REBUILDING RENEWAL

An Analysis of State Investment in Gateway Cities and a Work Plan for Delivering Transformative Development

GATEWAY CITIES INNOVATION INSTITUTE

RESEARCH REPORT | May 2016

ABOUT MASSINC

The Massachusetts Institute for a New Commonwealth (MassINC) is a rigorously non-partisan think tank and civic organization. We focus on putting the American Dream within the reach of everyone in Massachusetts using three distinct tools—research, journalism, and civic engagement. Our work is characterized by accurate data, careful analysis, and unbiased conclusions.

ABOUT THE GATEWAY CITIES INNOVATION INSTITUTE

The Gateway Cities Innovation Institute works to unlock the economic potential of small to mid-size regional cities. Leveraging MassINC's research, polling, and policy team, the Institute strengthens connections across communities and helps Gateway City leaders develop and advance a shared policy agenda.

ACKNOWLEDGEMENTS

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May 2016

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MassINC GATEWAY CITIES INNOVATION INSTITUTE

HODGE economic consulting

May 2016

Dear Friend:

MassINC's Gateway Cities Innovation Institute is proud to present *Rebuilding Renewal: An Analysis of State Investment in Gateway Cities and a Work Plan for Delivering Transformative Development*. Our Institute was founded to mobilize MassINC's research capabilities to help Gateway City leaders develop and advance a shared policy agenda. For a number of years, transformative development policy has been high atop this agenda.

The Institute put forward the Transformative Development concept in a 2013 report authored by Alan Mallach, a leading voice nationally on the regeneration of weak market cities. Mallach finds that these cities suffer economically thanks to lack of demand. But while market conditions are not good, strategic public support can help to break the cycle of disinvestment and capitalize on the very real strengths in the nation's historic urban centers.

The policy solutions crafted by Gateway City leaders and advanced in the 2013 report were introduced at the beginning of the 2013–2014 legislative session in H. 311, *An Act to Support Transformative Redevelopment in Gateway Cities*. The omnibus economic development package signed by Governor Patrick in July 2014 incorporated major portions of this bill, including the proposed Transformative Development Fund.

We offer this new analysis to leaders on Beacon Hill as they contemplate the economic development needs of the Commonwealth and legislation to further it. The data show a stark contrast in the economic trajectories of Boston and Gateway Cities following the Great Recession. State leaders recognize that the future of the Commonwealth depends on strategies ensuring that all of our cities drive growth. Legislators are committed to finding these strategies and deploying them for the benefit of Gateway Cities and the rest of the state. As always, we hope this independent research offers them valuable information and ideas.

Sincerely,

Benjamin Forman
Executive Director
MassINC Gateway Cities Innovation Institute

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EXECUTIVE SUMMARY

Over the last decade, Massachusetts has fundamentally shifted its understanding of the needs and opportunities of small-to-medium-sized cities anchoring the Commonwealth's regional economies. The state now places considerable priority on efforts to make these so-called Gateway Cities stronger drivers of growth. But, despite this focus, economic conditions in Gateway Cities remain fundamentally weak.

As recent efforts have not "moved the needle" on key measures related to productivity, income, and real estate values, we must ask what it will take to help Gateway Cities resume their key function as drivers of regional growth and economic mobility. To help answer that question, this study presents new information and analysis regarding:

1) state investment in Gateway Cities;
2) real estate development trends; and
3) recent policy changes and the fiscal context for future state investment in Gateway Cities.

This analysis demonstrates that, if there is to be measurable beneficial impact in Gateway Cities, the state must invest more and coordinate this investment to actually produce transformative development—projects that catalyze significant follow-on private investment, leading over time to the renewal of an entire downtown or urban neighborhood.

State Capital Investment in Gateway Cities

MassINC compiled estimates of state capital investment in Gateway Cities over the five-year period spanning FY 2009 through FY 2013. "Capital investment" is broadly defined as public spending on long-lived physical assets. In some cases, this spending is supported by general obligation bonds; in others, the investment flows through state tax credits. This first-of-its-kind analysis produces revealing findings:

• **Massachusetts invests disproportionately in Gateway Cities.** Gateway Cities received approximately $3.3 billion in state investment between FY 2009 and FY 2013—just under 40 percent of the $8.5 billion statewide total. Gateway Cities absorbed about one-third of state education and economic development investment, over half of the energy and environment investment, and more than two-thirds of miscellaneous investment. On a per capita basis, Massachusetts appears to be prioritizing investment in Gateway Cities, as they are home to just 25 percent of the Massachusetts population. However, much of this spending is directed toward maintenance of existing regional state assets (e.g., courthouses) or constructing new ones that do little to catalyze economic growth (e.g., mental health facilities). The proportion of state capital investment Gateway Cities receive is also directly in line with their level of economic distress; they are home to 43 percent of residents living in poverty.

• **The state's capital investment in Gateway Cities is dominated by education spending.** Between FY 2009 and FY 2013, Massachusetts placed $1.7 billion in Gateway City educational facilities, approximately $1.3 billion in primary and secondary schools, and $379 million in higher education. While these educational facilities can play a role in building Gateway City economies and revitalizing Gateway City neighborhoods, there is no process to align these major state investments with broader Gateway City economic development or neighborhood revitalization strategies.

• **The state's investments in economic development and housing are most clearly relevant to growth and revitalization, yet they represent just 14 percent of state investment in Gateway Cities.** Moreover, these investments tend to be fairly diffuse, with many cities receiving relatively small grants. The state is making few larger-scale investments that can logically be connected to generating transformative development.

• **The state does not track investment and evaluate impact.** While it may sound simple in theory, a comprehensive accounting of actual state investment in physical infrastructure in Gateway Cities is extremely difficult. This limited analysis presents the best information to date on how the state is actually investing in Gateway Cities. The Commonwealth must do a better job tracking its spending to enable rigorous impact evaluation demonstrating the extent to which public investment has spurred transformative development.

Real Estate Development Trends

Real estate trends are a key metric for Gateway City renewal. Property values indicate the extent to which private investment is able to flow to these communities. When market values are extremely low, it is difficult to finance new development and improvements to the existing building stock. State focus on Gateway Cities coincided with the start of the Great Recession. While the Boston area generally recovered quickly, Gateway City markets have not fared nearly as well. The data reflect the strength of these divergent trends:

• **A large gulf exists between the market for urban real estate in Boston and the market for urban real estate in the Gateway Cities.** On average, residential property sold for $114 per square foot in Gateway Cities in 2014. In comparison, the median home in Boston sold for $444 per square foot. This large disparity might make development outside the city appear attractive, as properties are cheaper there. But that development has not been realized. Rather, high values in Boston enable the construction of enormously expensive development, and low values in Gateway Cities make building there financially unfeasible.

• **The Great Recession has widened the gap between real estate values in Boston and the Gateway Cities.** From 2000 until the Great Recession, assessed values in Gateway Cities were rising at nearly the same pace as Boston's. In the recovery, Gateway Cities and Boston have followed opposite trajectories. Between 2011 and 2015, Boston saw total assessed value grow by 28 percent, while total assessed value fell by 2 percent in Gateway Cities. The same post-recession trend is evident in sales data: adjusted for inflation, home prices per square foot are now higher in Boston than their previous peak, while, on average, Gateway City median sales are still just two-thirds of their 2005 peak. The trend is even starker as measured by new development. In 2015 new growth in Boston exceed the pre-recession peak by more than 20 percent, while last year the value real estate development added to Gateway Cities rolls was only slightly more than half pre-recession levels.

• **As a leading indicator of new growth, permit issuances suggest Gateway Cities are likely to miss out on capturing the momentum of the Boston real estate market in this cycle.** Between 2011 and 2012, the number of permits issued in Boston more than doubled, while Gateway City permit levels fell another 20 percent. Building permit issuances for Gateway Cities did not bottom out until 2012, and the data through 2014 show only a modest uptick. Prior to the recession the number of building permits issued in Gateway Cities exceeded the number in Boston; last year, more than five times as many building permits were issued in Boston.

• **Low real estate values continue to produce a large market gap.** Low rents and sales value in Gateway Cities make it difficult to cover the costs of property acquisition, improvement, and construction. Estimates suggest current sales prices are approximately 25 percent below the cost of new construction. For rental units, the gap is much larger, with the value of market rents 70 percent lower than construction costs.

Policy Changes and the Fiscal Context for Future State Investment

The difficulty Gateway Cities have had recovering from the recession should not discourage policy leaders from spearheading efforts to stimulate renewal. The state has a coherent strategy for facilitating transformative development, efforts are underway to build capacity at both the state and local level to execute this strategy, and several of the tools required to implement it have been fashioned. The most challenging obstacle will be identifying the funds to resource this effort at full scale, given fiscal pressures.

• **A number of simultaneous efforts to promote Gateway City renewal have fused into a coherent strategy for transformative development.** The Transformative Development Initiative (TDI) at MassDevelopment is the core of this new approach. TDI builds engagement and draws attention to districts targeted for revitalization in the short-term; generates momentum by making modest real estate investments in strategic locations in the medium-term; and facilitates a stream of coordinated development projects, leading to private investment and higher property valuation in the long term. State agencies and Gateway Cities are working hard to improve their capacity in these efforts and are taking advantage of tools developed alongside TDI.

• **With mounting structural pressures in the state budget, funding Gateway City revitalization at levels sufficient to produce transformative development will be difficult.** Capital spending is becoming more challenging as the state, for the first time, pushes up against the debt ceiling established in 1989. Standard & Poors has revised its outlook on the state's general obligation bonds to negative. Medicaid and pension obligations will consume a growing share of state revenue over the next decade. Pushing debt higher as a percentage of revenues will be difficult, especially with a low reserve fund balance and local aid payments still well below pre-recession levels. With these fiscal pressures, making room for additional capital investment in Gateway Cities will require constraining state capital spending in other areas and/or identifying new revenues to underwrite these economic development investments.

Delivering Transformative Development

A comprehensive transformative redevelopment policy would leverage current state investment in Gateway Cities and secure significantly more resources devoted to stimulating private economic activity in their artificially weak markets. Attuned to the state's fiscal realities, a work plan for achieving such a policy boils down to three tasks:

1. Identify revenues to increase the level of investment in transformative development. Changing the weak market conditions that make it impossible for the private sector to unlock the very real potential in the Commonwealth's Gateway Cities will require a long-term commitment to well-placed investment at significantly higher rates than currently available. Governor Baker's economic development bill's proposed increases to the Transformative Development Fund, the Brownfields Fund, and the capitalization of a new land assembly fund are an excellent start. These resources will help Gateway Cities establish a stronger pipeline of transformative projects. But more is still needed.

One option is generating own-source revenues to service debt related to economic development, following the Convention Center Fund model. The Pioneer Institute has proposed simply tapping the surplus revenues of this fund to support Gateway City investments. Another alternative is to build a variation on this model for transformative development, relying on a modified real estate transfer tax.

Another possibility is allowing transportation-related revenues to finance transit-oriented development projects. In the near future, finding new revenue sources to support transportation infrastructure will be critical to improving the system and overcoming structural challenges in the capital budget. Using some of these additional revenues to support complementary place-making investments around transportation nodes could promote highest- and best-use development, significantly increasing the efficiency of transportation infrastructure.

2. Better align investments with targeted redevelopment strategies. On top of additional spending, concerted effort will be needed to ensure that the state's investment in Gateway Cities is coordinated to generate revitalization. Project selection criteria are needed for each new investment. And additional effort will be needed to help state agencies innovate. Leaders should examine models for programming state investment for revitalization, with particular emphasis on developing new designs for educational facilities.

3. Increase transparency and accountability. To ensure that funds targeted to Gateway City revitalization produce return for taxpayers, there must be greater transparency and accountability. This begins with how funds are awarded and extends to how funds are actually expended and the impact they have in stimulating private investment.

