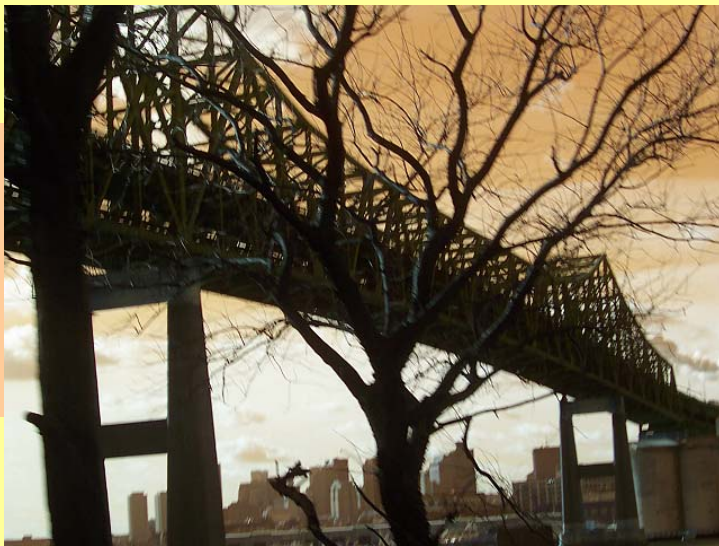




In the Face of Growth

An Assessment of Community Impacts of Economic Development Projects in Chelsea, MA



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TABLE OF CONTENTS

Executive Summary	1
Chapter 1 Project Overview	
1.1 Introduction.....	2
1.2 Chelsea Demographics	3
1.3 Overview of Chelsea Development	5
Chapter 2 Economic Development Projects	
2.1 TIF Process.....	11
2.2 The Tax Increment Financing Deal.....	12
2.3 Thresholds for Certified Project Status and TIF Agreements.....	13
2.4 Reporting on TIF Agreements	14
Chapter 3 Community Impacts	
3.1 Community Impact Assessment.....	15
3.2 Business.....	17
3.3 Private Investment.....	18
3.4 Municipal Adjustments.....	19
3.5 Taxes Paid versus Taxes Reported.....	21
3.6 Industrial Revenue Bonds.....	26
3.7 Closer Examination of Development Impacts.....	28
3.8 Decertified Chelsea Development Projects.....	31
3.9 Cost Benefit Description.....	33
Chapter 4 TIFs in Other Cities	
4.1 Case Study #1: Tax-Increment Financing in Denver, CO.....	38
4.2 Case Study #2: Redevelopment in City of Emeryville, CA	41
4.3 Case Study #3: Tax-Increment Financing in Fall River, MA.....	44
Chapter 5 Recommendations	
5.1 Issues and Concerns.....	46
5.2 Case Study Best Practices.....	47
5.3 Next steps for Cost Benefit Assessments.....	49
5.4 General Recommendations.....	51
Chapter 6 Conclusion	
6.1 Research Evaluation.....	55
6.2 Next Steps.....	56
References.....	57
Appendices	
Appendix 1 City of Chelsea Tax Increment Financing Projects 1995-2005.....	i-vii
Appendix 2 Student Biographies.....	xiii
Appendix 3 About Chelsea Collaborative.....	ix
Appendix 4 Methodology.....	x-xi
Appendix 5 State EDIP.....	xii
Appendix 6 Other State EDIPs.....	xiii.
Appendix 7 List of Acronyms.....	xiv



Executive Summary

Economic development in the city of Chelsea, Massachusetts is having a significant impact on the local community. The project focuses the city's use of Tax Increment Financing (TIF) agreements to bring revenue and growth opportunities through commercial and industrial economic development to the city and its residents. This evaluation of community impacts of TIF projects is based on data from city and state TIF contracts, tax assessments and bond information. Comparative studies of other U.S. cities' economic development projects are also used to develop strategies and solutions applicable to Chelsea.

Some key findings of this research include;

- Chelsea's assessor's office records do not match what companies report paying or owe.
- Investment far exceeds the amount indicated in TIF agreements, raising the question of whether a TIF was a necessary incentive;
- The TIF program lacks sufficient municipal oversight;
- The extent to which municipal dollars support the creation of jobs is unclear.

There are several common themes identified in the case studies of other cities that impede equitable and tangible economic growth. Some of these key concerns include population displacement and gentrification, insufficient monitoring of economic development projects, lack of community involvement in city development, unclear employment opportunities, environmental impacts and health concerns.

Proposed recommendations are based upon case study results and new strategies for policy changes applicable to Chelsea including:

- Forming a community benefits agreement that insures accountability of benefits to the community by the developer;
- Aggressively monitoring and requirements of job creation and retention for local residents;
- Reducing TIF exemptions and tax breaks if job creation goals and other agreement criteria are not met;
- Creating a transparent financial accounting system with a clear cost benefit analysis that provides evidence of funding streams;
- Creating a TIF commission consisting of community and municipal representatives;
- Developing a transparent municipal process for managing TIF projects;
- Establishing a ceiling on the growth of TIF commitments.





Chapter 1 Project Overview

1.1 INTRODUCTION

Project Purpose and Goals

Economic development programs impact communities in both helpful and harmful ways. It is the municipality’s responsibility to provide benefits to the community which include job training, quality jobs, affordable housing and neighborhood services, especially when granting corporations substantial benefits of their own. This report weighs the community impacts of economic development policies, in the city of Chelsea, Massachusetts, describing how the working people of Chelsea are



Chelsea Residents at Bellingham Square Bus Stop

affected and providing an assessment of costs and benefits of selected Tax Increment Financing (TIF) projects.

Economic Development and specifically TIFs projects serve as a means to attract businesses that will create jobs and re-stimulate an area’s economic core.

The number of jobs promised, however, is not always met, the quality of jobs are usually low skilled and therefore offer low wages, job training is not offered to allow for advancement, industries spontaneously move to other locations cutting local jobs and hiring local residents is not a high enough priority.





Community Labor United

The client, Community Labor United (CLU) is a new partnership of Boston-area unions and community organizations to develop new organizing opportunities for low- and moderate-income people. This report is intended to assist CLU explore impacts of economic development with partner and increase community voice around economic development in Chelsea, eventually determining how a responsible development ordinance might address the inequities that these create.

Economic development projects do not always beneficially impact the communities in which they are located. Analyzing these projects will help determine the extent to which working people benefit from or are harmed by municipal investment. Chelsea is a diverse and unique neighborhood primarily made up of blue collar, working class people who may not have the opportunity to participate in the development of their neighborhood. The following describes Chelsea demographics to help better understand why these issues are critical and timely to address.

1.2 City of Chelsea Demographics

As the City of Chelsea continues to pursue economic development opportunities, it is important to consider the economic, housing, social and demographic information of residents. Demographic information of the city provides insight into why the city was designated an economic target area. As the city grows, these characteristics should be key in policy formation and implementation that will serve and benefit the Chelsea community.



Chelsea Economic Development Community Impacts



Table 1.3 (A) Chelsea Growth by Ethnicity							
	2000 Census		1990 Census		Growth Number	%	Change in %
	Number	%	Number	%			
Hispanic or Latino	16,984	48.4	9,018	31.4	7,966	88.3	17.0
White	13,424	38.3	16,930	59.0	-3,506	-20.7	-20.7
Black or African American	1,971	5.6	1,140	4.0	831	72.9	11.6
American Indian and Alaska Native	76	0.2	51	0.2	25	49.0	0.0
Asian a	1,614	4.6	1,381	4.8	245	17.7	-0.2
Pacific Islander a	12	0.0					
Some other race	195	0.6	190	0.7	5	2.6	-0.1
Two or more races b	804	2.3					
Total	35,080		28,710		6,370	22.2	

Sources: Census Bureau: 2000, 1990(a)
 Note: Growth figures will not balance to the new multiracial category.
 a Asian and Pacific Islander was split for 2000 census. Growth and changes reflect combined total.
 b There was no equivalent category in the 1990 census.

The city has grown rapidly due to several factors including momentous influxes of minority populations. Chelsea experienced a 38 percent population increase between 1980 and 2000 and a 22 percent increase between 1990 and 2000 alone. [Table 1.3 (A)] This community of 35,080 residents is racially diverse, largely immigrant with Latinos as their largest ethnic group. It is also a relatively young city with a median age of 31 and the largest population being between 25 and 44 years of age and. The low levels of educational attainment in Chelsea exemplifies why employment trends require less skill and why types of employment provided by TIF companies are attractive.

It is apparent that Chelsea's working people are facing several socio-economic issues although residents of Chelsea have experienced an increase in income, this figure is lower than the statewide median income level and the level of poverty increased between 1990 and 2000. [table 1.3 (B)].

Moreover, they are confronting different housing challenges as the community continues to grow. Two problematic areas include the shortage of housing stock as well as the availability of



affordable housing. The population of the city of Chelsea increased by 22 percent between 1990 and 2000 yet the total number of housing units only increased by 6.6 percent. Most of Chelsea's residents spend a disproportionate amount of money on rent in comparison to the amount of money that they are actually earning (Chelsea Dept. of Planning and Development, 2004, p. 24). The option for home ownership is not a realistic one, based on the average income of Chelsea residents.

Housing, education and fair wages are key issues the City of Chelsea must consider while developing economic growth strategies they will employ to generate revenue addressing the poor conditions that exist in each one of these areas. The diversity, multilingualism and immigration characteristics of the people of Chelsea also require a level of cultural sensitivity and need for incorporation of these populations in the plans that the city has in moving forward into the future. Understanding the history and current development situation in Chelsea is also required to incorporate community needs.

Rental Units

The median gross rent for renter-occupied units increased from \$594 in 1990 to \$695 in 2000, representing an increase of 17 percent. In 1999, 42.4 percent of all renters had a monthly rent that was greater than 30 percent of their household income. Looking at gross rent of renter-occupied units, the largest bracket is between \$500 and \$999 per month (60.8 percent of units.) Most residents in Chelsea are renters, with rental units representing 68.4 percent of the housing stock (8,440 of 12,337 total housing units.) –Census Profile

1.3 Overview of Chelsea Development

The city of Chelsea, Massachusetts was officially established in 1857. Since the time of its founding, industry has always played an integral role in the vitality of Chelsea. The occurrence of the American Industrial Revolution in the late eighteenth century spurred large-scale manufacturing throughout cities across the United States. Locally, Chelsea experienced the formation and growth of





many industries that included oil, coal, shipping, chemical processing, spectacle manufacturing and clock production. The successes of these early manufacturing firms contributed to Chelsea's growing notoriety as a "City of Industries."

The Chelsea Chamber of Commerce founded in 1931, promoted the economic development of Chelsea through marketing campaigns that were designed to attract new and expanding businesses hoping to secure financial stability. Chelsea is a gateway city which was featured in marketing campaigns as a city that provides access to Chelsea Creek & Boston Harbor, highways, the Mystic River Bridge, railroads and Logan International Airport. Access to multiple venues of transportation proved to be beneficial for businesses. The collaboration of city officials and the Chamber of Commerce allowed Chelsea to gain support from businesses and residents for the campaign to industries. As stated in an archived article of a local Chelsea newspaper in January 1955, "Industry pays the lion's share of the taxes here in Chelsea and the loss of any one of them would be serious." Industry greatly contributed to the city's economic state and many accommodations were made to ensure the continuity of industry participation in Chelsea.

Between 1898 and 1949, many industries developed and flourished in Chelsea. The following is sampling of businesses that transformed Chelsea into an industrial city.

