Cities stood at 25 to 45 percent below the state average.[18]

Figure A-1. *Middle City Median Household and Family Income, 1999*



Appendix B: Other Possible Benchmark Measures

- *A variety of measures were considered too singular.*—For example, start from the proposition that cities should streamline and promote the redevelopment of Brownfields, cognizant of the fact that the number of contaminated sites varies across cities. We had considered that cities should be required to create a small fund to ensure that they had a financial interest in seeing these properties move. Not only did city officials note that they did not have the money, but also there are many cities for which Brownfields are less of a priority.
- *A variety of measures were beyond the control of city leaders.*—We had thought about including the existence of "neighborhood watches" to ensure that the police were engaging the community in re-establishing a sense of order in the community. It was pointed out that such efforts are often underway, short-lived and terribly difficult to keep in place.

- *A variety of measures were considered too micromanaging and possibly leading to "bad outcomes" (or managing to the measures rather than to the end-product).*—For example, start from the premise that, all things being equal, faster EMS responsiveness is a good thing. No one would argue with that. But if we end up managing to the measure, rather than the end, we could dispatch someone to be there with a stopwatch at the expense of overall safety and order. The problem essentially comes down to the "all things being equal" assumption, which is erroneous. That is, in a climate of finite resources and outsized need, all things cannot be assumed to be equal. In the end, it takes a manager focused on the results that matter most from a macro level, but who understands the need to address many micro issues (not one) at the same time to get there.

Appendix C: The Need to Move Locally Managed Pensions to PRIT

In Massachusetts, cities and towns have the option of using the state pension fund to invest all or some of their assets, or investing on their own. Recently, Springfield made the decision to place all of its pension assets with the state pension fund (the Pension Reserves Investment Trust, or PRIT), which holds the assets of the pension fund for all state workers and teachers). In addition, Chicopee, Fall River, Lawrence, Leominster, Lowell, and New Bedford place a portion of their assets with PRIT.

Advocates for retaining local control over the investment of pension fund assets suggest that it allows for more control over portfolio risk. A recent Pioneer Institute study found that almost all local pension funds had underperformed the state pension fund by a significant margin over several different time periods. The performance of the Middle Cities is listed in Figure A-2 below.

With the exception of New Bedford's five-year-return performance, every Middle City's pension fund has underperformed the state fund (which they all have the option to utilize) over the one-year, five-year, and twenty-year period.

Underperformance comes at a substantial cost to municipalities, which must fund shortfalls from operating revenues. The cost, in the form of foregone investment income, of local control over the last ten years has been $42.7 million for Fall River, $18.7 million for Fitchburg, $15.4 million for New Bedford, $66.8 million for Springfield, and $18.3 million for Worcester.[19]

Maybe now say from Lite Gov who is charged with liaison to cities and towns

Figure A-2. *Middle Cities Pension Fund Performance vs. PRIT*

Municipality	2005 Return	5 Year Return (2001 - 2005)	20 Year Return (1985 - 2005)
PRIT	**12.70%**	**7.04%**	**11.27%**
Brockton	7.94%	6.08%	10.54%
Chicopee	7.72%	4.64%	9.59%
Fall River	7.13%	3.06%	9.79%
Fitchburg	6.40%	3.35%	8.71%
Holyoke	6.21%	5.04%	10.76%
Lawrence	6.25%	3.19%	8.86%
Leominster	6.67%	6.91%	9.54%
Lowell	12.02%	3.75%	10.65%
Lynn	9.35%	5.11%	9.38%
New Bedford	10.50%	7.29%	9.00%
Pittsfield	6.97%	3.72%	9.58%
Springfield	6.91%	3.23%	9.54%
Taunton	5.65%	6.26%	11.07%
Worcester	10.02%	5.50%	10.37%
Middle Cities Average	**7.84%**	**4.80%**	**9.81%**

Source: PERAC website, http://www.mass.gov/perac/dirs/boardprofile.htm, multiple pages, last accessed 1/12/07

Endnotes

1. "Weak market" focuses too strongly indicates a city's current economic condition. "Gateway" focuses on one important city function—preparing immigrants for moving up socially and economically—but does not adequately describe the loss of functional purpose, the leadership void, or regional market differences between the Middle Cities and cities in Greater Boston.
2. This study excludes Boston, as well as Cambridge, Quincy, and Somerville, because their proximity to the capital and the center of state government limits their relevance to the question of how to revitalize the Middle Cities, and skews the data regarding investments in them.
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18. MA Department of Revenue, Division of Local Services. Available on-line: http://www.dls.state.ma.us/mdmstuf/socio.htm. Accessed 06.19.2006
19. Ardon, Ken, "Leaving Money on the Table: The 106 Pension Systems of Massachusetts", May 2006, Pioneer Institute, pg. 11.

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