The bulk of funding administered for transformative development directly should be awarded through a competitive process to ensure that officials select best projects without feeling the political need to spread resources too thinly. Taking steps to improve systems to track where and when public resources are placed in communities will also be central to ensuring that state expenditures produce transformative development.

INTRODUCTION

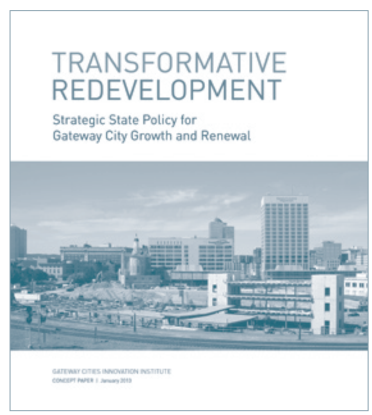
Over the last decade, Massachusetts has fundamentally shifted its understanding of the needs and opportunities of small-to-medium-sized cities anchoring the state's regional economies. The state now places considerable priority on efforts to make these so-called Gateway Cities, which were first identified in a landmark report by MassINC and the Brookings Institution, stronger drivers of growth. But, despite this focus, economic conditions in Gateway Cities remain fundamentally weak.[1]

This has serious implications for the Massachusetts economy. Consider the drag on growth derived from the inability to increase housing production in the eastern part of the state. Gateway Cities could provide a badly needed reservoir of housing to compensate, but low real estate values make it extremely challenging for developers to finance new construction. In central and western Massachusetts, sluggish growth means fewer job opportunities for residents living around Worcester and Springfield. Throughout Massachusetts, high concentrations of poverty in Gateway Cities place a heavy demand on public resources and undermine the human potential of a significant percentage of the state's current and future workforce.

As recent efforts have not "moved the needle" on key measures related to productivity, income, and real estate values, we must ask what it will take to help Gateway Cities resume their key function as drivers of regional growth and economic mobility.To help answer that question, this study presents new information and analysis regarding:

1) recent state investment in Gateway Cities, in terms of the categories of spending and the extent to which investment is targeted for economic development and urban revitalization;
2) property value and real estate development trends before, during, and after the Great Recession; and
3) recent policy changes and the fiscal context for future state investment in Gateway Cities.

This analysis demonstrates that, if there is to be measurable beneficial impact in Gateway Cities, the state must invest more and coordinate this investment more effectively. The paper concludes with strategies to meet this twofold challenge.



WHAT IS TRANSFORMATIVE DEVELOPMENT? AND WHY?

MassINC introduced "Transformative Development" and proposed it as a leading strategy for Gateway City renewal in our 2013 report. That paper defined transformative development as "public and private financial support for projects that catalyze significant follow-on investment, leading over time to the transformation of an entire downtown or urban neighborhood." This approach is valuable because Gateway Cities suffer from weak real estate markets, which state investment can help to improve. Currently, development costs outweigh returns, creating a gap that cuts off the flow of private investment. Arguing that state policies in place could not do enough to close the gap, the paper called for new state investment in a variety of areas, to the tune of $1.7 billion over ten years. As described in this report, the state has not provided funding at that level, but it has made progress toward effective transformative development policy.

I. STATE CAPITAL INVESTMENT IN GATEWAY CITIES

Enacted in 2009, the official legislative recognition of Gateway Cities in Massachusetts has allowed the state to prioritize certain cities for investment purposes. For example, the MassWorks program, which consolidated a number of individual infrastructure investment programs into a "one-stop shop," now requires that at least 50 percent of investment go to Gateway Cities. While many of these funding priorities were developed under the Patrick administration, the Baker administration has increased emphasis on state support for local economic development.[2]

Despite this focus, there has been no systematic accounting of state investment in Gateway Cities. This analysis compiles, for the first time, estimates of state capital investment in 24 of the 26 communities designated by statute as Gateway Cities.[3] (Attleboro and Peabody are excluded because they were designated Gateway Cities too recently to supply data for analysis.) The data break spending down by category over the five-year period spanning FY 2009 through FY 2013. "Capital investment" is broadly defined as public spending on long-lived physical assets. In some cases, this spending is supported by general obligation bonds; in others, the investment flows through state tax credits.[4]

These data are not easily accessible. To obtain them, MassINC asked agencies to capture actual spending for grant programs and tax credits authorized by the legislature and administered by various departments. The legislature also authorizes funding to specific projects. The Executive Office of Administration and Finance (ANF) releases funds to these projects, but resources are not available to advance all of the initiatives approved by the legislature. Accounting for which projects actually proceed and when is difficult. The most accessible indication is the annual state capital plan prepared by ANF. MassINC combed through these documents, breaking out spending by category and municipality. All of the totals reported below are estimates based on the best information available.

Distribution of State Capital Investment

Gateway Cities drew approximately $3.3 billion in state investment in FY 2009–2013 (Table 1), just under 40 percent of the $8.5 billion statewide total. There is considerable variation in the distribution of funds by category. Gateway Cities absorbed about one-third of state education and economic development investment, over half of the energy and environment investment, and more than two-thirds of miscellaneous spending.

To place this distribution in context, it is helpful to consider the Gateway City share of other statewide indicators (Figure 1). These two-dozen communities account for just over 25 percent of the Massachusetts population. Many Gateway Cities also act as regional economic centers, hosting a range of services and facilities (hospitals, cultural attractions, government buildings, transportation hubs, etc.), which helps explain why they may receive a larger share of investment than population predicts. The need for revitalization is likely a factor as well: Gateway Cities are home to 43 percent of Massachusetts residents living in poverty. Taken as a whole, the state does appear to be prioritizing investment in Gateway Cities.

Table 1:

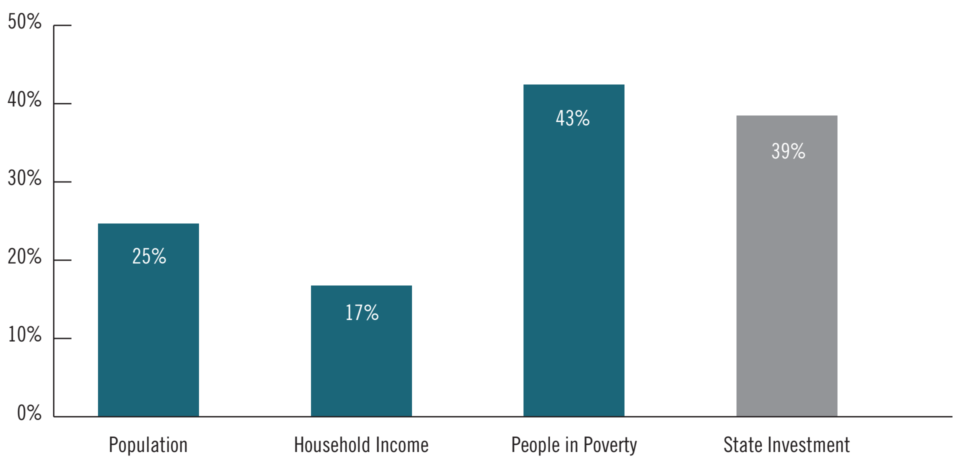
State Capital Investment in Physical Infrastructure by Spending Category for Gateway Cities and Statewide, FY 2009–2013. (millions of dollars)

Spending Category	Gateway City Investment	Statewide Total	Share of Investment in Gateway Cities
Education	$1,697	$5,305	32%
Housing	$262	$619	42%
Economic Development	$210	$608	35%
Energy and Environment	$157	$302	52%
Transportation	$240	$538	45%
Miscellaneous Investment	$766	$1,081	71%
Courts	$282	$364	77%
Health & Human Services	$315	$366	86%
TOTAL	**$3,331**	**$8,452**	**39%**

Source: MassINC research and Hodge Economic Consulting

Figure 1:

Gateway Cities Share of State Totals, FY 2009–2013



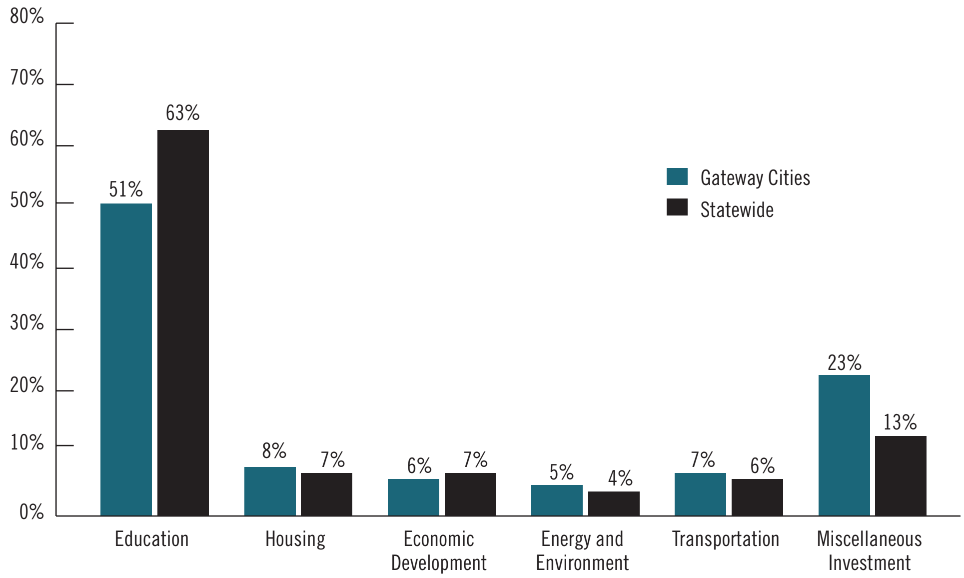
Source: MassINC research and Hodge Economic Consulting

State Capital Investment by Category

Figure 2 presents the share of investment by spending category in Gateway Cities and the state as a whole, to see if and how state investments differ across the Commonwealth. The pattern is generally similar, but with an even higher share of investment (63 percent) going to education statewide and a higher share directed to miscellaneous investment, led by courthouses and health and human services, in Gateway Cities.

Figure 2:

Share of State Investment by Spending Category for Gateway Cities and Statewide, FY 2009–2013



Source: MassINC research and Hodge Economic Consulting

Education

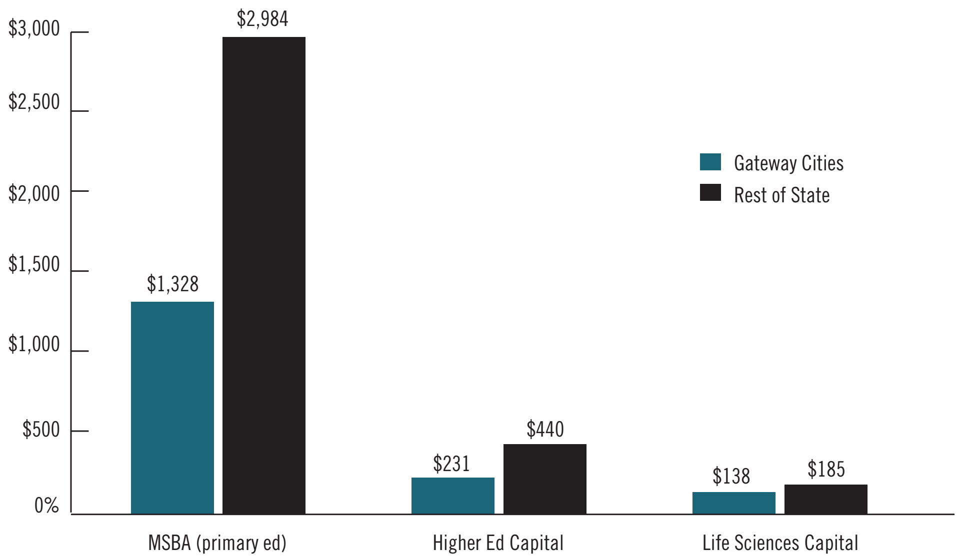
Education is by far the greatest single category of state investment in Gateway Cities (Figure 3). The largest source of education funding is the Massachusetts School Building Authority (MSBA), which provides resources for the construction of elementary and secondary schools. Gateway Cities received about 30 percent of this investment.1 Another important source of investment funding for state universities and community colleges was the 2008 Higher Education Bond Bill. Gateway Cities received $231 million of the $671 million spent on colleges statewide between FY 2009 and 2013. Of this total, $124 million was directed to community colleges throughout the Commonwealth with almost $50 million in Gateway Cities. The Life Sciences Bond Bill has also provided a significant source of support for higher education projects, directing $138 million (85 percent of the statewide total) to Gateway Cities.