- **The American Biltrite Rubber Company (1903) and the Davis Chemical Company (1937)** manufactured goods for the Shoe Industry. The American Biltrite Rubber Company was known as the "world's largest producer of shoe soiling materials," they manufactured the "heels and soles" of shoes out of rubber and composition materials.(Chelsea Archived Article, January 26,1955) The Davis Chemical Company specialized in "chemicals and adhesives for the shoe manufacturing industry"(Chelsea Archived Article, February 1, 1955). The Davis Co was also credited with its employment of local Chelsea residents. This was the case for many industries during this era, where the majority of their employee base came from individuals who lived in the surrounding areas.
- **General Electric (1956)** also expanded production in Chelsea. The GE Paint Products Plant produced industrial coatings for the equipment it manufactured such as air conditioners, fans, motors, generators, and transformers. The coatings produced by GE were used primarily for the protection of their appliances from the "effects of sun, moisture, chemical fumes, and other



Chelsea Economic Development Community Impacts

corrosive atmospheres” (Chelsea Archive article). The GE plant was recognized for the many safeguards that were undertaken by the company to ensure the safe and efficient manufacturing of their paint products.

- **The American Optical Company (1833)** was known as the world’s largest supplier of “fine optical and ophthalmic products” (Archived Article) and they produced spectacle frames, lenses, cases, and an assortment of other optical items.
- **The Chelsea Clock Company** manufactured clocks for consumer and government markets. Coined as the “Time Keepers of the Sea,” the Chelsea Clock Co. specialized in an exclusive line of Martine clocks that were manufactured in over fifty variations. This Chelsea based industry became world renowned for its quality clocks and precise technical expertise that contributed to a growing market for clocks.
- The oil industry in Chelsea with six companies was the largest industry to the city. The companies included the **Gulf Corporation, Texas Company, Quincy Oil Company, Metropolitan Coal Company, American Oil Company (AMOCO), and the Jenney Manufacturing Company**. Many of these oil companies were distributors of petroleum and/or gasoline industrial oils. Additionally, many owned terminals on the Chelsea Creek where tankers would “unload fuel oil through a pipeline” (Chelsea Archived Article, January 24, 1955). The creation of the automobile in 1896 revolutionized industrial America and spurred the growth of a market for oil.
- **The Jenney Manufacturing Company** specialized in the refinery of kerosene and gasoline. It also was the “largest independent gasoline marketer in New England with a countrywide reputation for quality” (Chelsea Archived Article, January 24, 1955). The Jenney Company was most noted for their production of the “burning fluid” that was created by the refinement of camphene and distilled alcohol for use in lighting lamps. The success of these oil companies contributed to the economic development of the city.

During the 1900’s, the preceding companies were

primary actors in the industrial transformation of Chelsea,

Massachusetts. These heavily industrialized companies of the

past are also responsible for some of the environmental

hazards that exist in Chelsea. The residual environmental

impacts on the land they occupied has created the need to recycle



Alkermes Inc.

land due to the lack of open space for new development (State of the City Address 2006, p23).

Contamination of these former industrial sites has complicated development. Historically, industry in

Chelsea Economic Development Community Impacts

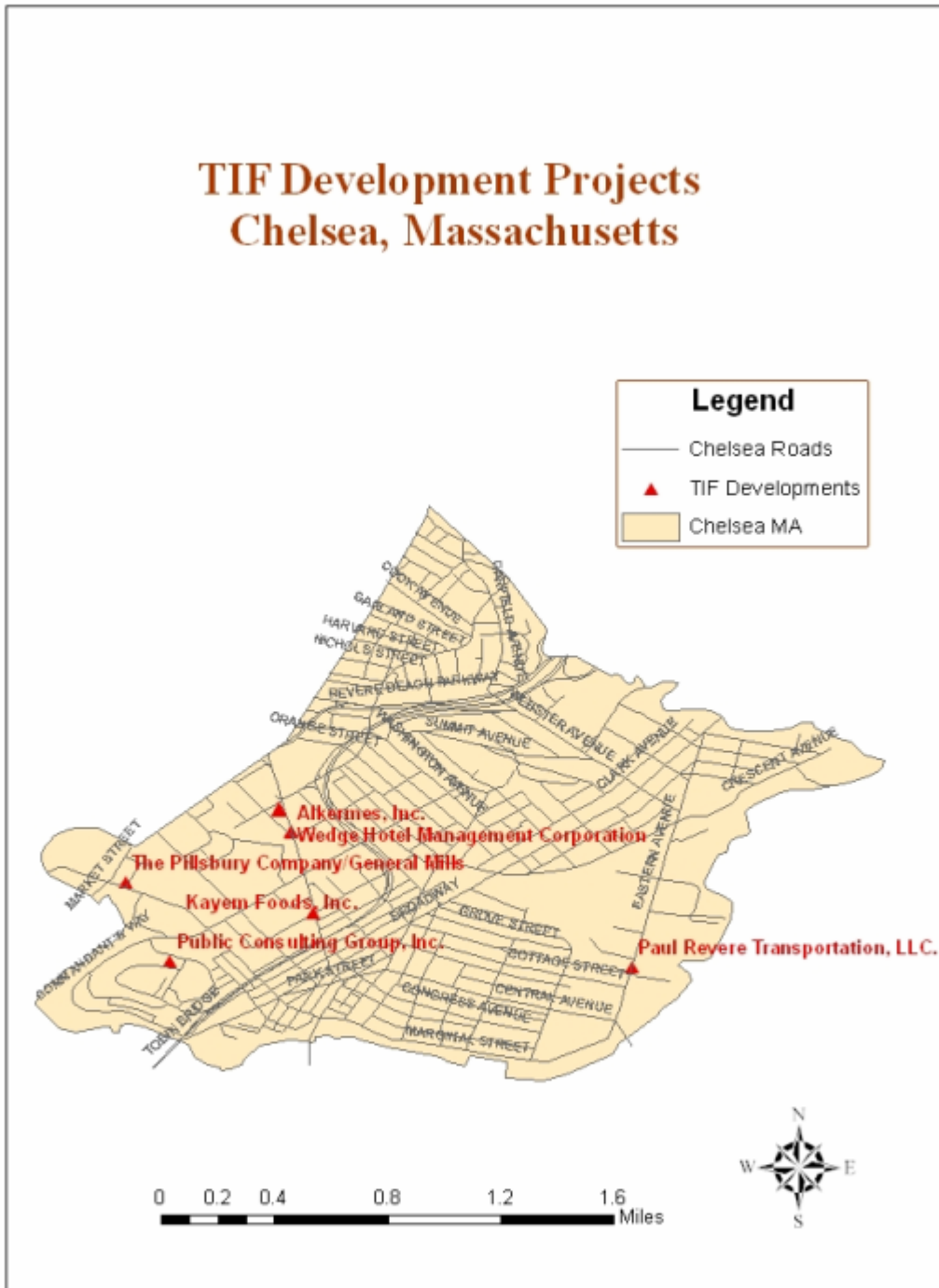


Chelsea has always been a primary actor in the economic welfare of the city and as a result has established a legacy that continues in the financial underpinnings of Chelsea today.

The City of Chelsea currently approaches economic development through a three-prong development plan that consists of, the Anchor Projects Program, the Sector Strategy Program, and the Tax Incentive for the Retention and Expansion of Business (TIRE) Program (State of the City, 2005, p16). These three economic programs fall under the general umbrella of Tax Increment Financing Agreements (TIFs). The Anchor Program focuses on development in the Everett Avenue Renewal District, Parkway Plaza, and the Chelsea Waterfront areas. The Sector Strategy Program promotes new and expanding business development. And lastly, TIRE promotes both retail and commercial development projects in Chelsea. This report focuses on the economic tool of Tax Increment Financing Agreements (TIFs) and its impact on the community of Chelsea.



Chelsea Economic Development Community Impacts



Chelsea Economic Development Community Impacts

Large-scale re-development projects such as Mystic Mall and the Parkway Plaza have emerged in efforts to re-stimulate economic growth in declining retail centers. In 2005, the City of Chelsea confirmed the addition of Market Basket®¹. This commercial development will alleviate vacancies that currently exist (State of the City 2006, p 29). Plans for mixed-use development have also been presented by the City of Chelsea for the overall redevelopment of Mystic Mall.



Parkway Plaza has also experienced revitalization through the development of retail stores such as Home Depot. The “development appears to be the major change agent the City needed in order to reverse the decade’s decline and disinvestment” of Parkway Plaza (State of the City 2006, p28).

Sign at Mystic Mall

The Home Depot project has attracted many more business that wish to expand and locate within the plaza. Completion of all retail and commercial business of the mall are expected by early 2007 (State of the City 2006, p28). The Parkway Plaza and Mystic Mall developments are a sampling of the many revitalization efforts occurring throughout Chelsea.

In examining fiscal years 2002 through 2005, the City of Chelsea has experienced economic growth totaling approximately \$3.3 million dollars (State of the City Address 2005, p17). Chelsea’s

¹ A Boston supermarket chain



expansion with the businesses mentioned above has fostered efforts toward aggressive redevelopment in future years.

The following section discusses current economic development projects in Chelsea.

Chapter 2 Economic Development Projects

2.1 TIF Process

Many recent economic development projects in the city of Chelsea involve property tax reductions and tax exempt financing incentives offered by the municipality. Chelsea residents are impacted by these developments through new employment opportunities, the types and scale of business activity generated, accompanying private philanthropy and the municipal dollars spent as development incentives. The city has issued three types of tax reduction and debt financing incentives for economic development projects: Tax Increment Financing (TIF) agreements, Special Tax Assessments (STAs), and bonds. Other financing tools available to municipalities such as other types of bonds, grants and subsidies are not explored in this assessment.

Projects receiving Tax Increment Financing (TIF) agreements encapsulate the full range of impacts of economic development on residents. These projects are highlighted throughout the report to illustrate impacts because they are currently the primary economic development tool used in Chelsea, are a contractual municipal-developer agreement intended to offer direct benefits to Chelsea residents and are a direct expenditure of resident's tax revenues. The city also issues revenue bonds as a tax exempt financing tool to developers locating businesses in Chelsea, of which three projects are described briefly.





In order to evaluate a project, the city requests information on a development's current and projected operations including:

- number of positions offered,
- number offered to local residents,
- number of temporary and permanent part time positions,
- number of temporary and permanent full time positions,
- number of positions by type of employment: management, professional, technical, skilled and unskilled,
- average wage of position,
- amount of increased investment that a development will bring to the site.

2.2 The Tax Increment Financing Deal

A tax increment financing agreement is a contract between a municipality and private corporation regarding property taxation amounts for new business development, the form and content of which varies from state to state. In Massachusetts, only municipalities the state Economic Development Incentive Program (EDIP)² designates as Economic Target Areas (ETAs) can use TIFs as an economic development tool.³ TIF agreements grant corporations exemption from an portion of property taxes on new development (not existing property) for a period of between five and twenty years, the maximum allowed by the state EDIP. For instance, if a company wanted to expand its operations, develop a second site or build an addition to a building, the tax exemption would apply only to the newly built or acquired property. A municipality may exempt corporations from taxes for between one and one hundred percent of what is otherwise due.⁴

In order to enter into a tax increment financing agreement in Chelsea, an ETA, a development project must receive status as a certified project from the city.⁵ For the city of Chelsea, the certified

² The EDIP is part of the Massachusetts Office of Business Development (MOBD).

³ MOBD's Economic Development Incentive Program description. <http://www.mass.gov/mobd>

⁴ MOBD's Economic Development Incentive Program description.

⁵ Part of the City of Chelsea application form for TIF agreements (provided by the city).



project application also serves as the application for a TIF or STA agreement. Once certified by the municipality, a development is also eligible for a 5% state tax break on tangible depreciable assets related to the new development portion only in addition to the municipal tax break.⁶ For developments in the city of Chelsea, state tax reduction often significantly exceeds city tax reduction by up to 200%.

In exchange for tax breaks, a development must offer significant employment opportunity and investment of private dollars. Jobs range in type, skill level, length/permanency and wage, factors which are outlined in the TIF application.

The city uses two written tools in crafting their TIF and STA deals: an assessment of current and projected employment by type, wage and location and a contract indicating tax relief percentage and length of term as well as benefits provided to the city: total number of jobs created and total project investment.

2.3 Thresholds for Certified Project Status and TIF Agreements

The state of Massachusetts provides economic development tools to municipalities with limited restrictions on use. Municipalities are able to apply the tools to fit the local needs and plans. This freedom simultaneously empowers regions with these tools and places significant responsibility on them in determining the structure and use of these economic development tools.

The City of Chelsea is responsible for determining thresholds for projected performance benefits of a development project and to evaluate project applications for certification and ability to enter into a tax increment financing agreement. Application survey information is fairly broad, capturing cumulative numbers and general categories and lacking detail pertaining to each type of

⁶ CLU TIF Fact Sheet., MOBD's Economic Development Incentive Program description.





position relevant to city of Chelsea. City officials must then interpret these reported projections and evaluate whether a proposed project offers benefits to the city of Chelsea. Benefits that seem primary based upon review of the proposals to the city of Chelsea indicate that total jobs and investment amount are key components to this review.

TIFs are considered a tool to encourage developments that would not locate in a municipality without the tax incentive to do so. Thus the city may not evaluate tax increment financing proposals by weighing the potential benefit against the loss of potential tax revenue brought by the additional development, as it is assumed the development would not locate in Chelsea otherwise. In reality, it is unclear whether these developments would locate elsewhere if TIFs were not offered by the city. In cases of local businesses that expand operations, it seems probable that, in fact, companies would remain in Chelsea regardless of TIF benefits offered. Regardless, this analysis does not formally enter the application process the city of Chelsea initiates with prospective developments. Developments are granted certified project status without evaluation of the location selection process.

2.4 Reporting on TIF Agreements

The state requires that certified developments submit annual performance reports indicating benefits received by the developer and given to the municipality. These reports ask for annual and cumulative data on number of permanent jobs created, number of permanent jobs created for local residents, total investment, tax exemption on city and state level and property taxes paid. These self reported numbers are not confirmed by the state and until 2002, when legislation was passed enforcing reporting, a high percentage of developments did not report on their TIF agreement progress to either





the city or the state. Of the twenty-four developments required to report in 2004, only a small number submitted reports.⁷

Chapter 3

Community Impacts

3.1 Community Impact Assessment

Chelsea residents experience the impact of economic development in several realms including employment availability, type, wage level and related benefits, type and scale of business, drawing private investments to fund public use projects, and tax base. This section will provide examples of impacts through general information on the full scope of TIF developments as well as specific examples for six of those companies representing the largest proposed employment bases. These conclusions are based upon data compiled in Appendix 1.

Employment Impacts

Local Employment

The impact of employment opportunities for local residents could be significantly less than reported depending upon the reliability of the local ETA reported number. State annual reports specify local jobs as those provided for residents of the ETA, however, there is no verification process

It is difficult to assess whether the total TIF companies in Chelsea are improving, maintaining or decreasing the salaries available to Chelsea residents for similar skill jobs. The state does not request information on other elements of quality of jobs including but not limited to health and other benefits offered, permanency of jobs, opportunity for advancement and corresponding salary increases, quality of working conditions. Information on employment characteristics is critical in providing full impact assessment of the jobs offered through TIF developments.

⁷ Report rates based upon reports provided to CLU by the MOBD.



in place for reviewing these self reported numbers. One company's annual report indicates twelve locally held jobs, however, the addresses of employees indicate that only two employees are residents of the ETA with the remainder residing in surrounding cities and towns. If all companies misrepresent local employment numbers, there are drastically fewer jobs held by Chelsea residents, decreasing the impact of employment opportunities.

Wage Levels

Job wage level critically affects quality of these positions. Jobs paying higher salaries than the current median household income could assist residents in keeping up with the growing cost of living in Chelsea while positions matching current salaries may assist people in maintaining their residency or may not provide a significant enough income base in the face of changes in the city of Chelsea. Annual reports indicate a slightly higher average annual wage of \$31,000 than the current median household income of Chelsea residents. This does not specify wage level specifically for new jobs or locally held jobs nor does it highlight differences between managerial and unskilled job wage levels. Annual salaries are requested on TIF applications by type of position but are not consistently reported making comparison difficult; companies provide wages hourly, hourly with benefits, annualized salary and annualized salary with benefits and blend wage rates for multiple job types. For instance, if the average wage includes a single or several managerial level positions, a few higher salaries could be skewing data and hiding a bulk of lower wage positions (30,000 or less). If the salary range does not include managerial or other higher paying positions, then the annual wage could indicate an improvement in the salary opportunities for Chelsea residents. If the latter is true, it is important to know the salaries of locally held positions versus positions that are held by people outside of the ETA.





Position Type and Skill Level

Type and skill level of job is a key component in understanding whether TIF development jobs are helpful to Chelsea residents. Based upon the education statistics and current and historical employment demographics of residents, new jobs need to be available to unskilled, and skilled workers. Total developments proposed creating 54% skilled, 27% unskilled, and 19% mixed management, professional and technical positions. The creation of majority skilled and a percentage unskilled jobs could fit the current demographics of city residents providing ready employment opportunities for Chelsea residents but study would need to be done in order to determine whether these are jobs that residents desire. In addition, the city could be looking at strategies and opportunities for advancement in salary either in or outside of the traditional industrial businesses. Further investigation is needed to understand whether this is a sufficient strategy for sustaining economic opportunity and assisting in maintaining residency for current Chelsea locals.

3.2 Business

Chelsea residents are affected by prior location, business type and scale, and subsequent effects on competition. A business's prior location is significant as existing Chelsea businesses are more likely to be connected to the



Broadway Street Local Businesses





community, have a measurable reputation and record for local employment and to be familiar with the local workforce skills and strengths. The majority of TIF businesses (over 50%) were already located in Chelsea prior to new development. Of the remaining businesses, 40% are from a nearby city in MA and 10% are out of state businesses opening sites in Chelsea. Residents will benefit from the municipality investing in businesses with positive track records for employment and community engagement. Scale is another important feature of new development in the city.

3.3 Private Investment

Private investment is a key component in economic development as it assists municipalities in revitalizing areas for a range of uses by attracting and supporting other economic development ventures.⁸ The state EDIP provides tools to attract and facilitate needed private investment but prudent use of these tools is necessary to maximize tax dollars given away and ones available for use in other municipal realms. The municipal TIF application does not indicate an assessment of whether or not a business planned developing in Chelsea prior to TIF application. A city councilor indicates that TIF agreements are approved as a routine part of a development locating in Chelsea, without consideration of details of the development. TIF projects anticipated investing \$42,390,000 and exceed this amount with total expenditures totaling \$75,622,805.

⁸ The Massachusetts Department of Community Services (DCM) provides technical assistance to municipalities in the development and implementation of urban renewal plans such as exist in the city of Chelsea. The private sector will risk investing in an underdeveloped market if they expect above average rates of profit or growth. It is argued that the only way to offset this risk is substantial public sector commitment. ⁸





This excess investment could indicate the success of TIFs in attracting private investment or it could indicate TIFs are offered unnecessarily. As 50% of TIF developments were located in Chelsea prior to their expansion, a detailed examination of when development plans were conceived and when the TIF was put into place is necessary to ensure tax reductions are distributed only when absolutely necessary secure a



Boys and Girls Club

business' residence in Chelsea. The excess investment could indicate that incentive for investing in Chelsea does not require a municipal subsidy since there is capacity to build beyond original expectations. It also raises the question of how much private business should be able to invest with public dollars if the purpose of funds is to facilitate economic health and growth of Chelsea, not of individual businesses. Lastly, as with other numbers annually reported by developments, there significant overlap of the original business venture and the TIF portion of the development is possible.

Corporate investment has also resulted in donations for Chelsea community buildings and green spaces. Contributions from local business have created a Boys & Girls Club, improved park spaces and committed funds for treatment of brownfield sites.

3.4 Municipal Adjustments

Zoning

Economic development projects can impact residents when a zoning board of appeals issues special permits or variances for existing requirements for specific projects; while these changes can be





beneficial economically, there can be adverse planning effects if businesses are catered to without thorough consideration of the city's zoning rationale and plan. Findings indicate that zoning has not played a major role in the development of the economic projects under study in the City of Chelsea. Zoning variances in the Urban Renewal area have been unrelated to the specific businesses that now occupy the sites instead relating to overall planning issues.⁹

Given the fact that the zoning board of appeals can issue special permits or variances to avoid existing requirements, it is important to investigate changes made for specific development projects. However, findings indicate that zoning has not played a major role in the development of the economic projects under study in the City of Chelsea.

To briefly define zoning, it is the way in which governments regulate and manage the physical development of land and the manner in which each individual property is put to use. To be more specific, zoning laws determine how residential, industrial, recreational and commercial activities are organized. They also may touch upon other areas such as open space, historical conservation, and the dimensional aspects of buildings and lots. In the case of the City of Chelsea, they are obliged to adhere to the objectives of the "Zoning Enabling Act" of the General Laws of Massachusetts. According to this act, zoning regulations should "promote the health, safety, and general welfare of the inhabitants of the City of Chelsea" (Ch.40A, amendment Section 2A, Ch. 808 of the Acts of 1975).

Due to limited access to the documentation of zoning information, including an interview with the Office of Planning and Development in Chelsea, the initial research inference came to a halt. Of the seven major development projects under study, only three had experienced zoning changes. The zoning changes around these three developments were not directly influenced by the implementation

⁹ Based upon information provided by Director of Planning for the City of Chelsea on specific project requests.





of these development projects. In the case of Alkermes Inc. the zoning change was a part of the urban renewal plan for the district. Without this change it would have been difficult for the project to be built and so it was rezoned into an industrial area. Pillsbury Company experienced only minor changes to an easement. Pillsbury already had rights to the land and the city made a minor zoning change in order to align with the already existing property rights. Lastly, the Wedge Hotel Management Corporation (that was constructed in the Phase I. section of the city's urban renewal plan), there was a zoning change from an industrial district to a business district. In each of these cases, as explained by the Director of the Office of Planning and Development of Chelsea, the zoning changes were not made to create incentives for the allocation of the economic development projects. The few changes were as a result of needed accommodations to either the existent urban renewal plan or to define the vague usage of the land.

Infrastructure

Infrastructure needs of new development can present expensive tax expenditures that are not known up front and are not assigned to a business necessitating the changes. For the city of Chelsea TIF projects, infrastructure projects were minimal and unrelated to the new development's use of existing city infrastructure or new needs. This is perhaps due to industrial property vacancies and a well defined area for businesses. Projects should be monitored for future infrastructure related costs as the tenancy and nature of the city's business districts develop and change.

3.5 Taxes Paid versus Taxes Reported

Tax revenues are Chelsea's main source of funding for services and supports and expenditure of these revenues in the form of dollars paid or dollars exempted thus needs to be accounted for in terms of the impacts on residents. Efforts to stabilize and increase the tax base in the long term may



Chelsea Economic Development Community Impacts



require reduction of taxes in the short term; if these reductions are for new development, the tax base could increase regardless of the amount of tax reduction offered as an incentive (barring 100% exemption). It is important to account for tax reductions as expenditures and attribute all related costs (administration of TIFs, infrastructure, etc.) to the development.

Checking on taxes paid by each TIF-recipient company is one way to estimate how much the TIF has cost the City in foregone taxes. CLU requested research on the amount of taxes paid by the companies the year of certification and the current year and also the base valuation of each project for the same years, as a way to calculate the value of the tax increment and the tax break. As stated in the agreement, if base valuations aren't provided at the time of the certification, projects must be revalued



by the city before the end of the year and every year after for the purposes of the annual report. CLU also asked for valuation data for each year starting with the year of certification. The Tax Assessor's Office in Chelsea could not provide this information and it was speculated that the City Manager supervises it¹⁰. The calculations of the base

Alkermes Inc, Chelsea MA

valuation and current valuation are important

numbers in order to readjust the tax break according to the Tax Rates set forth by the Department of Revenue (DOR).

¹⁰ The Assessor's Office in Chelsea does not provide the amount of taxes paid for previous years on their website. They do provide current assessed values, ownership information and ownership history. They also do not have tax info on TIF related projects accessible to them and would constantly suggest we speak with the City Manager's office.