Miscellaneous

Miscellaneous Gateway City investment was directed primarily at human services ($315 million, 86 percent of the state total) and courthouses ($282 million, 77 percent of the state total). Most of that human services spending is aimed at the Worcester Recovery Center and Hospital, the first new Department of Mental Health Facility constructed in Massachusetts in over 60 years. Courthouse spending included new facilities in Fall River, Salem, and Taunton, as well as predevelopment work for a new courthouse in Lowell and upkeep of existing courts.

Figure 3:

State Investment in Education for Gateway Cities and Rest of State, FY 2009–2013 (millions of dollars)



Source: MassINC research and Hodge Economic Consulting

While these public projects provide critical services, they are generally not of foremost importance in terms of catalyzing private investment. Even when state facilities are placed in a Gateway City to further economic development, they often fall short of achieving a broader revitalization impact. One clear example is the Springfield Data Center, which is home to 100 employees maintaining state information systems. The $110 million facility is a wonderful project in many ways, reusing the old Springfield Technical High School façade near downtown. However, the facility is highly secure and fenced off from the surrounding area, allowing little opportunity for a positive ripple effect.

Housing

Housing investment in Gateway Cities primarily supports the development and maintenance of affordable housing through a variety of programs that vary in their purpose, funding mechanisms, and income requirements (Table 2). Approximately two-thirds of the affordable housing investment in Gateway Cities financed projects to preserve the existing affordable housing stock. Gateway Cities received a disproportionately large share of housing subsidies for very low-income families, produced through the State Low Income Housing Tax Credit. Between FY 2009 and 2013, the State Historic Rehabilitation Tax Credit was the largest resource for the production of housing in Gateway Cities. While these funds are not restricted to the development of affordable units, most often they were used in combination with affordable housing subsidies with income restrictions.

State funding to increase homeownership and perform scattered site redevelopment is noticeably absent. These resources are central to neighborhood revitalization efforts. However, significant public funding for these purposes has been available to Gateway Cities through the federal Recovery Act's Neighborhood Stabilization Program, as well as settlement fund grants administered by the Office of the Attorney General.

Table 2:

State Capital Investment in Housing, FY 2009–2013 (millions of dollars)

Source	Gateway City Investment	Statewide Total	Share of Investment in Gateway Cities
Affordable Housing Trust Fund	$61	$174	35%
State Low Income Housing Tax Credit	$37	$60	62%
Housing Development Incentive Program	$1	$1	100%
State Historic Rehabilitation Tax Credit (residential projects)	$91	$175	52%
Housing Stabilization Fund	$30	$75	40%
Capital Improvement and Preservation Fund	$13	$25	52%
Other[5]	$21	$109	19%
Total	**$262**	**$619**	**42%**

Source: MassINC research and Hodge Economic Consulting

Economic Development

Approximately half of the economic development investment in Gateway Cities identified during the study period (Table 3) flowed through the MassWorks Infrastructure Program, which was formed in 2010 when the legislature combined six infrastructure grants with varying regulations into a single, more flexible funding mechanism.[6]

The Economic Development Incentive Program was a relatively large source of state spending in Gateway Cities over the period, with these communities receiving about one-third of the more than $100 million invested statewide. However, it is important to note that the vast majority of these dollars were aimed at retaining existing businesses. In this sense, the resources should be interpreted as potentially providing a stabilizing effect as opposed to revitalization.

Two tax credits are also included in the economic development category. Though they do not represent direct physical investments, they do influence business location decisions, and, by extension, private companies' investments in facilities. These include Life Sciences Tax Credits, which generally went to new or growing firms and were almost entirely limited to businesses in Greater Boston, and the State Historic Rehabilitation Tax Credit.

A significant share of economic development spending went to projects that could be construed as creative place-making. These investments flowed through the

Cultural Facilities Fund—grants to museums and other cultural institutions for general upkeep and in some cases more extensive expansion—and the historic rehabilitation credit.[7] It is also worth noting that few projects that can be classified as economic development were funded directly through the capital plan. Most economic development spending occurred through grant programs. [The term capital plan is used loosely here to refer to specific projects earmarked for investment in bond bills and included in ANF's capital plan.]

Table 3:

State Capital Investment in Economic Development, FY 2009–2013 (millions of dollars)

Source	Gateway City Investment	Statewide Total	Share of Investment in Gateway Cities
MassWorks	$99	$181	55%
Economic Development Incentive Program	$33	$104	32%
Life Sciences Tax Credit	$1.9	$92	2%
State Historic Rehabilitation Tax Credit (non-residential projects)	$30	$74	40%
Urban Revitalization Development Grant Program	$19	$19	100%
Cultural Facilities Fund	$8	$31	26%
State Capital Plan	$19	$107	18%
Total	**$205**	**$608**	**34%**

Source: MassINC research and Hodge Economic Consulting

Environment and Energy

The environment category includes programs for creating public parks and for brownfield remediation. The Gateway City Parks Program ($26 million) and the PARC program ($18 million) renovate older parks and create new ones. The Brownfields Tax Credit and the Brownfields Redevelopment Fund both enable redevelopment projects in Gateway Cities, often home to contaminated former industrial sites. Data are only available for the Brownfields Redevelopment Fund; Gateway Cities received $20 million, slightly more than half of the $38 million invested statewide.[8]

Transportation

Estimating new transportation investment and allocating investments to individual cities is particularly challenging for two reasons. First, the Massachusetts Department of Transportation (MassDOT) operating and capital budgets are well over $2 billion per year and involve a complex web of revenue sources, expenditures, and debt service. And much of this expenditure is allocated to maintenance, repair, and operations, making this category challenging to disaggregate.

Second, some of the most significant transportation investments entail improvements for entire corridors rather than expenditure in individual cities. Somewhat generously, this analysis counts as Gateway City investments corridor-level spending on the CSX rail purchase from Worcester to Boston and associated track improvements, South Coast Rail planning/engineering, Knowledge Corridor rail improvements from Springfield to Greenfield, and Fitchburg commuter rail line improvements, each of which cover multiple communities. At the same time, more place-based transportation investments in train and/or transit station facilities (e.g., in Worcester, Springfield, and Holyoke) were classified within the Economic Development spending category due to their funding source.

Review of Key Findings

• **The state's capital investment in Gateway Cities is dominated by education spending.** These projects help build Gateway City economies. Universities are anchor institutions, and improvements to primary and secondary schools can contribute to neighborhood revitalization. However, these investments are generally not part of larger coordinated revitalization efforts. There is no process to align these major state investments with broader Gateway City economic-development or neighborhood-revitalization strategies.

• **The state's investments in economic development and housing are the categories most clearly aligned with revitalization efforts, yet they represent just 14 percent of state investment in Gateway Cities.** Moreover, these investments tend to be fairly diffuse, with many cities receiving relatively small grants. Effective tools administered in a targeted way at more modest levels across a number of cities—e.g., Employer Assisted Housing Incentives to increase homeownership, rehab tax credits for owner-occupied housing, and home equity–protection insurance—do not exist.

The state is making few larger-scale investments that can logically be connected to leveraging and attracting private investment. Major projects that have occurred showed limited potential for generating follow-on investment. For example, the state's $25 million contribution to the Massachusetts Green High Performance Computing Center was billed as having a large catalytic impact in Holyoke, but there are neither obvious ways for businesses to use the facility nor reasons for them to locate near it. The recent series of positive economic initiatives in the Holyoke Innovation District had less to do with the state investment, per se, and more to do with highly focused multi-year strategic planning and implementation by public, private, and nonprofit stakeholders.

• **The state does not track investment and evaluate impact in Gateway Cities.** While it may sound simple in theory, a comprehensive accounting of actual state investment in physical infrastructure in Gateway Cities (not just planned investments, which inevitably change) is challenging and highly complex. While certainly not exhaustive, this analysis presents the best information to-date on how the state is actually making investments in Gateway Cities. The state must do a better job tracking its investments to enable future research and more rigorous impact evaluation.[9]

II. REAL ESTATE DEVELOPMENT TRENDS

Property values are a key metric for Gateway City renewal. More fundamentally, property values indicate the extent to which private investment is able to flow to these communities. When market values are extremely low, it is difficult to finance new development and improvements to the existing building stock.

The initiation of focused state effort to spur reinvestment in Gateway Cities coincided with the start of the Great Recession, a financial crisis that led to an unprecedented loss in property value throughout the US. While the Boston area generally recovered quickly, Gateway City markets have not fared nearly as well.

These challenges are not unique to Gateway Cities. Low-income communities all over the country have been slow to regain their value. While more research is needed to disentangle all of the factors at play, it appears that the concentration of foreclosed properties in their neighborhoods, flat-to-negative wage growth for low-skilled workers, and the struggles low-income households face making down payments and meeting other underwriting requirements in the wake of the financial crisis all contribute to the problem.[10]

At the same time, demand for walkable urban neighborhoods is rising. This has accelerated the housing market recovery in large cities and fueled gentrification. In many smaller cities, growing concentrations of poverty have become an ever-larger barrier to meeting demand for urban living.[11]

The data below compare the trajectories of recovery in Boston and Gateway Cities in order to demonstrate these divergent trends.

*** Because needed data are not readily available for all 26 Gateway Cities, the statistics presented in this section cover only the "original" 11 Gateway Cities identified in MassINC's 2007 report: Brockton, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Lowell, New Bedford, Pittsfield, Springfield, and Worcester.**

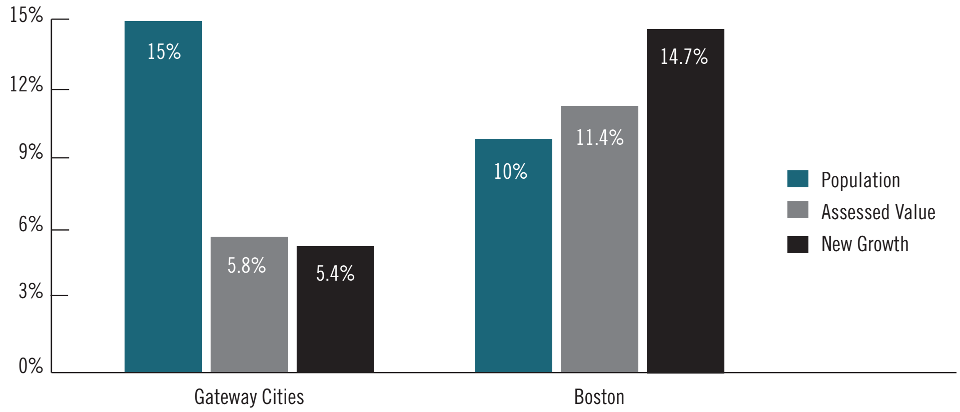
The Boston–Gateway City Real Estate Value Gulf

On average, residential property sold for $114 per square foot in Gateway Cities in 2014. In comparison, the median home in Boston sold for $444 per square foot. This large disparity might make development outside the city appear attractive, as properties are cheaper there. But that development has not been realized. Rather, high values in Boston enable the construction of enormously expensive development, and low values in Gateway Cities make building construction or rennovation financially unfeasible there.

Figure 4 powerfully demonstrates the size of the gulf between Gateway City markets and Boston by comparing their shares of the statewide population, assessed value, and new growth (a dollar-based measure of value added to municipal tax rolls through new construction and property improvements). The 11 original Gateway Cities are home to approximately 15 percent of Massachusetts's population but less than 6 percent of the state's total assessed value. In 2015 they underperformed even that share in new development, with just 5.4 percent of new growth added statewide. In sharp contrast, Boston's share of assessed value is significantly higher than its share of the state population (10 percent), and the city outperformed its impressive lead in total valuation, capturing nearly 15 percent of new growth in the Commonwealth last year.

Figure 4:

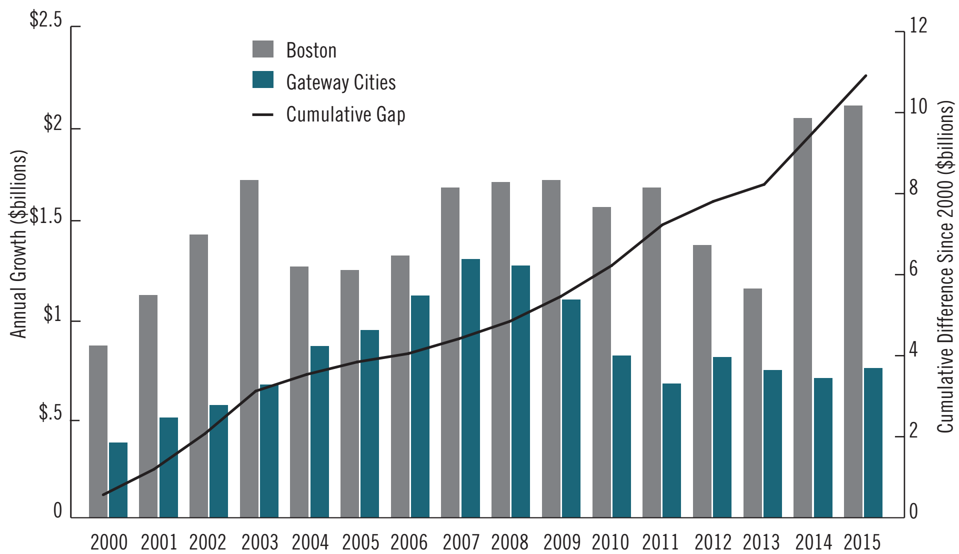
Share of State Total for Gateway Cities and Boston, 2015



Source: Massachusetts Department of Revenue and American Community Survey

Figure 5:

Annual New Growth Development and Cumulative Difference, 2000–2015



Source: Massachusetts Department of Revenue

Widening Real Estate Market Disparities Post-Recession

The large disparity between new development in Boston and the Gateway Cities is a defining feature of the recovery. Figure 5 shows how this trend emerges and accelerates over time, as well as its cumulative effect. Since 2000, the value of new development in Boston has been growing each year, with the exception of slight dips before and after the recession. For Gateway Cities, the post-recession trend is generally downward. In 2015, the $770 million in new growth in Gateway Cities was only slightly more than half (58 percent) of the $1.3 billion added to Gateway City tax rolls during the new development peak. The cumulative gap in new-growth development between

Boston and the Gateway Cities has grown to almost $11 billion since 2000.

The same pattern is evident in property values (Figure 6). From 2000 until the Great Recession, assessed values in Gateway Cities were rising at nearly the same pace as Boston's. In the recovery, Gateway Cities and Boston have followed opposite trajectories. Between 2011 and 2015, Boston saw total assessed value grow by 28 percent, while total assessed value fell by 2 percent in Gateway Cities. Again, the same post-recession trend is evident in sales data: adjusted for inflation, home prices per square foot are now higher in Boston than their previous peak, while, on average, Gateway City median sales are still just two-thirds of their 2005 peak.

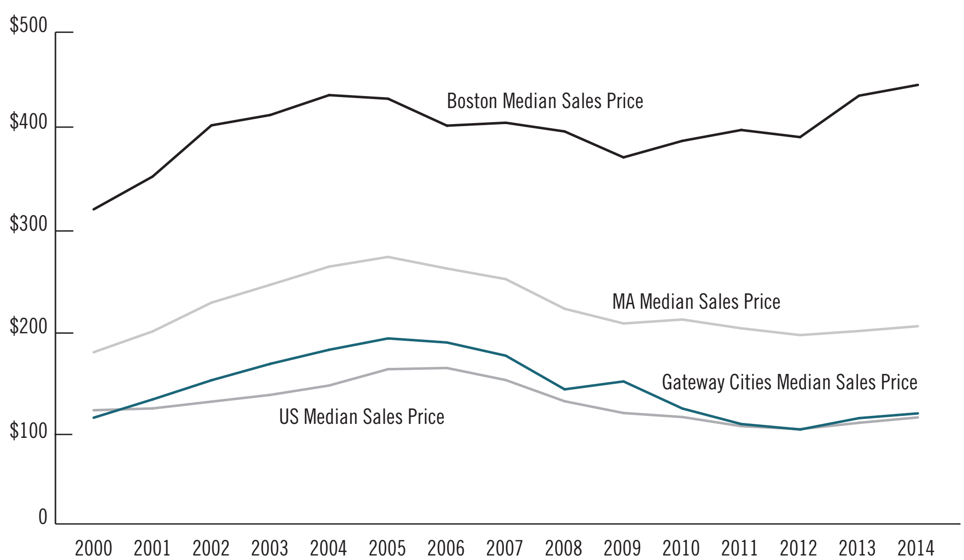
Less Construction in the Pipeline

Building permit issuances are a key leading indicator for new growth. Building permits activity dropped significantly in both Boston and Gateway Cities in the years leading up to the Recession (2006–2008) and through its trough. However, in 2011 the trends started to diverge sharply. Between 2011 and 2012, the number of permits issued in Boston more than doubled, while Gateway City permit levels fell another 20 percent. Building permit issuances for Gateway Cities did not bottom out until 2012, and the data through 2014 show only a modest uptick (Figure 7).

This trend is particularly disconcerting because, in the past, Gateway Cities had quite a bit of permitting, albeit for more modestly valued development. In fact, the number of building permits issued in Gateway Cities exceeded the number in Boston in every year from 2000 to 2011, except 2006. Last year, more than five times as many building permits were issued in Boston than throughout all 11 original Gateway Cities combined.

Figure 6:

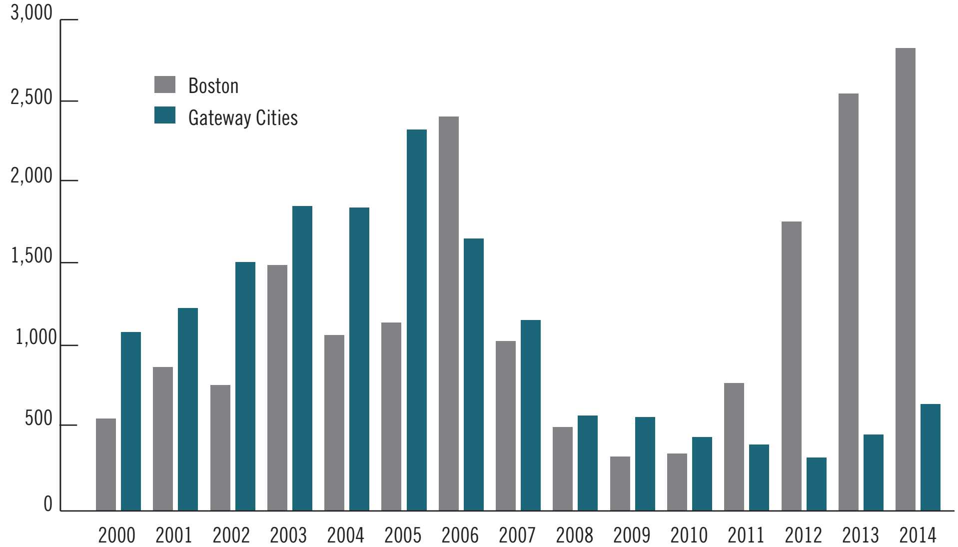
Median Sales Price per Square Foot for US, Massachusetts, Gateway Cities, and Boston, 2000–2015



Source: Zillow.com

Figure 7:

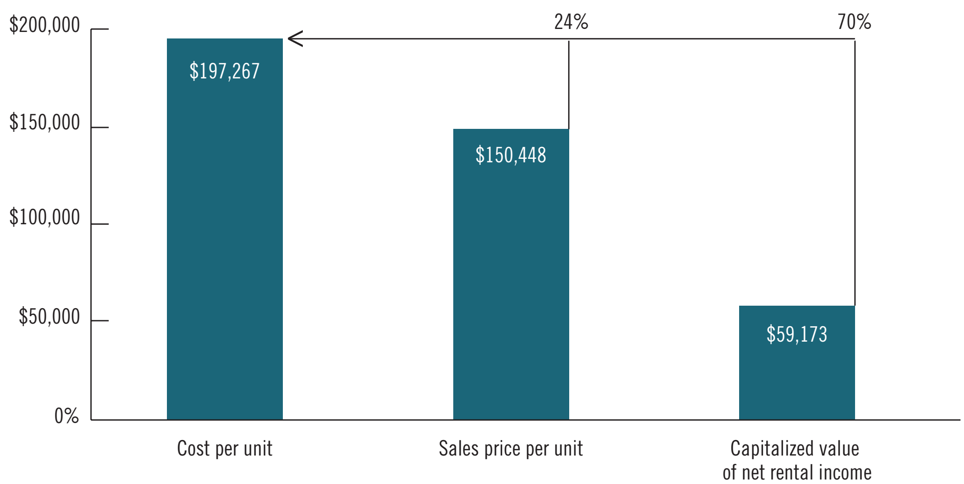
Building Permits for Boston and Gateway Cities, 2000–2014



Source: US Census Bureau

Figure 8:

The Average Gap in Gateway City Real Estate Markets



Source: MassINC analysis of data from Zillow.com and RS means

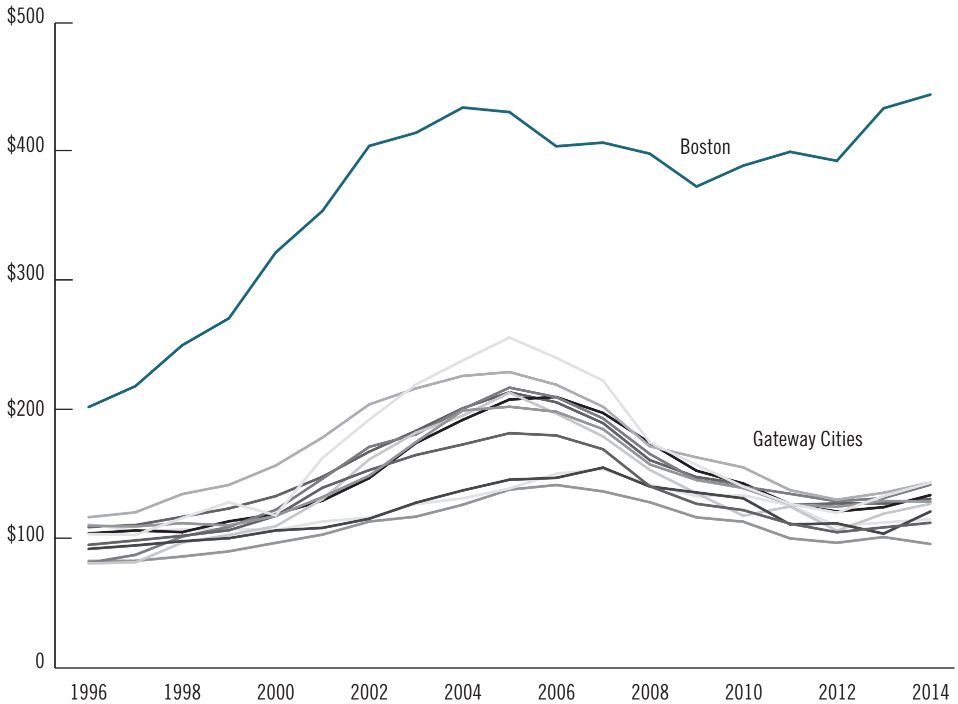
Note: Cost to construct 1,200 square foot home see Mallach and others (2013) for full methodology.