Two TIF projects are highlighted and were pursued for further data, Kayem Foods and Alkermes, Inc. Kayem was certified in 1997 (see Table 3.5B) ; however the Tax Assessor's Office did not have any record for valuation or payment of this project. So either taxes have yet to be collected, or this information is separately supervised by the office of the City Manager. The Assessor's Office did show a payment in FY 98 in the amount of \$132,220 and FY06 for \$164,035. The property is currently valued at \$8,210,000. According to the TIF agreement, the annual percentage discount rate on the expansion part of the project for this year is 50%, however the Assessor's office shows a payment without any discount. Kayem paid the full amount. This generates confusion as to why Kayem would not incorporate the discounted rate before making a payment. Perhaps the information provided over the phone by the Assessor's office is not accurate. CLU should investigate this further by formally requesting payment information in writing.

For Alkermes, Inc. the cost-benefit comparison of jobs to tax reductions indicates no return for the city and instead a loss. The only benefit received is private dollars, which exceed \$30 million. This is a ten-year TIF agreement with tax breaks front loaded at 75% for two years, 55% for five years and 20% and 15% for the final three years. This project, initiated in 2000, will provide significant tax revenue for the city by the year 2007 but until then provides no tangible returns to residents. The amount of taxes reported as paid thus far by year four appears to be less than the amount the company would have owed, indicating the company may not be fully paying taxes due to the city. In order to ascertain the full amount of taxes, the assessed value and rate of tax change needs to be compared to the projected tax revenue and the local benefit claimed.

Alkermes was certified in 2000 and was valued at \$1,109,300 (see Table 3.5A). The Assessor's Office reported a payment in FY2000 of \$47,676. The amount due to the Assessor's Office in 2000 without incorporating the credit should have been \$44,072. According to this information,



Chelsea Economic Development Community Impacts



Alkermes paid an excessive amount of taxes in 2000, even more than what was required of them according to the Industrial Tax Rate required by the DOR. It is not clear why Alkermes failed to incorporate the 75% credit that had been agreed upon in 2000. The property is currently valued at \$4,400,000. The DOR tax rates for 2005 are calculated to be \$90,640. The Tax Assessor’s office reports that Alkermes paid \$87,912. According to the figures provided by the Tax Assessor’s office, Alkermes also did not incorporate the 55% credit they were to receive in 2005.

TABLE 3.5A

Alkermes Inc.					
\$4,400,000	Assessed Value FY05				
-\$1,109,300	Base Year Valuation FY00				
=\$3,290,700	Increment number				
TIF annual percent credit		DOR Industrial Tax Rates ¹¹	Tax Assessment without TIF credit	<u>Taxes Paid</u> according to the Assessor's Office	
75%	2000	39.73	\$44,072.489	\$47,676	OVERPAYMENT
75%	2001	33.53			
55%	2002	33.18			
55%	2003	22.41			
55%	2004	20.72			
55%	2005	20.60	\$90,640	\$87,912	
20%	2006	19.98		Not yet paid	
15%	2007				
15%	2008				
15%	2009				

¹¹ A tax rate can be expressed as \$10.80 per \$1,000 of assessed valuation for taxable real and personal property. The state approved local tax rate for a property class is the authorized levy for the class divided by the certified valuation. The Tax Rate Recapitulation form and supporting documentation contains proposed tax rates for a municipality and approval of this form means approval of the proposed tax rates (DOR).



Chelsea Economic Development Community Impacts



TABLE 3.5B

Kayem Foods					
\$8,210,000	Assessed Value FY06				
Not recorded	Base Year Valuation FY97				
=???	Increment number				
<hr/>					
TIF annual percent credit		DOR Industrial Tax Rates	Tax Assessment without TIF credit	Taxes Paid according to the Assessor's Office	
50%	1997	37.50	N/A without valuation	Not recorded	
50%	1998	39.97	N/A without valuation	\$132,220	
50%	1999	41.78			
50%	2000	39.73			
50%	2001	33.53			
50%	2002	33.18			
50%	2003	22.41			
50%	2004	20.72			
50%	2005	20.60			
50%	2006	19.98	\$369,450	\$164,035	UNDERPAYMENT

Discerning tax payments through annual reports is difficult due to reporting inaccuracies.¹²

Eleven TIF developments reported on benefits received since TIF certification. For these developments, the state benefit received doubles the amount of the city benefit provided. Five projects claimed the city exemption and two of those did not claim a state credit. Six developments claimed only a state and not a local exemption indicating significant value for a development even without the

¹² The taxes paid and taxes exempted amounts reported on the state's annual reports are not accurately comparable due to misreporting by agencies; it is therefore difficult to tract accurate tax exemptions according to TIF agreements. For instance, taxes paid categories include amounts paid before certificate project status was granted and in some cases, seems to include amounts paid for the company's entire property rather than the portion subject to TIF exemption.





local tax reduction contribution. Without further information on reasons for not claiming the municipal tax break, it appears that the benefits of TIF certification are not limited to municipal tax breaks and indeed, eligibility for state benefits may serve as an equal incentive for certified project status.

3.6 Industrial Revenue Bonds

Revenue Bonds are a type of Municipal Bond where principal and interest are secured by revenues such as charges or rents paid by users of the facility built with the proceeds of the bond issue. Projects financed by Revenue Bonds include highways, airports, and not-for-profit health care and other facilities. A main reason for using revenue bonds is that they allow the municipality to avoid reaching legislated debt limits.¹³

Because of the special tax-exempt status of most municipal bonds, investors usually accept lower interest payments than on other types of borrowing. This makes the issuance of bonds an attractive source of financing to many municipalities, as the borrowing rate available in the open market is frequently lower than what is available through other loan institutions. According to CLU, investors save approximately 25% interest when borrowing from a municipality versus private lenders.¹⁴

Benefits include¹⁵:

1. Tax-advantaged income and lower investment risk
2. Flexible investment available in a variety of maturities with flexible time frames.
3. Income from Revenue Bonds are free from federal taxes, and in some cases, it is also free from state and local taxes.

¹³ Investopedia www.investopedia.com

¹⁴ Based on a conversation CLU had with Greg LeRoy, author of [The Great American Jobs Scam](#)

¹⁵ Investor Guide www.investorguide.com



Chelsea Economic Development Community Impacts



4. Income from interest and repayment of principal is generally regarded with a high degree of safety.
5. If circumstances change, Revenue Bonds are actively traded in the secondary market and are not locked in until the bond's maturity.
6. Semi-annual interest payments are received and the principal payment is returned at maturity.

MassDevelopment¹⁶ issues several bonds and loans to manufacturing and commercial companies located in Chelsea. CLU asked attention be drawn to four specific projects of interest due to the type of bond issued. The following three are highlighted:

MASSDEVELOPMENT PROJECTS IN CHELSEA BONDS AND LOANS

Borrower/Sponsor	Project Title	Street Address	City	Program	Agency Financing Amount	Closed Dates
Carter Street LLC	Carter Street LLC	220 Second St.	Chelsea	Permanent Loan*	\$2,150,000.00	Oct-06
Carter Street LLC	Carter Street LLC	220 Second St.	Chelsea	Construction to Permanent Loan	\$2,000,000.00	Apr-00
Monkiewicz Realty Trust	Kayem Foods, Inc	75 Arlington Street	Chelsea	Tax-Exempt Industrial Development Bonds**	\$7,250,000.00	Jun-00

Carter Street LLC a.k.a. Rosev Dairy Foods

MassDevelopment provided this information to CLU¹⁷ in response to a public records request. MassDevelopment did not provide a list of the specific terms or conditions attached to the loan or investment. They claim to not have such a list. This information would have been very useful in comparing interest rates and figuring out the exact savings incurred.

Researching bonds issued in Chelsea is important because it shows how the state and city offer multiple incentives in the forms of TIFs and bonds to attract industry. These companies are given tax

¹⁶ A development financing agency that provides the financial tools and real estate expertise needed to stimulate economic growth across the state of Massachusetts. They work with businesses and local officials to address blighted areas, help create jobs, and address overarching issues that impact economic development, such as housing affordability.

¹⁷ Request for Public Records dated March 23, 2006 from Mass Development and signed by Ellen Torres.

* Permanent Loan: Real Estate Loan A 1% fee based on the total principal amount of the loan (minimum of \$1,000) is due at the time of commitment. Legal fees and other expenses are due at closing.

** Tax-Exempt Industrial Development Bonds Issuance fees on the amount financed are due at closing and are as follows: 1% on the 1st \$5M and 1.25% on the 2nd \$5M. Up to 2% of the total bond proceeds may be used to pay issuance costs.





breaks by both the city and state for expanding their businesses and by receiving tax exempt loans for the development of their projects.

3.7 Closer Examination of Development Impacts

Information on total developments receiving TIF agreements is helpful in understanding the general impact of the municipal tool, however, it is important to compare the overall employment assessment to a smaller subset of developments in order to determine whether findings on local employment and wages are trends with TIF developments or skewed by a data of a few developments.

The six developments proposing the most significant employment increases are **Alkermes, Inc., Kayem Foods, Inc./Monkiewicz Realty Trust, Paul Revere Transportation, LLC., Public Consulting Group, Inc., The Pillsbury Company/General Mills (in two phases)¹⁸ and Wedge Hotel Management Corporation.**

Only four developments reported annually on their TIF agreement progress by submitting annual reports consistently as illustrated in the chart below.

Reporting Frequency

Development	2002	2003	2004
Kayem Foods, Monkiewicz	X	X	X
Paul Revere	X	X	X
Pillsbury	X	X	X
Alkermes		X	X

¹⁸ the two phases are treated as one for the purpose of this analysis



Chelsea Economic Development Community Impacts

As with all but one of Chelsea's twenty-four active TIFs, no development submitted reports prior to 2002. Employment information in the following section draws on the four developments, the "development subset," that submitted three consecutive years of reports.

These developers report that local residents in the ETA hold 36% of the jobs created. As illustrated earlier in this report by the example of a business that over-reported locally held jobs, this percentage may actually be as low as 6% jobs for actual ETA residents. The development subset



anticipated creating 355 permanent full and part time jobs between the years of 1997 and 2001. From cross-referencing data from contracts and annual reports, developments indicate 283 permanent positions created, falling short of anticipated employment opportunities. Kayem Foods is responsible for 48% of the total jobs,

Kayem Foods however, it is difficult to know how many local jobs were created under the TIF agreement. They exceeded their projection of creating 60 jobs, instead creating double that number. The company reports a total of 186 locally held positions from their total 568 jobs company wide (representing multiple sites). Since TIF applications only indicate local job projection for one of the four developments, comparison between projections and reported local jobs is not significant. It appears that the other developments did not provide the number of jobs they anticipated but due to inconsistent reporting the totals can not be accurately compared.

These developments report wages that annualize to an average of \$37,600, which is above the total average of the total number of developments; however, this number is not an accurate portrayal of

Chelsea Economic Development Community Impacts

wages for these positions. For instance, one development, Alkermes, reports an annual wage of over \$69,000 for a total of 22 jobs, half of which were projected as skilled and unskilled positions and none are held by Chelsea residents. Removing this \$70,000 outlier brings the average annual wage for the remaining three companies to \$26,800. The development subset proposed jobs are 63% skilled and 22% unskilled with the remaining 15% mixed into management, professional and technical positions, a division relatively consistent with projections for the entire portfolio of TIF developments. Annual reports do not solicit type of job created by skill level so a comparison between projected and actual is not possible

Of the major employer sample, the four companies that both projected amount of investment and reported on cumulative investment exceeded the anticipated amount by 250%. The companies projected spending nearly \$20 million and instead spent over \$55 million. These same companies reported receiving over \$1,025,000 in tax exemptions by 2004 spanning a total of 16 fiscal year payments over 7 years. Average exemptions ranged from between \$20,000 and \$200,000 due to the variations in the size of property, tax rate of basis year used and percentage of exemption.