A Large and Stubborn Market Gap

In 2013, MassINC research demonstrated that low rents and sales value in Gateway Cities make it difficult to cover the costs of property acquisition, improvement, and construction.[12] Using data on recent sales and construction cost estimates from RS Means, a leading provider of regional building cost estimates, MassINC estimated that the "market gap" in 2012 was one-third of the cost of construction for units produced

Figure 9:

Real Median Sales Price per Square Foot for Boston and Gateway Cities, 1996–2014



Source: Zillow.com

Gateway Cities are not underperforming the US market or even the overall Massachusetts market, which remain far off their inflation-adjusted peaks.

for sale and nearly three-quarters of the cost of construction for rental units.

Based on updated analysis using data on 2014 sales and construction cost estimates, the gap is now one-quarter of the cost of construction for for-sale units and 70 percent of the construction cost for rental property (Figure 8). While these gaps range substantially across cities—with Brockton, Lowell, and Haverhill at the smaller end, and Springfield, Fitchburg, and Fall River at the larger end—a significant gap exists in all Gateway City markets. This spread is evident in Figure 9, which also shows that the overall median sales price trend has been uniform across Gateway Cities.

While he average capital gap for Gateway Cities has decreased slightly since the 2013 analysis, this is driven entirely by lower estimated construction costs rather than by improving markets conditions in the form of higher rents and sales prices. Thus lethargy in Gateway City markets remains a huge challenge. It is worth emphasizing that Gateway Cities are not underperforming the US market or even the overall Massachusetts market, which remain far off their inflation-adjusted peaks. However, because values in these cities are substantially lower, the recession pushed them well below levels that allow for healthy construction activity.

III. RECENT POLICY CHANGES AND THE FISCAL CONTEXT FOR FUTURE STATE INVESTMENT IN GATEWAY CITIES

The difficulty Gateway Cities have had recovering from the recession should not discourage policy leaders from spearheading efforts to stimulate renewal. The state has a coherent strategy for improvement, efforts are underway to build capacity at both the state and local level to execute this strategy, and several of the tools required to implement it have been fashioned. The most challenging obstacle will be identifying the funds to resource this effort at full scale, given fiscal pressures.

A. Recent Policy Change

Over the five-year study period, Massachusetts steadfastly increased investment in Gateway Cities through a patchwork of programs. But, in this initial phase, the effort unfolded without a coherent strategy. As detailed below, in recent years, a number of simultaneous efforts have fused. A real strategy has emerged, and agencies are working to carry it out.

Strategy

Governor Baker's plan, *Opportunities for All*, articulates a central role for place-making, calling for efforts to help municipalities create physical spaces that attract investment. The strategy goes even further by noting the embrace of "character-rich urban neighborhoods nationally" which creates a "market tailwind for Gateway City development."[13]

The Transformative Development Initiative (TDI), a small pilot program introduced in the 2014 economic growth bill (H.4377), has helped formulate a strategic approach that the administration can build on as it works to execute the physical development component of the governor's broader economic development strategy.

Administered by MassDevelopment, TDI seeks to catalyze revitalization in Gateway Cities. To achieve this ambitious goal with limited resources, the MassDevelopment team has carefully designed an approach that tactically layers activities. These activities seek to build engagement and draw attention to districts targeted for revitalization in the short-term; generate momentum by making modest real estate investments in strategic locations in the medium-term; and facilitate a stream of coordinated development projects, leading to private investment and higher property valuation in the long term.

In the program's first year, MassDevelopment selected ten TDI districts to pilot this approach. MassDevelopment has also played a leading role in efforts to build the capacity and create tools to carry out this work.

Capacity

Managing complex redevelopment work requires a level of professional capacity difficult for small-to-midsize Gateway Cities to sustain. Generating transformative development also requires governance capacity that Gateway Cities often struggle to maintain, with private-sector leadership often lacking and political leaders subject to the turbulent conditions emanating from the social and economic challenges in their communities. But even more fundamentally, it must be acknowledged that the place-making approach is relatively new to the public sector. State agencies and others are still adapting.

State Agencies

Even at MassDevelopment, the state's primary development agency, place-making is a novel idea. The culture of the agency has historically been built around low-risk financing of individual projects. TDI demands a shift toward acting as a patient investor, looking at the aggregate effect of projects on surrounding property values over time.

With Governor Baker's leadership, other state agencies are similarly thinking about how their development activities can benefit Gateway Cities. For example, led by the Division of Capital Asset Management and Maintenance (DCAMM), the administration's Open for Business initiative is looking for creative strategies to maximize the full potential of the Commonwealth's real estate assets for the benefit of cities and towns. While DCAMM must prioritize the operational needs of the state agencies for which it develops and leases property, the state's considerable portfolio of property in Gateway Cities provides many opportunities to engage private sector partners to unlock untapped value.

With Governor Baker's leadership, other state agencies are similarly thinking about how their development activities can benefit gateway cities.

At MassDOT Secretary Stephanie Pollack is introducing similar changes. She is working to shift an organizational culture in which transportation is seen as an end in itself, as opposed to infrastructure that shapes physical development, mobility options and economic activity. MassDOT has been particularly interested in reviewing its property holdings in urban areas to support local place-making initiatives.

The Working Cities Challenge

Envisioning and carrying out transformative development projects also requires culture change at the local level. Communities must be able to prioritize revitalization efforts and focus on them steadfastly over an extended period. The Federal Reserve Bank of Boston has played an integral role in helping position Gateway Cities to achieve this posture. Several years ago researchers at the bank pinpointed the extent to which community leaders work together to solve complex problems as a key distinction between comeback cities and those still struggling to transition to the new economy.[14] The bank considered this finding so compelling that it took the extraordinary step of creating the Working Cities Challenge to help Gateway City leaders coalesce around shared priorities. In 2014, six Gateway Cities received competitive grants to participate in this multiyear initiative.[15]

With support from the legislature, the Federal Reserve hosted another competition for cities that did not receive grants in the first round. Last fall, ten cities received design grants to develop full proposals. Winners of multiyear implementation grants will be selected in June 2016. Across Gateway Cities, the Working Cities Challenge has led to a robust conversation about the value of collaborative leadership and the means by which local leaders can work in partnership toward shared priorities.

Private nonprofit economic development partnerships

Renewed focus on increasing private sector engagement in local economic development efforts is a prime example of the Working Cities Challenge's impact. Over the years, many Gateway Cities have established private nonprofit economic development organizations to better engage the private sector in efforts to grow local economies. Through these entities, businesses work collaboratively to help fashion and lead economic development projects, initiatives, and policy advocacy.

For example, conversations emerging from the Working Cities Challenge helped spur the establishment of the Lawrence Partnership, one such nonprofit development organization. Several other Gateway Cities that currently lack private nonprofit economic development organizations are asking whether they would benefit from one, and others are considering avenues to strengthen their existing entities. MassDevelopment and Baker administration economic development officials have been engaged partners in these conversations.[16]

TDI Fellows

As part of the TDI program, MassDevelopment created a fellowship opportunity for mid-career economic development professionals to help increase local staff capacity in Gateway Cities. The fellows work full-time in their districts for three-year periods. They lead organizing efforts and provide expertise following a work plan outlined in a memorandum of agreement between MassDevelopment and the local TDI Partnership.

Three TDI Fellows were designated to work in Haverhill, Lynn, and Springfield in 2015. With Brockton, New Bedford, and Pittsfield recently receiving TDI Fellows, six Gateway Cities are currently benefiting from this direct state investment in local development capacity.

Tools

Housing Development Incentive Program (HDIP)

Created by the legislation officially establishing Gateway Cities, HDIP offers a tool to finance market rate–housing development and promote neighborhood stabilization. Funding is limited to substantial rehabilitation of existing buildings in Gateway Cities. In addition to a local-option real estate tax exemption, the projects receive tax credits of up to $2 million for up to 10 percent of the qualified redevelopment expenses.

Changes to the program included in Governor Baker's economic development bill would expand the credit to cover up to 25 percent of development expenses and make new construction eligible, rendering HDIP a more flexible resource for housing revitalization. However, the program remains capped at $10 million per year. At this level, even if funds are carefully deployed, it will be difficult to have a significant impact in the market. Housing leaders have offered thoughtful proposals for increasing the scale of this program in a manner that could provide real returns to taxpayers in the long term (see sidebar opposite page).

TDI-Investment

The legislation creating TDI called upon MassDevelopment to make equity investments in properties for which it held a controlling ownership interest. MassDevelopment will invest in properties that have the potential to spur change within given districts that otherwise face significant hurdles to financing redevelopment. To date MassDevelopment has only made one such investment, acquiring a commercial building in downtown Springfield. Governor Baker's economic development bill provides a $50 million capitalization of the TDI Fund, which would allow MassDevelopment to make more of these investments in the future.

TDI-Places

With very small place-making grants, TDI is able to promote community engagement and foster activity in the targeted districts. These funds underwrite everything from From pocket parks and pop-up stores to community gardens and farmers markets: visible, small-scale projects that build community identity and encourage creative thinking about how residents can improve the public realm. While enterprising communities could make these modest investments to further local projects on their own, cuts to Community Development Block Grant (CDBG) funding and local aid make it difficult for cities to cover even low-cost interventions.

TDI Cowork

TDI Cowork grants support the build-out of coworking spaces. With modest funding, vacant and underutilized spaces in key locations can be activated. At the same time, the funding is helping to foster innovation and creative economic activity in Gateway Cities.

Small Business Development

Gateway Cities have a variety of tools at their disposal to help local businesses grow, creating more demand to absorb new development. Several have recently been added to the arsenal to address gaps. The Small Business Technical Assistance Grant supports community organizations working to help business owners gain new skills to develop their enterprises. Of particular focus are grantees who help immigrant entrepreneurs connect to local resources.

Another notable new model is EforAll, an organization working to kindle grassroots entrepreneurship through an accelerator model offered in English and Spanish. EforAll began in the Merrimack Valley with a focus on Lawrence and Lowell. With state support, the program recently expanded to Fall River, New Bedford, and Lynn.

In partnership with the Massachusetts Growth Capital Corporation, the TDI program has created a Microloan Program to encourage small businesses to locate and expand in TDI districts. The loans range from $10,000 to $100,000 and have low-interest rates and flexible terms to support start-up costs, such as inventory and tenant improvements.

THE CARMAN-WHITE HOUSING PRODUCTION PROGRAM

Ted Carman and Eleanor White, two highly regarded housing leaders, have developed a detailed proposal to support Gateway City revitalization and market rate housing production by issuing taxable general obligation bonds that, following the I-Cubed model, would not fall under the state bond cap.The bonds would be repaid from the receipt of anticipated new income taxes and sales taxes as a result of the planning, construction, and operations of the new developments, plus a 25 percent share of the cash flow and profits on sale.

The proposal increases the Housing Development Incentive Program from 10 to 25 percent of construction costs and allows for qualifying projects to receive upfront their full allocation of State Historic Rehabilitation Tax Credits. In combination with Federal Historic Tax Credits and conventional financing, this approach would make it economically feasible to renovate historic Gateway City buildings into market rate housing.

Carman and White are advocating for a $25 million authorization in the FY 2017 budget to test this new approach.