While the city exempted companies from over one million dollars in local property taxes, the state offered two of the four companies over \$1.4 million in tax reductions. Two of the companies that collected municipal tax breaks did not claim state tax exemptions. For the two companies that did benefit from both city and state tax exemptions, the latter proved fiscally more significant, representing twice the local benefit for one company and more than twenty-nine times the local benefit for the other.

These findings are consistent with those of Chelsea's total TIF portfolio and highlight gaps in data and the difficulty in drawing conclusions about contract compliance and successful economic development for Chelsea residents. Far more extensive and detailed reporting needs to be



implemented, monitored and recorded in order to fully assess these projects and understand the tax, investment and job impacts these developments have on City of Chelsea residents.

3.8 Decertified Chelsea Development Projects

Between 1996 and 2005, Chelsea accepted proposals from twenty eight economic development projects that were either residentially or commercially based. Certification of these development projects is awarded by the Massachusetts Economic Development Incentive Program (EDIP), in conjunction with the approval of the City of Chelsea and the Economic Assistance Coordinating Council (EACC). The Massachusetts EDIP uses tax incentives to attract new or expanding companies to the state. Approval of the EDIP projects is awarded to companies based on their commitment to promoting job growth and private investment in designated Economic Target Areas in Chelsea.

In 2002, the City of Chelsea conducted an audit of certified State EDIP projects and found four of the originally proposed developments to not the minimum requirements of the EACC. As a result, the following four projects have since been decertified and eliminated from the City of Chelsea's redevelopment plan:

1. **The Autre Products Inc.** specialized in environmentally friendly marine-related products (Decertification Requests, City of Chelsea Document, November 6, 2002). As a result of the company's increased sales and necessity for greater manufacturing facility, Autre Products proposed the relocation of its national headquarters from Buffalo, New York to Chelsea, Massachusetts. Additionally, Autre committed to the creation of twelve permanent full time jobs and a minimum of \$200,000 in equipment acquisition and leasehold improvements, (Autre Products, LTD Massachusetts EDIP Certified Project Application August 9, 1997) to be invested into the proposed property site. Decertification of Autre Products was requested by the City of Chelsea due to the company going out of business.
2. **AV Sportswear Inc** was a manufacturer of children and adult outerwear clothing. The company had proposed expansion to a larger facility in Chelsea to accommodate its increased production in clothing. AV Sportswear was also committed to increasing its workforce with 40-60 new employee positions (AV Sportswear Inc., Massachusetts EDIP Certified Project Application, November 24, 1997). Decertification of this project



Chelsea Economic Development Community Impacts



- by the City of Chelsea was requested as a result of the significant downsizing of the AV sportswear company.
3. **Davin Machine & Welding Co Inc.** was a Chelsea based manufacturer that specialized in heavy steel fabrications, full service machining, and the design and repair of mechanical systems (Davin Machine & Welding Co Inc., Massachusetts EDIP Certified Project Application, November 24, 1998). Davin Co. proposed relocation to a new Chelsea location to fit its growing expansion needs. Decertification of this project was requested as a result of Davin Co's renouncement of their relocation plan.
 4. **UStTrust**, a Massachusetts financial institution proposed the opening of a new branch location in the City of Chelsea to serve its growing customer base. The new branch would have provided the community with drive-up service, night depository and 24 hour banking through the use of new ATM's (UStTrust, Massachusetts EDIP Certified Project Application, September 5, 1997). Additionally, UStTrust was committed to the creation of six new staff positions and the historic preservation of the Everett Avenue Fire House Station; the designated location of the new branch. Decertification of this project was requested as a result of an UStTrust merger with Sovereign Bank.

Decertification of the four development projects occurred as a result of business liquidation. In compliance with the decertification process, each of the business principals were contacted by the City and informed of their pending decertification status. The City of Chelsea received no contestation and submitted requests for decertification of the State EDIP projects with the Massachusetts Office of Business Development.

The Massachusetts EDIP Certified Project Applications and City of Chelsea decertification requests of the above mentioned developments were provided subsequent to a FOIA (Freedom of Information Act) request for all City and State reports on TIF Development projects. The documentation reviewed for the four decertified projects indicate that economic development projects in Chelsea are approved according to a prescribed set of conditions and procedures set forth by the City and State government. The specific criteria that hold these development projects liable remain largely unanswered due to lack of necessary documentation being publicly available.

The City Manager of Chelsea, Jay Ash, declined an interview to explaining the process of TIF selection and decertification.. Throughout the course of research, many questions arose such as: What





criterion is used to decertify development projects? Are there penalties that are imposed for the breaching of State EDIP and TIF Agreement contracts? What current development projects are at risk for decertification? And lastly, on what basis does the City of Chelsea measure levels of success?

The following decertified projects: Autre Products, AV Sportswear Inc., Davin Machine & Welding Co., and USTrust, were originally set up to provide economic stimulation that would benefit the residents of Chelsea. They were decertified due to downsizing or because the companies involved had simply gone out of business. This examination of Chelsea's decertified economic development projects has identified areas of ambiguity that remain unanswered. For future research and evaluation, greater transparency of the city and state selection process for certified economic development projects is needed to efficiently examine the legitimacy of tax incentive programs in Chelsea.

3.9 Cost Benefit Description

To understand the impact of TIF projects in greater detail, the benefits and costs of economic development projects are outlined below according to activity, benefit opportunity, and factors to consider. These benefits and cost serve as a general list of considerations for the municipality. As these are not all quantifiable without extensive research costs and benefits that can be drawn from contract and annual reporting documents are used to illustrate basic results for two companies (**Alkermes** and the **Pillsbury Company**). The benefits and costs categories that apply to each project are outlined from the perspective of a resident for each project. In order to perform a formal cost-benefit analysis, these elements would need to be quantified with further research. Numbers are reported where available but financial impact conclusions are not drawn.



Chelsea Economic Development Community Impacts



General Benefits

Benefits are both opportunities to residents and the impact of those opportunities in terms of tangible benefits received or taken advantage of by residents. For instance, a company locating in Chelsea offers the benefit of new local employment opportunities; however, the tangible benefit received by residents is the actual number of jobs held by city residents. Another benefit to the city is the investment of private dollars made by these companies. General benefits to both residents and the city are charted below.

<u>Activity</u>	<u>Benefit Opportunity</u>	<u>Factors to Consider</u>
Offering incentives to Companies to locate in Chelsea	Establish economic core	Implications for trend in scale of business development, type of industry and subsequent effects on cost of living
Municipal employment increase	New positions for local residents	Jobs held by local residents, type of position, wage level, benefits, length of time jobs are maintained
Increased commercial activity in neighborhood	Shorter travel times, less cost for transit	Comparative prices of goods in new stores, impact on opportunity to maintain and create local business, physical design compatibility of new commercial area to existing neighborhood
Increased property tax base	Increase in revenue to provide municipal services	Reduction of tax base
Reuse of vacant or abandoned land	Improvement of deteriorating space, environmental remediation	Reuse type, impact on existing property values, impact on property taxes
Private investment	Employment in using those dollars in construction, trade, banking, and charitable donations that accompany this investment	Length of impact of this investment

Chelsea Economic Development Community Impacts



General Costs

Costs are those impacting residents as direct expenses, loss of municipal services, municipal jobs and loss of revenue development. For instance, offering employment does not incur direct costs or municipal costs but may contribute to an influx of new residents that drive up the value of the housing market making it more difficult for current residents to pay property taxes or rent and forcing flight from the city.

<u>Activity</u>	<u>Cost</u>	<u>Factors to Consider</u>
Offering incentives to Companies to locate in Chelsea	Loss of tax base forgone, loss of municipal jobs and services, loss of opportunity to develop small business	Impact on market of existing local business and fostering new business, local ownership of business, Possibility of generating new long term tax base
Municipal employment increase	No direct cost incurred	Impact of jobs offered to non-Chelsea residents and impact of influx of new residents on housing market
Increased commercial activity in neighborhood	Competition with local business, costs of goods for residents	Scale of new business and whether it compliments current local business, whether new businesses offer lower costs of living for Chelsea residents
Increased property tax base	Forgone tax revenue, subsidized municipal services for property	What forgone tax revenue could provide to residents, would the business locate without this tax reduction, whether taxes paid cover municipal costs
Reuse of vacant or abandoned land	Environmental remediation costs, reconnection of municipal services	Tax revenue vs cost of reestablishing site, who shoulders cost



Chelsea Economic Development Community Impacts



For the analysis of two TIF development projects in the city of Chelsea, benefits are measured by jobs provided to local residents and private dollars invested while costs are measured as tax reductions provided to companies. There are few enumerated costs and benefits available and this analysis relied upon ones reported in the contracts and annual reports.

Alkermes, Inc.

<u>Benefit</u>	<u>Cost</u>	<u>Impact</u>
<ul style="list-style-type: none"> • 22 Jobs, 0 local • 30 million invested • \$139,000 in property taxes paid 	<ul style="list-style-type: none"> • \$40,600 in cumulative tax reduction by city reported • \$1,185,000 in cumulative tax reduction by state reported 	<ul style="list-style-type: none"> • \$40,000 provided by city in exchange for employment opportunities

The Pillsbury Company

<ul style="list-style-type: none"> • 70 Jobs, 66 local (94% local) • Average wage \$21,000 • 8.7 million invested • Maintained existing operating facility with local employment opportunities • \$405,000 in property taxes paid 	<ul style="list-style-type: none"> • \$597,000 in cumulative tax reduction by city reported • \$0 in tax reduction by state reported 	<ul style="list-style-type: none"> • \$600,000 provided by city in exchange for 66 employment opportunities • \$9,000 spent per job¹⁹ • Maintained existing employment opportunities
--	--	--

Municipal investment in the Pillsbury Company in the form of tax reduction has a much clearer and more immediate result for residents. Creating 66 jobs for local residents offsets the forgone revenue of \$600,000. The low average wage for positions at Alkermes of \$21,000 lowers the return rate of the exchange but the existence of the jobs rather than quality is more significant here. This front loaded TIF deal rapidly returns to full payment with a full tax break in year one and a 25% decrease for the three years afterwards. Year five of the deal provides a 0% reduction in taxes. The

¹⁹ Employment cost numbers in the impact column are tax reduction divided by number of jobs provided.





company reports paying significant taxes (as compared to Alkermes), which indicates compliance with the agreement. The Pillsbury Company does not report taking a state tax break in years for which TIF reports are provided.



This preliminary assessment demonstrates that employment impacts

for Chelsea residents may result from investment or may never be actualized despite investment. If there is no local employment benefit the municipality needs to weigh the immediate and long term value of providing subsidy in the form of tax dollars to businesses. The impacts that the municipality expects to receive need to be weighed and tracked as employment opportunities, but, as demonstrated for Alkermes, are not guaranteed.

Chelsea has also been forced to decertify TIF projects that were intended to bring economic growth for various reasons. The following is a list with a description of the decertified projects.

Chapter 4 TIFs in other cities

Based upon the data collected and information garnered from interviews, background reading and reviews of TIF programs in regions across the United States, it is clear changes are necessary in





order for the program to maximize benefits to residents of Chelsea. In order to address findings from city of Chelsea research, three TIF programs from diverse regions of the U.S. are evaluated and serve as the basis for Chelsea recommendations. The city of Denver, Colorado's Tax Increment Financing program, Fall River, Massachusetts' Tax Increment Financing program, and Emeryville, California's Redevelopment program are unique in their program structure.

The reviews of these three municipal programs outline barriers for TIF programs maximizing benefits for residents and make recommendations for shifting benefits to municipal residents.

4.1 Case Study #1: Tax-Increment Financing in Denver, Colorado

Overview

In the 1950s, Denver sought a special income tax that was rejected by voters. With this door closed they went on to form a commission that would dedicate itself to the authority over urban renewal projects and federal urban renewal funds. Soon after, the commission was converted into the Denver Urban Renewal Authority (DURA). With the establishment of this new entity, Denver received matched funding from the federal government and larger pools through ad hoc appropriations. The 1960s-1970s was a period of massive reconstruction in Denver particularly in the downtown area; the tying of private business and government projects became stronger and much more prevalent. Denver's ambitions for continual renewal brought forth the introduction of TIFs by the Colorado Legislature in 1975, five years before the nation's cities would see massive cutbacks in federal funding for urban development projects.