Together, these programs and funding resources provide multiple opportunities for Gateway Cities, most of which were not available just a few years ago. These initiatives are helping officials learn how to better organize and collaborate to tackle key challenges and grasp opportunities. At the same time, the actual dollar values in most of these programs is relatively modest, and, as was shown earlier, there is still not much evidence that conditions in Gateway Cities, collectively, are improving. In essence, the scale of economic distress and the lagging real estate markets in Gateway Cities continues to suggest that to make substantive progress, more investment is still needed.

If Gateway City real estate markets remain soft, the need to provide additional local aid to communities will become even more severe, the housing crunch will continue to constrain growth, and concentrated poverty will reduce the productivity of the state's future workers.

B. The Fiscal Context for Future State Investment in Gateway Cities

With mounting structural pressures in the state budget, increasing funding for the tools discussed above, and addressing a few remaining gaps, will be difficult. Fiscal pressures have already begun to strain capital spending. For the first time, Massachusetts is pushing up against a debt ceiling established in 1989. Due to concerns with state debt levels, the Baker administration did not raise the FY 2016 bond cap from the previous year's $2.25 billion level. In another sign that Massachusetts faces long-term fiscal challenges, last November, Standard & Poors revised its outlook on the state's general obligation bonds to negative, citing high fixed costs related to debt and retirement funding and the state's continued reliance on reserve funds during a period of prolonged economic expansion.

Forecasts from the Debt Affordability Commission—an advisory body created by the legislature in 2012 to help policymakers navigate this period of fiscal constraint—suggest Medicaid and pension obligations will consume a growing share of state revenue over the next decade. Pension obligations are expected to rise 85 percent by 2027, twice the pace of projected revenues under a steady 4 percent per annum growth scenario.[17]

While it may make sense to devote a larger share of future revenue to debt service in order to modernize the state's aging infrastructure and rebuild Gateway Cities, budget makers will have a difficult time shifting more discretionary revenue to debt service.

With rating agencies already concerned by the state's debt loads, pushing debt higher as a percentage of revenues will be difficult, especially before rainy day reserves are replenished. Reaching a reserve fund balance of 8 percent of annual state spending—a modest target for a high revenue-volatility state like Massachusetts — would require a $2.2 billon reserve fund deposit.

The politics of increasing discretionary spending on debt service are also difficult. Over the past decade, capital spending increased much faster than growth in local aid to cities and towns.

However, as noted previously, if Gateway City real estate markets remain soft, the need to provide additional local aid to communities will become even more severe, the housing crunch will continue to constrain growth, and concentrated poverty will reduce the productivity of the state's future workers. With these long-term considerations in mind, leaders can make room for additional capital investment in Gateway Cities by constraining state spending in areas that do not have such a direct correlation with growth, or they could identify new revenues to underwrite economic investments in these regional centers, as described in the closing section.

EXAMPLE OF TRANSFORMATIVE INVESTMENT: NEW YORK'S UPSTATE REVITALIZATION INITIATIVE

In many ways, the numerous small to mid-sized cities in upstate New York are similar to Gateway Cities in Massachusetts. Most were industrial cities that have seen steep declines in manufacturing and have been in a state of economic distress. Plus, each state features large disparities in economic growth and income levels between its biggest metropolitan area and outlying cities. Like Massachusetts, upstate New York has a number of major research universities (e.g., Syracuse University, University of Rochester, the State University of New York system) and prestigious liberal arts schools (e.g., Colgate, Hamilton, St. Lawrence, Union).

One exception, in terms of size, is the city of Buffalo, which represents the eastern fringe of major Rust Belt cities that have experienced severe economic distress. Buffalo's population fell 55 percent, from about 580,000 in 1950 to 261,000 in 2010. Recognizing that past efforts to revitalize Buffalo were generally small and incremental, the Cuomo administration developed the idea of the Buffalo Billion to invest one billion dollars in the Buffalo/western New York area focused on economic revitalization.1 The Buffalo Billion Investment Development Plan identified strategies and key target industries for the investment.

Based on the rapid successes of that initiative, in 2015 the Cuomo administration created the New York Upstate Revitalization Initiative (URI)2 to competitively award $1.5 billion to three regions of the state. The goals of the URI are:

- a significant increase in the number of permanent private sector jobs paying above average wages
- the widespread increase of wealth in the region as evidenced by the increase in wages and incomesignificant private sector investment in the region, with an overall ratio of 5-to-1 private to public investment.

In December 2015, the regions of Central New York, the Finger Lakes, and the Southern Tier were announced as winners of $500 million each over five years. Another $750 million in competitively awarded economic development funds was also announced for a wide range of specific projects throughout the state. New York has funded these ambitious initiatives with resources from settlements with financial institutions. While Massachusetts does not have similar resources, it is notable that New York, given the opportunity to invest, decided to focus on economic revitalization upstate.

CASE STUDY OF CATALYTIC INVESTMENT IN GATEWAY CITIES: CITYSQUARE, WORCESTER

CitySquare has become a new multi-use anchor tenant for the broader downtown Worcester area.

Somewhat frustratingly, there are few examples of major, private sector–led mixed use development projects in Gateway Cities. One exception is the ongoing CitySquare project in downtown Worcester. CitySquare is a massive redevelopment initiative, mostly focused on overhauling the former Worcester Common Fashion Outlets, a badly outdated and unsuccessful mall in the heart of downtown. The site of this project is a strategic location between City Hall, Worcester Common, and the traditional downtown street grid to the west of the site, and Union Station and surrounding neighborhoods to the east. The project originated with Mayor Tim Murray, a team of architects and planners who drafted a white paper envisioning revitalization, and the early participation of a private developer, Berkeley Investments.

The City of Worcester estimates that in total, CitySquare represents a $565 million investment in approximately 2.2 million square feet of commercial, medical, residential, hotel, office, and retail space. The City estimates that about $470 million of that investment is private money. As of spring 2016, the entire project is approximately half complete, with total build-out expected to take eight to ten years.

Initiating this large-scale project required a new vision for this area, focused on a more compact and connected street pattern, a diverse mix of uses, and committed anchor tenants.

Specifically, devising and implementing this complex redevelopment project necessitated three commitments:

- Commitment of public funds to stimulate and facilitate private investment. Worcester and the state helped to fund and construct infrastructure, a critical precursor to private development. The public investment included an early-phase MassWorks grant of approximately $16 million to rebuild and restore a street pattern consistent with mixed use—pedestrian-friendly development that afforded connections to the rest of downtown Worcester so that it the new site would not be an "island" in the midst of the city. In addition, in 2005 Worcester was able to designate CitySquare for district improvement financing (DIF), the first such designation in the Commonwealth. Implementing DIF was critical to local funding, as it allowed Worcester to pay for upfront infrastructure needs with anticipated future property tax revenues.
- Commitments of major local employers to locate at CitySquare. As noted by one of the private developers involved in the project, developers in Worcester are generally not willing to do major projects on "speculation." This means that before investing significant private dollars in new construction or rehabilitation, developers seek major anchor tenants. For CitySquare, the initial major tenants were Unum (Paul Revere Life Insurance) and Saint Vincent Hospital's cancer and wellness center. More recently, Peoples United Bank signed onto an existing space, and UMass Memorial Hospital agreed to locate 500 employees from their information

technology department at a 75,000-square-foot space currently under construction.
- Sustained commitments of Worcester's public, nonprofit, and private sectors to the project. A successful redevelopment project of this scale, involving multiple new and renovated buildings, requires commitment over a number of years. In Worcester, this included involvement and financial from Hanover Insurance Group, one of the largest employers in Worcester; the Worcester Business Development Corporation and Greater Worcester Chamber of Commerce, which have focused on the importance of downtown; and city leadership ranging from the mayor and City Hall to the constant work of the city manager and Office of Economic Development.

Today, the vision of CitySquare is being realized, with active construction on multiple sites. In this way, it is transitioning from a single large project to multiple private-developer building projects. Key components include:

- Unum insurance company headquarters (approximately 750 jobs), completed in 2013
- Saint Vincent's Cancer and Wellness Center (66,000 square feet, $21 million private investment), completed in 2013
- Renovation of an 860-car parking garage (completed) and construction of a 550-car underground parking garage (underway)
- 640,000 square feet of Class-A office and retail space and retail in a mix of existing and new buildings and renovation of Commercial Street garage, some of which is completed and some under construction
- A 168-room AC Hotel by Marriott, to open in 2017
- About 350 units of high-end market-rate residential housing by private developer Roseland (145 Front), under construction
- Active marketing for ground-floor national retailers, restaurants, grocery stores, and other services to serve the residential, office, and hotel markets

CitySquare has become a new multi-use anchor tenant for the broader downtown Worcester area. The City's recent downtown initiatives have focused on redeveloping other nearby areas: Worcester's designated TDI District equates to a Theater District just beyond CitySquare, and a soon-to-be-published urban revitalization plan similarly focuses on downtown areas around CitySquare. In other words, that project is increasingly seen as a source of vibrancy and private market interest. With the DCU Center, Union Station, and improving MBTA access to Boston, nearby Gateway Park at Worcester Polytechnic Institution, and other assets, CitySquare appears to be gradually fulfilling its original vision as a catalytic project combining public and private investment to help revitalize Worcester. Its full impact will be realized as the remaining pieces (hotel, residences) are completed, and the City works to connect the project with the rest of downtown.

CASE STUDY OF CATALYTIC INVESTMENT IN GATEWAY CITIES: HAMILTON CANAL, LOWELL

Lowell's Hamilton Canal District exemplifies the challenges even the most well conceived transformative projects face. The city has expertly managed the planning process, attracting investment from the private sector as well as from state and federal governments. Yet, despite steady public leadership at all levels, project developers are struggling to find the right balance between what is practical to build in the near-term and what will have a truly catalytic impact over time.

The Vision

The $800 million Hamilton Canal District master plan converts outmoded infrastructure—canals designed to serve industry that existed a century ago—to an amenity. The design for a revised street grid frames stunning views of a waterfall that forms where three canals meet. Leveraging repurposed urban fabric, the plan seeks to transform a former industrial district, which lost its last manufacturer in 2003, into a mixed-use redevelopment in the heart of the city. This new 15-acre district significantly increases the size of Lowell's downtown core and vastly improves the connection to the city's MBTA commuter rail station.

LOWELL SUN/DAVID H. BROW

Located in a region teeming with new growth, the revitalized Hamilton Canal District will position Lowell to compete for small- to mid-size R&D and professional services firms. This strategy is a notable shift from the past. In the 1990s, the city courted Wang Laboratories, a large employer with the resources to take on complex redevelopment. Shortly after building 1 million square feet of office space to house 4,500 workers, Wang filed for bankruptcy and abandoned the city. Designing the district to house a cluster of smaller firms will lead the city toward a more resilient economic base.

Lowell's market-driven vision emerged from a planning process that placed the private sector in the lead. After assembling the parcels and clearing a number of derelict industrial buildings, the city put out a request for qualifications (RFQ) for a master developer charged with designing, rezoning, marketing, and redeveloping the Hamilton Canal District. Issued in 2006, the RFQ speaks to the city's bold vision for the district, describing the redevelopment as an opportunity "on a scale paralleled only by the City's founding, and the creation of the Lowell National Historical Park."

After an extensive process, Lowell selected Trinity Financial as master developer in 2007. Together with the city, Trinity led a 12-month public planning process at Trinity's expense, which produced a district master plan. The city translated this plan into a form-based code regulating the scale and character of development in the district in accordance with the community's vision. This expedited permitting process successfully achieved its goal of minimizing risk and delay for the private sector developer.

Shovels in the ground

Trinity completed the first district's first redevelopment in 2011, a $64 million transformation of the Appleton Mills complex into a 130 units of affordable housing geared toward artists. As part of the project, Trinity built a new road in the district and two pedestrian bridges over the Hamilton Canal. Appleton Mills was financed with $42 million in state and federal housing and historic tax credits. The project also received a $13 million state Growth District Initiative grant from the Executive Office of Housing and Economic Development and additional grants from the Department of Housing and Community Development.