Denver is a growing city with an 18.6 percent increase in population between 1990 and 2000 and its most recent census count at 554,636 people. Like Chelsea, Denver is a very diverse city, and although Latinos are not the majority, they continue to have a strong presence (White Non-Latino 51.9, Latino 31.7, Black 11.1 and other races 15.6 percent). The foreign born population represents 17.4





percent of which 12.3 percent are from Latin America, 2.3 percent from Asia and 1.8 percent from Europe. The income levels differ from Chelsea in that the median household income is higher in Denver at \$41,474 in 2000; nevertheless, the city had 11 percent of people living in poverty in that same year.

In the past ten years over half a billion dollars in subsidies were granted to more than 20 private development projects in the city and over \$5 billion in private investments have resulted from the taxpayers' commitments to TIFs. The city expects an increase in project subsidies. As it stands in Denver, the redevelopment projects in the city have changed the urban landscape (Robinson, Nevitt, & Kneich, 2005, Part I, p.5). The TIF subsidies are not recorded in Denver's city books, as is most likely the case in Chelsea as well. Needless to say, they remain as real tax revenue or "expenditures" incurred by the public. In the case of Denver the "annual tax-funded development subsidies through TIF now total nearly \$30 million" according to a 2005 report put together by the Front Range Economic Strategy Center. This is approximately 7 percent of the city's General Fund revenue, which is made up of general sales, property taxes and mills levies.

Denver is a case-study for Chelsea in that it faces similarities in the lack of transparency of TIF subsidy records; meanwhile, the city continues to move towards negotiations of new TIF project agreements. As is the phenomenon around the country, both these cities are in budgetary constraints and experiencing budget cuts. The TIF case-study on Denver that was examined for the purposes of this report shows a concern for the needed assessment of the benefits of TIF-invested projects.

Issues

The Front Range Economic Strategy Center produced a three-volume report that tackles similar concerns that Chelsea may be facing. The report, as described in the methodology, focuses on specific development projects and finds that for each of the three projects examined in their study, the TIFs



Chelsea Economic Development Community Impacts



covered over 15 percent of the overall project financing and also represented three-quarters of the permanent jobs created out of the more than twenty TIF subsidized projects. The case study looked at the issues of cost, the profiteers and the economic impact on residents as a result of TIF subsidies.

Table 4.1.1 Key Issues Resulting from Denver TIF Study

Issue	Key Findings
Cost	<p><i>Taxpayer's Costs</i>- About \$29.5 million in annual foregone revenue (tax-funded subsidies were being diverted from the city's General Fund);</p> <p><i>TIF tax expenditures</i> - Had gone from representing 2.8% of General Fund Revenues in 1998 to representing 6.8% in 2003; TIF subsidies increased three times from 1998 up until 2003</p> <p><i>Revenue</i>- Denver didn't receive additional revenue from TIF projects (projects only produce at 62% of its original projections); None of the projects delivered additional revenue than the increment necessary to pay for the TIF commitment.</p>
Profiteers	<p><i>Local businesses</i> - Play an important role in the maximization of local tax revenue; however TIF projects are dominated by national chains; only comprised 4.4% of the total space in the city's three largest retail projects.</p> <p><i>Economic Advantages</i>- For every \$100 spent on local businesses this generates an added \$40 on local spending, whereas, that same amount spent at a national chain only brings in an additional \$15; TIF projects increase the positive economic impact when in fact the local business has a presence in the projects.</p> <p><i>Who Benefits</i>-No clear method or implementation towards accountability that even allows the public or officials to note who is really profiting and by how much.</p>
Community Impacts	<p><i>Wage</i>- A survey conducted at three TIF sites showed: jobs paid 14-27% less than average for similar occupations; low-wage and low-benefit employment sector was growing; worker families faced problems meeting basic needs and thus, increasing burden of public assistance.</p> <p><i>Housing Affordability</i>- workers pay more than 1/3 of their income on housing; only 16% units out of 1387 in 8 Denver Downtown TIF projects were affordable units</p> <p><i>Gentrification</i>- projects forced the displacement of many residents, particularly minorities; the goal of TIF promotion of positive neighborhood growth results in gentrification</p>





The Denver study found that across the board there is an issue of transparency, accountability and understanding of community benefits from TIF projects. There is some level of confusion as to whether developments are causing more harm to the mass of working, poor and minority communities that represent the majority of the population.

4.2 Case Study #2: Redevelopment in the City of Emeryville, CA

Overview

The American Industrial era of the late eighteenth century transformed many urban centers across the United States into large-scale industrial cities. Emeryville, California, like other East Bay cities during this time period, “served as a major transportation and manufacturing center, replete with big ship yards, railroads, and smokestacks” (Greenwich and Hinkle, 2003). Postwar decline of industries resulted in the economic disinvestment of manufacturing firms and the economic devastation of formerly industrial cities. The prevalence of poverty in Emeryville and other cities in the Golden State throughout the mid 1900’s, motivated efforts undertaken by counties and local governments to attract retail businesses for economic development. The use of Tax Increment Financing Agreements by the Emeryville Redevelopment Agency generated the revenues necessary for development projects to occur.

The East Bay Alliance for Sustainable Development (EBASE) produced a report in May 2003 that assessed the redevelopment of Emeryville, California. The report examined the 1980’s transformation of Emeryville from “a decaying industrial town to a regional hub for retail stores, hotels, commercial offices and high tech industries” (Greenwich and Hinkle, 2003). The following is an examination of the EBASE assessment of the role of economic development in Emeryville, California.





Emeryville, CA is a small city within Alameda County that has a relatively diverse population of approximately 7,300 residents. The racial demographics of the city illustrates that Latinos comprise about 9% of the population, African Americans 18.9%, Asians 25.7% and Caucasians 41.5% of the population (Greenwich and Hinkle, 2003). The Emeryville median household income is \$55,946 which is slightly lower than \$65,857, the average median income for Alameda County; this indicates that the city of Emeryville is slightly less affluent than neighboring communities in the county (Greenwich and Hinkle, 2003).

The geographic location of Emeryville has proved to be advantageous to businesses within the city. Located between the cities of Oakland and Berkeley, California, Emeryville receives an influx of 30,000 workers and consumers each day (Greenwich and Hinkle, 2003). Additionally, Emeryville is located at the intersection of I-880, I-580, I-80 & Highway 24; four of the Bay Area's most important freeways and is also within close proximity to San Francisco and U.C. Berkeley (Greenwich and Hinkle, 2003). Emeryville's accessibility and point of contact within Alameda County made it a prime location for the establishment of commercial and retail development.

The case study of Emeryville's economic redevelopment is comparative to Chelsea, Massachusetts on several levels. First, the industrial origins of both cities made it feasible for commercial and retail industries to re-enter the marketplace in latter years of economic decay. Secondly, both cities are populated with diverse communities, specifically minority communities that are of low income. And lastly, the central location and availability of land both in Emeryville and Chelsea made it conducive to the growth and expansion of businesses in their cities.

Issues

The redevelopment of Emeryville contributed to its "rebirth" as an industrious city; the results of development however were not completely beneficial for all residents. Since 1984, job trends have





indicated a decrease in manufacturing jobs from 47% of all jobs to just 14%, while the service sector has steadily increased from 15% to 48% of jobs (Greenwich and Hinkle, 2003).). According to this employment shift, low income job seekers experienced a decrease in jobs matching their skill set. As a result, the 5,500 net gain in jobs resulting from Emeryville's redevelopment, did not improve labor market conditions for low income families.

Customarily when redevelopment occurs in a previously distressed area, property values and housing costs increase as a result of the construction of newly invested projects. In the North End section of Emeryville, residents of color experienced the consequences of gentrification between the years of 1990 and 2000. "The proportion of African American residents dropped from 51% to 32%, a fall of 19%. At the same time however, the proportion of White residents increased from 27% to 45%, an increase of 18%" (Greenwich and Hinkle, 2003). This issue of gentrification disproportionately affected the minority community of Emeryville and as a result, redevelopment of the city did not prove to be as beneficial for some communities as it was for others.

The Emeryville case study provides an interesting parallel to Chelsea, MA and the procedural course of economic development projects. The use of tax incentives in both cities, highlights the importance of this economic policy in fostering the livelihood of municipalities. Examination of redevelopment in Emeryville identified the major pros and cons of business expansion in distressed areas, with insight into how economic development in Chelsea can be enhanced to minimize developmental problems.





4.3 Case Study #3: Tax-Increment Financing in Fall River, Massachusetts

This case study focuses on TIFs in Fall River which is approximately 50 miles from Boston.

While there are very limited resources and information on this project, it was chosen because of its shared home state and because of the valuable lessons learned.²⁰

Overview

In 1978, the City of Fall River established the private, nonprofit Fall River Office of Economic Development (FROED). Incorporated as Jobs for Fall River, Inc., FROED's mission for the last 25 years has been to create and retain jobs and expand the city's tax base. The office is organized into four main areas - finance, business development and marketing, business retention and project administration.

FROED helps businesses evaluate the many advantages of locating in Fall River, offering incentive programs including low-interest financing, tax exemptions, employee recruitment and training services, and site selection assistance. These programs complement Fall River's low business costs and can be packaged with other private and public sector incentives. All services are at no cost to the business

FROED has loaned about \$61 million to more than 520 new and expanding businesses, leveraging nearly \$205 million in private investment. These loans have helped create and retain over 12,300 jobs, nearly a quarter of Fall River's total workforce (www.froed.org).

Issues

Joe Raposo of the Fall River Office of Economic Development has worked with the TIF program for the Fall River Office of Economic Development since its inception. The Office of

²⁰ This information had been gathered through interviews and the collection of documents by Mary Jo Connelly, Researcher for CLU. The document she compiled with this information is titled, "Details on the City of Fall River's TIF Program 3/12/03."



Economic Development is chaired by Mayor Lambert who apparently has always monitored the TIF deals closely. They asked for the state Economic Assistance Coordinating Council to de-certify several deals 7 or 8 years ago, and the state authorized it.

In 2002, Fall River identified 10 TIF recipient companies that were far from reaching job creation goals, after several years. They asked the state to de-certify the 10 companies and 5 were automatically de-certified because they were not present at the administrative hearing to contest the process. The state refused to de-certify the remaining 5, claiming that it would be bad for the business climate. The City of Fall River asked all 5 of these companies to renegotiate their TIF deals and 1 refused.

The City successfully renegotiated with 4 TIF recipient companies. For 3 of the 4 companies, the City offered to extend the TIF deal for an additional 5 years beyond what it had originally been in exchange for repayment of 99% of the taxes owed the city for 2002, and any future year in which the companies did not meet the job creation goals. The 1% local tax exemption is the minimum required to make the companies eligible for TIF certification. The companies agreed in order to become eligible for a 5% state investment tax credit (ITC).²¹

Main Street Textiles, already had a maximum 20 year TIF agreement, not allowing the City to extend it. They agreed to pay 99% of the city taxes. Their original deal can go back into effect if their job creation numbers increase, while at present they are below the original number of jobs.

The three case studies mentioned here offer insight and possible solutions and recommendations for economic development programs in Chelsea. The next section outlines general recommendations for the Chelsea TIF program.

²¹ Some companies are already eligible for a 3% ITC even without certification. State credits are usually worth more than what is offered at the local level.



Chapter 5

RECOMMENDATIONS

5.1 Issues and Concerns

In this report we set out to examine the impact of Tax Increment Financing Agreements on community members in Chelsea, Massachusetts. Our research of economic development in Chelsea and in the three case studies has helped us to identify common issues that impede economic growth. The following list identifies several key concerns of economic development.