One year later, Trinity Financial undertook an $8.5 million conversion of the Freudenberg Building at 110 Canal Street. The structure's historic character made it a signature piece of the district revitalization plan, but it was extremely difficult to finance the 55,000 square feet of commercial space. In contrast to housing development, where many public resources fill gaps, commercial projects have limited funding options. With an anchor tenant, the project could qualify for a mortgage, but identifying an employer large enough to lease a significant amount of space is challenging, given the long lead time required to close the deal and compete the rehabilitation. Additionally, the building was in awful condition. Prospective tenants had a hard time reconciling the vision for the building with its dilapidated state.

As a result, Trinity relied on a public tenant. UMass-Lowell developed a coworking space for entrepreneurs and lab space for the expansion of the university's Massachusetts Medical Device Development Center. Through the Life Science Bond, $5 million was allocated to cover redevelopment expenses.

While work occurred on these buildings, the city proceeded in 2012 with efforts to realize the master plan's street grid design, build a new multiuse bridge over Hamilton Canal, and reconstruct Jackson Street and Revere Street.

Despite the lingering effects of the 2008 recession, the phase I development milestones had been met. However, after these initial successes, progress stalled. A number of years passed without a groundbreaking or firm plans for another project. The city began to grow concerned that Trinity was not aggressively pursuing development opportunities. In May 2015, Trinity pulled out, turning down a proposed five-year extension that came with development deadlines on city-owned parcels.

A new chapter

In September 2005, the city issued a request for proposals for both a new master developer and individual projects in the district. A consortium of WinnCompanies (a residential developer) and Anchor Line Partners (a developer of office properties) sought the master developer role. The city also received two proposals to build on sites within the district. Watermark Environmental, an environmental, civil engineering, and construction management firm, is proposing a 5-to-7-story headquarters with ground-floor retail. Genesis HealthCare, an operator of nursing homes with two existing facilities in Lowell, hopes to construct a $40 million building to house 120 beds, along with offices and labs for UMass-Lowell's College of Health and Sciences.

In recent months, progress has been made on a number of other fronts. Last fall, Lowell received a $4.7 million MassWorks grant to extend Broadway Street and utility lines into the northern stretches of the district. At the same time, the state recommitted to moving ahead with a $200 million courthouse that has long been envisioned as an anchor in the district.

After many years of negotiation, the city recently reached an agreement with the Lowell Regional Transit Authority to allow National Park Service visitor buses to park next to the Gallagher Terminal. This will allow for mixed-used redevelopment of surface parking lots in the district and the construction of a $30 million 980-space garage. Delay on resolving this complex land swap with the Park Service was seen as hindering progress on the project.

A number of planning studies have further supported redevelopment in the district. In partnership with the Urban Arts Institute at Massachusetts College of Art and Design, the city produced a public art master plan for the district in 2012. Last fall the city officially opened Utopia Park at the western tip of the district. Consistent with the plan, the park will house a large steel sculpture giving visual prominence to the district by evoking the area's industrial roots. With support from the Lowell Plan, a private nonprofit economic development organization, the city examined the feasibility of an extended trolley system connecting the Gallagher Terminal to Downtown, the Tsongas Arena, and the UMass Lowell and Middlesex Community College campuses. The plan was dropped though, as studied found it would be cost-prohibitive. That is an unfortunate outcome, but the careful and collaborative way the city approached the opportunity and objectively analyzed the investment speaks to strong local governance.

Learning along the way

The Hamilton Canal District demonstrates the cost and complexity of reweaving industrial fabric for today's economy. Modernizing infrastructure and retrofitting old buildings is expensive. In the long run, the public will benefit from putting these parcels back to productive use, but maximizing the return for taxpayers requires a sound policy framework. Because there exists no policy to facilitate this kind of redevelopment, creative solutions were applied in the Hamilton Canal District, and at times they conflicted with the project's goals. Relying on a courthouse to anchor a transit-oriented district designed to draw a mix of housing and small and midsize business is problematic, both from a marketing perspective and from the net level of economic activity a courthouse can produce—apart from law firms, a courthouse is not going to draw in tenants around it. Because capitalized rents or home value could not cover the costs of construction under current market conditions, the first housing development had to be built with affordable housing resources. The addition of subsidized housing is generally not a strong stimulus in a weak housing market.

It is also important to note that the planning for this project occurred just prior to the 2008 recession. At the time, Gateway City markets like Lowell were drawing attention, and the potential to stimulate private investment was heightened. The real estate bubble and financial crisis lengthened the timeline of what was already a decades-long project. Political leaders cannot easily maintain the posture of a patient investor over this extended period. This is particularly true when city leaders follow economic development best practices and strategically prioritize one area of the city over others for public investment.

IV. DELIVERING TRANSFORMATIVE DEVELOPMENT

Massachusetts has made real progress, but considerable work remains before the state has in place a comprehensive policy to deliver transformative development. With the right framework, state and local leaders can work in partnership to create new markets for commercial activity, expand opportunities for desirable urban living, and stimulate regional economic growth. A transformative redevelopment policy would leverage current state investment in Gateway Cities and secure significantly more resources devoted to stimulating private economic activity in their artificially weak markets. A work plan for achieving such a policy boils down to three tasks:

1. Identify revenues to increase the level of investment in transformative development. Changing the weak market conditions that make it impossible for the private sector to unlock the very real potential in the Commonwealth's Gateway Cities will require a stream of well-placed public investment at a significantly higher magnitude than is currently available. As demonstrated by the Upstate New York Revitalization Initiative (see box p. 27), other states are making larger commitments to encourage economic renewal in long-distressed markets. Given Massachusetts's fiscal realities, making a similar commitment to Gateway Cities will be difficult.

Governor Baker's economic development bill's proposed increases to the Transformative Development Fund, the Brownfields Fund, and the capitalization of a new land assembly fund are an excellent start. These resources will help Gateway Cities establish a stronger pipeline of transformative projects. But as these meritorious projects take shape, state investment at a higher magnitude will be required to advance them.

One option to free up capital resources is to increase the issuance of debt backed with own-source revenues, and exempting this form of debt from the statutory cap. This is a reasonable approach since the related debt service does not place a strain on the operating budget.

Generating own-source revenues for economic development projects can be challenging since the revenue such investments generate generally comes in the form of broad-based growth. The Convention Center Fund—which captures room occupancy taxes, vehicle rental surcharges, sales taxes, and taxes on event tickets—offers a precedent for developing a creative structure to finance economic development investment.

The Pioneer Institute has proposed directly tapping the surplus revenues of this fund to support Gateway City investments (see sidebar p. 35). Another alternative is building a variation on this model for transformative development, relying on a real estate transfer tax. Massachusetts already has a transfer tax in place, and the legislature has enabled higher rates to support land preservation on the Cape and Islands. Changes could be made to capitalize a fund with the proceeds going to transformative development where this is a priority. For example, a city or region could adopt an additional increment styled on the Vermont approach, which captures capital gains on land sales based on length of ownership.

Another possibility is to allow transportation revenues to finance transit-oriented development projects. In the near future, finding new revenue sources to service transportation debt will be critical to improving the system and overcoming structural challenges in the capital budget. When these additional revenues are raised, allowing a portion of the funds to flow to transit-oriented housing and economic development investments could provide real return for taxpayers by significantly increasing the efficiency of our transportation network. Without complementary place-making investments around existing transportation nodes, weak Gateway City real estate markets will continue to undermine highest and best use development. This in turn leads to significant underutilization of existing transportation infrastructure.

2. Better align investments with targeted redevelopment strategies. On top of additional spending, concerted effort will be needed to ensure that the state's investment in Gateway Cities is coordinated to generate revitalization. With over $3.3 billion flowing to Gateway Cities over five-years, this stream of state resources must be channeled to realize economic development and revitalization objectives. To be sure, these state investments are generally made for others reasons, but to the greatest extent possible, they should receive priority when they also align with a well-conceived renewal strategy.

Toward this end, project selection criteria are needed for each new investment. These criteria should include whether the location of the investment is in a designated district for transformative development and how it will help attract follow-on private sector investment. Even where legislative changes are required, efforts should be made to include these criteria in all investments decisions, from those made by the Massachusetts School Building Authority to MassDOT and DCAMM.

Beyond integrating these measures into project selection criteria, additional efforts will be needed to help state agencies innovate. Leaders should be brought together to examine models for programming state investment for revitalization. Though it may not be exactly replicable in Gateway Cities, the Bolling Building in Boston is an excellent case study in how government can act like a developer in search of value (see box p. 36). The federal Choice Neighborhoods program, including Boston's Whittier Choice Neighborhood Initiative—the first project in the nation completed following this integrated planning and development framework—also provides models for state leaders.

Massachusetts should place particular emphasis on developing new designs for higher education facilities. Co-location with two- and four-year degree programs, vocational schools, and private employers can help break down silos, improving educational outcomes while making investments that activate Gateway City downtowns. The Baker administration recently formed a taskforce to examine future investments in higher education. This working group can help articulate the need to prioritize projects that show true synergy with regional economic development strategy (see box p.38).

3. Increase transparency and accountability. To ensure that funds targeted to Gateway City revitalization produce return for taxpayers, there must be greater transparency and accountability. This begins with how funds are awarded and extends to how funds are actually expended and their impact on stimulating private investment.

The bulk of funding administered for transformative development directly should be awarded through a competitive process. This will ensure that the best projects are selected without feeling the political need to spread resources too thinly. A transparent selection process should be based on clear criteria to demonstrate the value of proposed projects and ensure a focus on tangible, near-term economic opportunities in Gateway Cities.

As noted previously, Massachusetts needs a stronger system to track where and when state resources are placed in communities. Data on the large sums expended through the Brownfields Tax Credit and on state investment allocated directly through the capital plan stand out as particularly lacking in transparency.

MassDevelopment has already provided considerable leadership in the area of impact evaluation. It has commissioned a baseline assessment of Gateway City economic conditions and developed metrics to measure subtle increases in district-level activity with the potential to translate into higher levels of private investment over time. With leadership from ANF to help agencies better track spending, MassDevelopment can play a central role in analyzing and evaluating the impact of the Commonwealth's capital investment in these markets.

THE PIONEER INSTITUTE MIDDLE CITIES INFRASTRUCTURE INVESTMENT FUND

The Pioneer Institute recently issued a proposal to invest $20 million annually in Gateway Cities by tapping excess funds from the Massachusetts Convention Center Fund (MCCF). According to the Institute's projections, after diverting $20 million annually to support investments in Gateway Cities, the MCCF will still accumulate surplus over debt service requirements of more than $400 through 2034.

Working in concert with MassDevelopment, the Executive Office of Administration and Finance would oversee the IIF investments. This joint-governance model would ensure that spending is tightly coordinated with other state investments and private capital. Access to these funds would be contingent on management reforms at the local level, including adopting innovative practices in education, public safety, economic development, and fiscal management.[18]

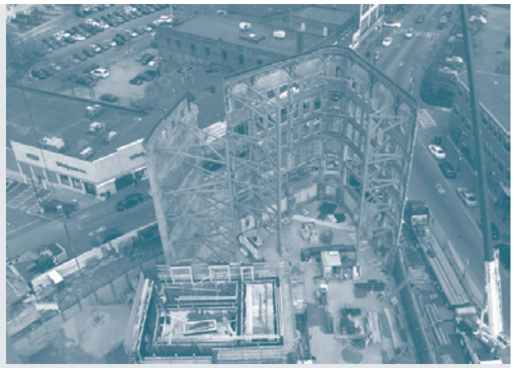
THE BOLLING BUILDING MODEL

For decades, cities have used public facilities as anchors for revitalization. Often these investments have failed to catalyze investment in the surrounding area, in large part because the public sector has deployed capital uncreatively. The City of Boston's Bruce C. Bolling Building, on the other hand, is a case study in the right way to develop a public facility for maximum impact.