Displacement

- Displacement of residents resulting in gentrification, increased housing costs, many local residents the higher costs of living.

Insufficient Monitoring of Economic Development Projects

Lack of transparency in economic development process;

- Lack of municipal penalization as a result of breached contractual agreements;
- Insufficiency and inconsistency of annual reporting submitted by developers;
- Lack of annual municipal evaluation of development projects;
- Insufficient readjustment of tax credits based on property tax assessments of development projects.

Lack of Community Involvement

- Lack of Community Based Organizations (CBO) involvement with the process and adoption of economic development projects;
- Greater need for the inclusion of small businesses in economic development plans.

Minimal Employment Opportunities

- Jobs created are not consistently retained on a long term basis;
- Residents do not always receive preference of newly created jobs;
- Consistent fair living wages are not universally offered;
- Scarcity of moderate income jobs;
- Limited job training programs that create greater accessibility to higher wage positions.

Environmental Impacts

- Limitations are placed on where development can occur because of land contamination;
- Remediation efforts of brown fields are costly and can often discourage and decrease development in contaminated areas.





Public Health

- Land contamination can adversely affect the health of the local community members.

This outline highlights prevalent economic development concerns that can serve as a guide toward a responsible ordinance that addresses the issues. The results of such an ordinance would help to maximize the overall benefits of economic development.

5. 2 Case Studies

Best Practices to maximize community benefits

Based upon the data collected and information garnered from interviews, background reading and reviews of TIF programs in regions across the United States, an inventory of changes in TIF policy and implementation that could maximize beneficial impacts on the community was created. In order to address findings from city of Chelsea research, three TIF programs from diverse regions of the U.S. are evaluated and serve as the basis for Chelsea recommendations. The city of Denver, Colorado's Tax Increment Financing program, Fall River, Massachusetts' Tax Increment Financing program, and Emeryville, California's Redevelopment program are unique in their program structure.

The reviews of these three municipal programs outline best practices for TIF programs maximizing benefits for residents. The following are solutions potentially applicable to Chelsea:

Emeryville, CA

- ❖ Form a Community Impact Report (CIR) which would measure existing community and regional needs, in addition to identifying the major impacts of proposed development projects on residents.
- ❖ Form a Community Benefits Agreement (CBA) that would provide a legal component to the accountability of development planning. The CBA would be a legally binding agreement between the developer, community actors, and local government; of the benefits that would be provided to the community as a result of a proposed development project.
- ❖ Adopt a Living Wage policy that would legally acknowledge the limitations of the federal minimum wage and its insufficiencies for meeting the needs of low income families. Living Wage laws mandate "private firms benefiting from public resources to pay a wage that will prevent a family from living in poverty" (Greenwich and Hinkle, 2003).
- ❖ Create a Skills Oriented Employment Program would require new businesses that required higher jobs skills, to establish a mentoring program for a set number of low wage workers to learn the skills needed for higher paying positions. This program would increase the economic mobility of low wage workers; empowering them to overcome the many obstacles of poverty.
- ❖ Implement a Housing Linkage Fee that would require developers to pay a one time development fee per sq foot of developed land, toward an affordable housing fund.





Denver, CO

- ❖ Ensure that TIF expenditures are included in the city’s budget and are considered real money. Initiate regular performance for maximum efficiency and effectiveness of diverted tax revenue.
- ❖ Establish a ceiling on the growth of TIF commitments to prevent tax payers from assuming high TIF subsidies that would take decades to discharge.
- ❖ Refocus TIF investment strategies so they support local and small scaled business via appropriate neighborhood friendly projects.
- ❖ Enforce job creation as an explicit part of the TIF agreements both in the planning and approval process. Moreover, establish a system that tracks the number of jobs created, the quality and benefits, wages and retention level of jobs.
- ❖ Continuously analyze the effects of development projects as does the Denver Urban Renewal Authority. The evaluation should focus on gentrification, displacement, and housing affordability trends in areas supported by TIF subsidies.

Fall River, MA

- ❖ Granting higher tax exemption based upon number of jobs created. Implement job creation requirements to determine the level of TIF. Fall River currently has 3 levels:

Creating 1 – 10 jobs	Gives a maximum exemption of 25% for 5 years.
Creating 11 – 39 jobs	Gives a maximum exemption of 5 years. Year 1=100% exemption, year 2= 75%, year 3= 50%, year 4= 25%, and year 5= 1%
Creating 40 or more jobs	Negotiable

- ❖ Aggressively monitor and require strict measures for approval of the transfer of jobs outside of the city. The Economic Development Incentive Program at Fall River requires an explanation from TIF applicants seeking exemptions for moving jobs from one city to another. This would also discourage cities from pirating jobs, developing hostility.
- ❖ If job creation goals are not met, the TIF exemption reverts to 1% which would help limit negative exposure.
- ❖ Use creative strategies and outreach to other communities to compensate for a lack of state support and oversight as done in Fall River.





The three case studies mentioned here offer insight and possible solutions and recommendations for economic development programs in Chelsea. The following section gives suggestions on how to use the cost-benefit and community impact analysis.

5.3 Next Steps for Cost Benefit Assessments

In order to delve further into the general costs and benefits presented earlier, an in depth examination of how these costs and benefits apply to residents of the city of Chelsea is necessary. Ranking benefits in order of importance will help determine which warrant the most effort in quantification. Weighting these according priorities for economic development in the city will allow difficult to quantify issues to influence the cost and benefit discussion. Key activities should be thoroughly investigated and quantified in order to define their cost but need to include carefully assessed values and be influenced by local priorities.




Employment Data

Wage information on jobs is needed by skill level (to correspond to the application) and benefits should factor into the wage equation. A median income (rather than an average). Additionally, length of term and advancement need to enter into the calculation- perhaps ranking final wage amounts according to the value of these other factors.

Total Number of Local Jobs

The total number of jobs should be both a multiplier and a weighted factor.

Local Job Benefits

Benefits of holding local positions rather than jobs in other municipalities should be calculated including, transportation costs, reduced childcare costs. The increased amount of time available for residents to spend in the city and thus spend dollars in the city is another estimable benefit.

Income Tax Benefits

Income taxes the city receives from residents locally employed by new developments should be calculated and considered a benefit.

Economic Core

The benefits on overall businesses of attracting businesses to Chelsea should be quantified. The expected dollar amount spent in Chelsea at other businesses because of the initial business' presence should be calculated. The ripple effect of this dollar, one time extended, should also be included.

Reduction in Need for Municipal Support

If locally held job availability increases and unemployment decreases, municipal services will be less demanded, freeing municipal dollars to apply to development of other services. This benefit should be carefully quantified and considered only in the context of living wage jobs offered and ability to maintain local tenancies and homeownership.

Housing Price Changes

Though housing price changes can increase property tax base, this needs to be calculated and weighted considering the subsequent loss of the current population if prices are too high for them to maintain tenancies.

Business Competition

This should be considered in both the context of maintaining local business health and growth as well as reduction of prices (contributing to reduction of cost of living) for residents.

Environmental Remediation

This needs to be calculated and weighed in terms of the long term health of the community, not just according to its immediate dollar amount.

Tax Subsidy/Reduction

This needs to be recalculated based upon each fiscal year's tax rate and assessed value. Cumulatively, this needs to be calculated in current dollars to understand full expenditure at the end of a TIF cycle. Related costs such as infrastructure support and administration of subsidy sources should also be included in the cost of this subsidy.

Chelsea Economic Development Community Impacts

These factors serve as the initial quantities entering into the discussion of costs and benefits for a community’s economic development. Each item encapsulates its own set of costs and benefits that must be reconciled prior to assessing their impact against other factors. Weighting is an important element to this assessment as several of these factors are not easily quantified and could lose some of their relevance and meaning when reduced to only a number.

The next section outlines general recommendations for the Chelsea TIF program.

5. 4 General Recommendations

This report examines the impact of Tax Increment Financing Agreements on community members in Chelsea and highlights remaining questions due to inconsistent and sometimes un-documented data. The table below gives recommendations as a result of preliminary research and findings followed by detailed explanations.

Type	Recommendation #1	Recommendation #2	Recommendation #3
Financial Accountability	Municipalities need a transparent accounting system with a cost-benefit analysis that would not allow funds to be shifted from one cost center to another.	Quantify economic development projects and determine whether or not they are positively impacting the community. Municipalities should weigh the costs and benefits that would justify the need for TIFs and other economic development projects.	Evaluate causes of economic downturn in TIF communities and set preventative measures.
Community Impacts	Form a <i>TIF Commission</i> made up of community and municipal members.	Require job training programs.	Enact a Living Wage policy involving the city and local organizations.
Municipal Process	Develop a transparent process for managing municipal finances for tax increment financing projects.	Develop an evaluation process for selecting and monitoring TIF agreements.	Develop measurable goals for the TIF program related to desired outcomes for city residents included in contracts.

Financial Accountability

Recommendation #1

- Municipalities need to make all TIF accounting public, to remain accountable for expenditures and transferring of funds.
- Municipalities issue bonds and loans with very low interest rates to companies saving them approximately 25%²² from a typical financial institution. A cost benefit analysis should be conducted to assure that the community will benefit versus incur the costs of low-interest loans.

Recommendation #2

- Require Economic Impact Statements (as in the state of Vermont) to evaluate large development projects allowing for a more expansive understanding of the external costs imposed by private investment (Morris, 1998).
- Require the TIF Community/Municipal Commission²³ to examine the full range of economic effects applying the type of full-cost accounting used by these impact statements.

Recommendation #3

- Evaluate causes of original economic downturn to create an economic distress prevention plan.
- Pre-assess whether businesses would locate in Chelsea with out the TIF.

Community Impacts

Recommendation #1

- Create a TIF commission to establish a greater level of transparency in the TIF process and agreements. Such a commission would open the doors for community participation and stakeholdership of the economic development progress of the city. The commission should be comprised of both community members and municipal representatives such that community members make up the greater majority. The commission would operate with ten active members: six community representatives consisting of community based organizations, union and labor force, local businesses, and community experts and four municipal

²² Based on conversation with CLU

²³ Mentioned in the Recommendations for Community Impact

Chelsea Economic Development Community Impacts



representatives comprised of city council, Economic Development Council, planning department, and staff from the city manager's office. The commission would convene with the purpose of:

1. Identifying the needs of the Chelsea community.
2. Establishing criteria²⁴ for the approval and implementation of TIF projects that satisfy the needs that have been identified by the commission.
3. Screening and evaluating applications for TIFs based upon the above set criteria
4. Performing an annual review of project performance on operating TIF awards in order to evaluate whether the goals of the TIF agreement are being met. An assessment of community impacts of development projects would also be part of this review process.
5. Identifying a non-profit to serve as a monitoring agent for TIF projects. Monitoring agent would verify developers' self reported employment data and provide this information to the TIF commission. Developer agreements would require them to hire and pay for a monitoring agent.²⁵

Recommendation #2

- In mandatory job training programs requiring new & expanding businesses, to train a percentage of low skilled workers for of positions requiring greater skill. Companies would also have to reserve a percentage of employment positions for local Chelsea residents. Job creation is often a required component of TIF development projects. The types of jobs offered by economic development projects are crucially important to the successful employment of community members. Highly skilled jobs that are offered by newer developments often prove to be unattainable for low and moderate income communities.

Recommendation #3

- Enact a Living Wage policy to increase the wages of employees in new economic projects and provide residents with true economic benefits. The proliferation of businesses in Chelsea reflects the city's plan of sustained development. Within this current framework, new and big businesses are primarily focused on as potential sources of capital.

²⁴ The formation of a Community & Municipal commission will help to alleviate the disconnect that exist between community members and local city and state officials. The criteria established by the commission will hold developers accountable to the conditions of their economic projects.

²⁵ The model suggested is similar to monitoring required under the MA Chapter 40B Comprehensive Permit regulations.



Municipal Process

Recommendation #1

- Treat municipal reduction of tax revenue to provide TIF awards as a municipal expenditure. Tax revenues are the municipality's assets for public use, including that of encouraging development. The municipality should ensure all TIFs expenses (taxes forgone, municipal costs in reviewing and monitoring TIFs, related project i.e. infrastructure costs or companion financing such as bonds) are assigned as costs to the TIF program in the city's financial management systems to provide a clear accumulation of costs for developing and administering TIFs. The city will be able to assess reasonable and prohibitive costs in awarding TIFs and can assign and which should be assigned to a developer.

Recommendation #2

- Implement a standard selection process with criteria designed to maximize impact for Chelsea residents; the process should involve all parties responsible for the effects of TIF awards. TIF agreements would include a retraction clause contingent upon satisfactory review of performance by TIF Commission.

Evaluation Process by TIF Commission

Initial Selection:

1. Project proposals compared criteria established by Commission.
2. Assessment of costs and benefits prepared and analyzed.
3. For favorable projects, TIF award terms designed and outlined in contract.

Annual Monitoring of Projects Receiving TIF Awards:

1. Monitoring agent²⁶ verifies annual reporting information receives from State EDIP and developer.
2. Monitoring agent prepares comparison of goals to actual performance.
3. Monitoring agent provides opinion on contract compliance and continuance.
4. Monitoring agent provides above information to TIF Commission.
5. Commission reviews all documentation.

Annual Confirmation of TIF Agreement:

1. Commission evaluates compliance with TIF agreement.
2. Commission issues agreement confirmation of continuation, modification proposal or termination notice to City Manager, State EDIP and developer.
3. For contract modifications, commission determines appropriate terms for establishing compliance (including repayment) or contract revision.

²⁶ The monitoring agent would be designated by the Commission, identified in the TIF agreement and paid for by the developer as part of their contract with the City.

Chelsea Economic Development Community Impacts



4. Commission handles negotiations with State EDIP in conjunction with City Manager.

This process would apply to new projects and the commission could review and monitor existing projects but with out a contractual recourse to modify agreements where developers are out of compliance.

Recommendation #3

- Develop specific TIF impact goals for residents based upon a needs assessment taking into consideration the population diversity by income level, nationality, employment fields and other relevant factors. Each TIF agreement should meet one or more of these goals. The initial assessment will need to encompass information from CBOs, Unions, city departments and other relevant bodies and be updated periodically.

Chapter 6 Conclusion

6.1 Research Evaluation

Research unearthed several challenges that impeded full understanding of how the city is administering TIFs and what are the exact costs and benefits of the current economic development projects to the city.

One challenge revolved around the data collection and analysis. The documents that were accessible were often spotty and missing areas of information. Information was often presented in very broad and general fashion. There was a lack specific detail in the data.

Secondly, ability to obtain information through key informants was limited. CLU is at the beginning stages of their work with economic development projects in Chelsea, their agenda is not yet established. This complicated the ability to speak freely with individuals because there was a needed level of consciousness in regards to what was strategically important to CLU. At





the same juncture, the complicated political situation that exists between the local city and State officials and parties seeking specific information, limited use of interviews that would fill some of the loopholes encountered. Officials were apprehensive about meeting unless provided the specifics of CLU's research..

Despite these setbacks, a preliminary assessment of the economic development projects in Chelsea was developed. Findings helped frame suggestions that will be helpful in assessing the future role of economic development projects in Chelsea as CLU and there collaborators move forth in this effort.

6.2 Next Steps

Learning about CLU's goals, attempts to retrieve information from the city, interactions with one of the local community based organizations collaborating with CLU, readings and analysis of documents, and multiple ventures into the city of Chelsea have inadvertently brought forth a series of observations and reflections throughout the course of this research project. Based on this, some of the areas that should be considered in continuing with this community impact assessment project include:

Building a cooperative relationship with the city government so that it is possible to not only funnel data and information, but create potential allies or endorsers of a responsible community economic development plan for Chelsea.

Evaluating the core reason for why the city of Chelsea has even found itself in this situation of economic distress to the point that they TIF deals. This would help better inform and understand how to address the problems that revolve around economic development in Chelsea.



Developing alternate solutions for economic development projects with residents instead of simply focusing on the problems that come with the existing projects. This would provide options for programs and methods for how Chelsea goes forward with pursuing economic sustainability.

Can economic development co-exist with community justice? There is much to be said about what negative impacts economic development may have on any city like Chelsea whether it is health concerns, environmental concerns, local business and employment opportunities, housing and livability. All across the United States there are cities dealing with the pressures of economic, social and political mobility. In many cases this quest for advancement comes at the expense of the community. However, there is a possibility for positive outcomes that neither aggravate nor perpetuate the inequalities that come with some models of development. With the involvement of the community in the process of development, a catalyst for innovation and sustainability is possible. The heart of this research is based on the need for a responsible plan that speaks to enhancing the benefits to the community.

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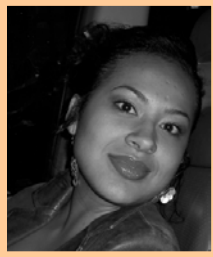
APPENDICES

Appendix-1

City of Chelsea Tax Increment Financing Projects 1995-2005

4 Excel worksheets

Student Biographies



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B.S. 2005 Political Science; minors: African American Studies, Latino/a, Latin American and Caribbean Studies, Northeastern University.
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Program Manager Intern, NYC Department of Housing Preservation & Development, Intern, City of Medford, Office of Human Diversity, Volunteer, Students International in Jarabocoa, Dominican Republic, Volunteer, Habitat for Humanity, Graduate Member, American Planning Association, President, Graduate Alliance for Multi-Cultural Empowerment (GAME)

Yvette Villa



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B.S. 2000, Westmont College, Biology major and Political Science minor.
Program Associate, The Nature Conservancy.
Public Policy Committee co-Chairman for American Association of University Women at a San Diego branch.
Project Assistant, Healthy Oceans Business Alliance assisting small businesses through American Oceans Campaign's project to adopt more environmentally friendly practices while increasing their bottom line within the city of Santa Monica. Representative for Oceana at World Summit of Sustainable Development Johannesburg, South Africa 2002.

About Chelsea Collaborative

CLU has partnered with Chelsea Collaborative, an organization that also deals with labor issues in Chelsea. The mission of the Collaborative is to empower Chelsea residents and Chelsea organizations to enhance the social, environmental and economic health of the community and its people. The Collaborative carries out its mission through community organizing, technical assistance, program development and information dissemination. The project team has met and worked with the Collaborative management staff in strategizing the best direction for data collection and interpretation.

Methodology

In conjunction with Community Labor United, the team determined a set of deliverables and determined methods of research. CLU was particularly helpful in gaining a background in the definitions, uses and potential conflicts of municipal TIF agreements from which the team formed research questions for investigation. The research focuses on two areas: Background and Data on TIF agreements in Chelsea, case study briefs from TIFs in other municipalities in MA and other states. This cross section of information provided some background on the process of TIF development and its use in the state of Massachusetts and the city of Chelsea. The methodology used for this study included gathering background and data information for analysis and assessment of other municipalities impacted by TIFs.

Tufts Team tasks:

	Task	Method	Deliverable
A.	Mapped large development projects in Chelsea 2001-2006 .	Reviewed public records & press to ID all projects receiving the following types of subsidies: TIF's, zoning variances, and revenue bonds. Also looked at public infrastructure investment or zoning changes.	Written description & map of Chelsea's past development projects and breakout of the types of public subsidy, zoning & infrastructure investment in them.
B.	Investigated broader community impact of 2-3 selected development projects.	Reviewed company investment and community benefit in Chelsea developments. Provided an overall costs/ benefits assessment of economic development on these 2-3 selected projects. Worked with CBO's and attempted to work with city officials.	A report on community impacts.
C.	Identified potential elements of a Chelsea ordinance for developments. Considered the elements' potential effect on Chelsea development & community.	Identified three successful campaigns for equitable and inclusive economic development.	Written description of relevant policy strategies / outcomes for potential use in Chelsea.

Background and Data Analysis

Background information was garnered through conversations with CLU, the Chelsea

Collaborative (CLU's partner organization in this research), background data on TIF uses and investigation into the TIF determination process used by the state EDIP. A FOIA (Freedom of Information Act) request was submitted in CLU's name to both the city of Chelsea and the state EDIP for all agreements and annual reports on TIFs and bonds in the city of Chelsea and the data provided is the core source for analysis of the city of Chelsea's TIF program. The state and city provided information on 28 TIF awards but did not consistently have both agreements and yearly reports on file.

Publications from non-profits assessing the TIF programs of municipalities in other states provided the background for the report recommendations. Research included examining seven municipal TIF program reviews and selecting three to model program structuring and monitoring elements applicable to the City of Chelsea. Recommendations from these reports raised key issues that apply to the City of Chelsea and serve as the basis for recommendations Chelsea's TIF administration.

State EDIP

To stimulate business growth and foster job creation, the state has created the Economic Development Incentive Program (EDIP), designed to attract and retain businesses in specific economic target areas or ETAs. The Massachusetts Office of Business Development administers the EDIP.

The Economic Assistance Coordinating Council (EACC) is a public-private body comprised of eleven members. The EACC is co-chaired by the Director of Economic Development and the Director of Housing and Community Development. The EACC is responsible for designating Economic Target Areas (ETAs), Economic Opportunity Areas (EOAs), and Certified Projects- the 3 steps in the Economic Development Incentive Program.

Economic Target Areas

An Economic Target Area (ETA) is three, or more contiguous census tracts, in one or more municipalities, meeting one of nine statutory criteria for economic need. There are ETAs throughout Massachusetts.

Economic Opportunity Areas

An Economic Opportunity Area (EOA) is an area or several areas within a designated ETA of particular need and priority for economic development. These areas are selected by the individual communities, and must meet one of four statutory criteria for designation.

Certified Projects

A Certified Project is a business that is expanding its existing operations, relocating its operations, or building new facilities and creating permanent new jobs within an EOA. Prospective candidates submit an application to the community project liaison for consideration.

Certified projects may receive state tax incentives, including a five-percent investment tax credit for qualifying tangible, depreciable assets. There also is a 10-percent abandoned building tax deduction for costs associated with the renovation of an abandoned building. In addition, such businesses qualify for municipal tax incentives, including:

Special tax assessment - a phased-in assessment of the total value of the project property, or

Tax Increment Financing (TIF) - a five- to 20- year property tax exemption based on the increased value of the project property due to new construction or significant improvements. With tax increment financing, all personal property taxes are exempt.

Other State EDIPS

STATE	NAME	MISSION	PROGRAMS
Illinois- http://www.illinoisbiz.biz/dceo/	Dept. of Commerce and Economic Opportunity-Business Development	Bureau of Business Development administers programs and services designed to help Illinois businesses thrive in today's economy.	Expansion incentives, bonds, loans, grants, tax assistance, technology support services, access to capital, global marketing expertise, job training and education.
New York- http://www.empire.state.ny.us/default.asp	Empire State Development	To provide the highest level of assistance and service to businesses in order to encourage economic investment and prosperity in New York.	Grants, bonds, loans, energy savings, manufacturing assistance, empire zone benefits
California- http://www.caled.org/index.shtml	California Association for Local Economic Development	CALED is the premier statewide professional economic development organization dedicated to advancing its members' ability to achieve excellence in delivering economic development services to their communities and business clients.	Preference Program, Target Area Contract, Preference Act, Enterprise Zone Act, Local Agency Military Base, Recovery Area Act, Manufacturer's Summary of Contract Activities and Labor Hours, Bidder's Summary of Contract, Activities and Labor Hours ¹

¹ State of California Procurement <http://www.pd.dgs.ca.gov/edip/default.htm>

List of Acronyms

CLU	Community Labor United
EACC	Economic Assistance Coordinating Council
EDIP	Economic Development Incentive Program
EOA	Economic Opportunity Areas
ETA	Economic Target Area
FOLA	Freedom of Information Act
STA	Special Tax Assessment
TIF	Tax Increment Financing