Located in the center of historic Dudley Square, the Bolling Building is an adaptive reuse of three historic structures, which now house 600 administrators for the Boston Public Schools. The $100 million redevelopment received special focus from Mayor Thomas Menino near the end of his tenure. Despite the worsening economy, he wanted to make good on promises to revitalize the heart of the Roxbury neighborhood before he left office. While many were skeptical about how much difference BPS administrative offices could make in the area, Mayor Menino challenged his team to use fresh thinking to advance a project that would spearhead revitalization in the surrounding community.

To kick off the design process, the city held an international competition and selected the team of Sasaki Associates and Mecanoo Architects, led by Francine Houben, a world-renowned Dutch architect respected for her ability to integrate interior design and landscape architecture, producing buildings with strong sensitivity to surrounding context.

The team's plan lifted the building up, opening the first floor for retail and community space. The first floor also included an atrium, inviting the neighborhood into the building for retail use and public events, keeping the space active well into the evening. Multiple street level entrances opened the building further, making a civic forum within the larger Dudley Square milieu. A roof deck with



stunning views of downtown offered another unique and inviting space for community use. Houben's design also called for beautiful exterior illumination, ensuring that the new building provided a visual beacon of the neighborhood's rejuvenation even at night.

The design vision called for public space extending up into the second floor as well. Only the upper floors would be secured exclusively for those with access. This allowed the city flexibility to install a tech incubator on the second floor as interest grew in supporting grassroots entrepreneurship in the community.

Boston's most ambitious public project since the construction of City Hall, the development of the Bolling Building involved many creative strokes. An independent realty trust was formed so that the project could qualify for federal New Market Tax Credits. To make first floor retail work, the city outfitted the space for restaurants, relying heavily on a construction manager with significant experience delivering this kind of establishment. The project team also included a retail strategy consultant. Rather than issue a master lease for the first floor space, the consultant helped lead an RFP that let the community provide input on prospective tenants. The community's demand for healthy foods and locally owned businesses allowed the city to tenant the space with offerings that added to the neighborhood's mix, rather than lease to the highest bidder, which likely would have been another fast food chain.

Visitors to Dudley Square today cannot escape feeling the powerful transformative effect the Bolling Building has had for the area. The project offers a compelling roadmap for Gateway Cities looking to generate greater leverage from public investment.

INVESTING IN COMMUNITY COLLEGES AND DOWNTOWN REVITALIZATION

Massachusetts's community colleges enroll more students than UMass and the state universities. Community colleges are particularly important for Gateway Cities, which send nearly two students to a community college for every one attending UMass or a Massachusetts state university. But capital investments in community college campuses have lagged behind those in the state's four-year institutions. The 2008 higher education bond bill provided $675 million for community colleges and $1.5 billion for UMass and state universities. The pattern of actual spending to date has made this initially unbalanced distribution even more unequal. Through 2015, less than one-third of the dollars allocated to community colleges had been expended. In contrast, nearly three-quarters of the UMass-state university appropriation was delivered. For every dollar invested on a community college campus, UMass and state universities received nearly five dollars.[19]

This is particularly sobering from a Gateway City revitalization perspective given that community college investments are increasingly likely to be outside of the campus gates and integrated into broader local economic development strategies. Examples include new Northern Essex Community College facilities in downtown Lawrence and downtown Haverhill, Quinsigamond Community College in downtown Worcester, Holyoke Community College's new Culinary Institute on downtown Holyoke, and planned investments by Massasoit Community College in downtown Brockton and Bristol Community College in downtown New Bedford.

From a revitalization standpoint, one can question the value of a community college facility—students have limited disposal income, and faculty tend to drive in and out from surrounding communities. Still, positive activity in any form is a prerequisite for urban revitalization, and community colleges bring people to an area, enlivening the streetscape well into the evening hours. Through creative public-private partnership, these higher education facilities can also bring employers into a revitalization district.

The value of community college investments from a workforce development perspective is also an important consideration. Location matters for low-income students; the further the campus is from home, the less likely one is to enroll and complete a degree.[20] The latest community college investments have been planned as co-located facilities with four-year-degree-granting institutions. Community colleges have also worked collaboratively to establish clear transfer pathways to help more students move seamlessly from an associate's degree into four-year programs without losing course credit.

Higher education investments shape the growth of the Commonwealth, both in terms of economic development and workforce development. However, it is not clear the extent to which these considerations are a factor in placing state investment in higher education facilities. There is no transparent process for allocating these expenditures. Once the legislature authorizes the funding, neither DCAM nor ANF have protocols in place for project selection. To address this concern, the Baker administration recently formed a committee to draft a higher education strategic master plan for the Commonwealth. In reexamining these crucial state investments, the committee has an opportunity to reprioritize campus investments that are carefully aligned with local and regional economic development efforts.

MASSDEVELOPMENT'S TDI DATA REPORT

In February 2016, MassDevelopment and the UMass Donahue Institute released *Transformative Development Initiative: Gateway City Economic Snapshot*. The report presents comprehensive economic, demographic, and real estate market data on the 26 Gateway Cities and 10 designated TDI Districts. Key findings on the Gateway Cities paint a vivid picture of socioeconomic distress and lagging market conditions:

- With 27 percent of the state's population, these 26 Gateway Cities have:
    - 57 percent of the state's Hispanic population
    - 36 percent of the state's multi-family housing stock
    - 47 percent of the state's adult population without a high school degree
    - 34 percent of the state's subsidized housing inventory
- Key indicators of Gateway Cities compared to the Commonwealth:
    - 23 percent of adults have a bachelor's degree or higher compared to 39 percent statewide
    - Median household income of $47,525 compared to $66,866
    - Population density of 2,900 people per square mile–3.5 times denser than the state as a whole
    - 35 percent of employed residents working in low-wage health, education, and social assistance jobs, compared to 28 percent statewide; only 16 percent employment in high-paying finance, information, and profession services, compared to 24 percent statewide
    - Median home value of $270,676 compared to $330,100
- These differing conditions would actually be greater except that the inclusion of a larger number of Gateway Cities (all 26) introduces significant variation in market conditions, with some cities having significantly higher median household incomes and generally stronger economies. Consequently, it would be wrong to think of the 26 Gateway Cities as a homogeneous group. They vary in both needs and opportunites.

ENDNOTES

1 Mark Muro and others. "Reconnecting Massachusetts Gateway Cities: Lessons Learned and an Agenda for Renewal" (Boston, MA: MassINC, 2007). Also see Aaron Beitman. "Ten Years Later: Trends in Urban Redevelopment" (Boston, MA: Pioneer Institute, 2016).

2 A 2013 reference guide highlights state resources for Gateway Cities, some of which are designated specifically for these cities: http://www.mass.gov/hed/docs/dhcd/cd/gateway/stateresourcessupportingrevitalizationofgatewaycities.pdf

3 According to M.G.L Chapter 23A, a Gateway City is a community with a population greater than 35,000 and less than 250,000, a median household income below the Commonwealth's average, and a rate of bachelor's degree holders below the Commonwealth's average.

4 These data do not include operating grants and local aid, which is largely aimed at education and much more readily available and widely studied. Data from the state's cherry sheets for FY 2009–2013 indicates that Gateway Cities received approximately 50 percent of local aid statewide, as the formula generally attempts to provide more aid for distressed and lagging municipalities and school districts. Also note, this analysis does not include the University of Massachusetts Building Authority (UMBA) or the Massachusetts State College Building Authority (MSCBA), as those funds are supported directly from bonds based on student fees and tuition. UMBA investment was $524 million for Gateway Cities during this time period, mostly concentrated in Lowell and Worcester, where UMass maintains a major presence. MSCBA investment in Gateway Cities was $289 million, primarily for state universities (e.g., Salem State, Westfield State).

5 The other category includes the Housing Incentive Fund ($7 million), Community Based Housing ($7 million), the Facilities Consolidation Fund ($4 million), and the Commercial Area Transit Node Housing Program ($3 million).

6 The six consolidated programs were Public Works Economic Development, Community Development Action Grant, Growth Districts Initiative Grant Program, Massachusetts Opportunity Relocation and Expansion Program, Small Town Rural Assistance Program, and Transit Oriented Development Program. The analysis does not include data on the six programs prior to 2011, because the administering agencies were unable to disaggregate funding by year and municipality.

7 For a more thorough review of this activity, see Benjamin Forman and Tyler Creighton. "Building Vibrancy: Creative Placemaking Strategies for Gateway City Growth and Renewal" (Boston, MA: MassINC, 2012).

8 From a review of the Tax Expenditure Budgets, the Brownfield Tax Credit invested $85 million over the FY 2009–2013 study period. While these funds undoubtedly supported a number of Gateway City projects, due to the smaller scale and nature of the markets, anecdotally, Brownfield Tax Credits tend to be more heavily utilized in Boston-area projects.

9 For example, the federal government's American Recovery and Reinvestment Act required states to gather and track data on investments and with direct job impacts. While this can be cumbersome, an initiative as important as investment in Gateway Cities deserves more formal data tracking and impact evaluation. Others have also noted that more attention must be placed on increasing the transparency of capital spending. For instance, the House Committee on Bonding, Capital Expenditures, and State Assets called for implementing a publically accessible database for use by all agencies to track all capital spending in real time and at the project level. See "Report on Capital Spending & Borrowing in the Commonwealth of Massachusetts 2013-2014" (Boston, MA: House Committee on Bonding, Capital Expenditures & State Assets).

10 See Joe Light. "Why the U.S. Housing Recovery Is Leaving Poorer Neighborhoods Behind" *Wall Street Journal* (June 23, 2015); David Dayen. "The Housing Recovery Has Skipped Poor and Minority Neighborhoods" *New Republic* (June 29, 2015); and "The 2016 Distressed Communities Index" (Washington, DC: Economic Innovation Group, 2016).

11 This observation may oversimplify slightly, as major cities have been enjoying the agglomeration effect of the transition to a knowledge economy and commensurate job growth, but even suburban developers are trying to meet demand for more walkable communities, which suggests that a significant consumer niche should exist for small-to-midsize cities with historic urban fabric, especially when these cities lie within a strong major metropolitan economy.

12 Alan Mallach and others. "Transformative Redevelopment: Strategic State Policy for Gateway City Growth and Renewal" (Boston, MA: MassINC, 2013).

13 "Opportunities for All: The Baker-Polito Strategy and Plan for Making Massachusetts Great Everywhere" (Boston, MA: Executive Office of Housing and Economic Development, 2015).

14 See Yolanda Kodrzycki and others. "Reinvigorating Springfield's Economy: Lessons from Resurgent Cities" Federal Reserve Bank of Boston Public Policy Discussion Paper 09-6 (2009).

15 For a review of these activities, see Colleen Dawicki and Tamar Kotelchuck. "Small Cities, Big Ideas: Lessons from the First Year of the Working Cities Challenge" MassBenchmarks 17(1) (2015).

16 For more on these partnerships, see Gordon Carr and Benjamin Forman. "Leading Together: Building Private Nonprofit Economic Development Organizations for Gateway City Growth and Renewal" (Boston, MA: MassINC, 2015).

17 Debt Affordability Committee Presentation, 10-16-2015. Accessed at http://www.mass.gov/anf/budget-taxes-and-procurement/cap-finance/capital-debt-affordability-committee/2015-agendas-minutes-and-presentations (April 15, 2016).

18 See Jim Stergios. "A New Start for Massachusetts' Middle Cities" (Boston, MA: Pioneer Institute, 2016).

19 *Semi-Annual Report of the 2008 Higher Education Bond Bill.*

20 For example, see Ben Backes and Erin Dunlop Velez. "Who Transfers and Where Do They Go?" Working Paper 126 (Washington, DC: National Center for Analysis of Longitudinal Data in Education Research, 2015).

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