Executive Summary

Introduction

The City of Boston and the Boston Redevelopment Authority recently proposed to the Massachusetts state legislature a set of initiatives to help Boston and other communities in the Commonwealth meet the challenge of continuing economic growth and development in ways that benefit all members of our communities.

This legislation addresses four related goals:

- provide new, innovative development tools to cities and towns to enable them to tackle specific local needs and priorities
- recognize the special needs of economically depressed neighborhoods by enhancing incentives and opportunities in Enterprise Zones
- ensure that all residents will have the skills they need to provide for their economic future by amending state job training and welfare programs
- address specific zoning and planning issues in Boston and other cities and towns

Although the state as a whole is enjoying a period of economic prosperity, not all cities, towns, or neighborhoods are sharing equally in that success. There is no single solution to communities' diverse needs and concerns, but we can provide them with a flexible set of options which they can use. While some items in this package are designed to meet specific concerns of the City of Boston, most will provide new opportunities for economic growth throughout the Commonwealth.

Below is a summary of the various legislative proposals:

New Development Tools.

Commonwealth Zones (H.2635). Modeled on the award-winning Michigan program, Commonwealth Zones are sites or areas designated by a municipality for waiver from all city or state income and property taxes for a fixed period of time. This program has the potential to spur development on a community's most problematic or difficult sites. Some priority uses could include brownfields site cleanup, development of abandoned property, or to help provide affordable housing.

Investment Tax Credit (H.3780). Expand the current 3% manufacturer's tax credit be permanently rather than allowing it to expire next year.

"Low Dough" (H.1512). This program would match state dollars to funds leveraged by local redevelopment authorities to reduce interest rates on loans to small businesses and manufacturers, or to finance the development of affordable housing.

Empowerment Zones and Enhanced Enterprise Zone Communities

Enterprise Zone Enhancement (H.2559). An omnibus version of last term's multiple EZ bills, this legislation would authorize matching funds for eligible activities in federally-designated Zones, provide seed money for new group purchasing organizations, create set-asides for a variety of education, training, and economic development projects, and provide tax incentives for investments in Zone neighborhoods and schools—including computer donations to families of school-aged children.

Job Training and Welfare Reform

Job Training Programs and Funds: Includes three bills to: (1) allow welfare recipients to participate in approved job training or education programs without losing their benefits (H.2528), (2) provide short-term benefit extensions if necessary for individuals in these programs (H.2359), and (3) require state assistance to municipalities for job training programs to reflect the size a city or town's welfare caseload (H.2530).

Child Care Tax Credit (H.2634). Create a state tax credit, like the federal one, to help all families meet the high cost of child care expenses.

Planning and Zoning

Long Wharf Improvement (H.4121) Authorize the Department of Environmental Management to allow the Boston Redevelopment Authority to use the interest that accrues in the existing Long Wharf improvement account towards further improvements in the wharf.

Chapter 40D Amendments (H.2377). Amend the Commercial Area Redevelopment District (CARD) statute to (1) allow cities to issue tax-exempt financing to non-profit organizations outside of CARDs, (2) give local industrial development finance agencies the right of first refusal on financing applications with their jurisdiction, and (3) make Main Streets programs eligible for CARD designation.

City Oversight of Large Development Projects (H.2558). Allow municipalities to apply their own zoning and permitting requirements on major state development projects within their boundaries.

Related Legislation

In addition to these proposals, the City and the BRA support other efforts to promote or encourage economic development or provide consumer protection:

Underground Storage Tank Trust Fund (H.4050). Sites with abandoned storage tanks can be cleaned up quickly if we make full use of money already allocated for the purpose. This bill, also filed by the City of Boston Environment Department, asks the state to remove the one tank per municipality limit on clean-up grants, allocate funds based on city need, and provide additional rounds of grant requests if funds remain after the initial round.

Tax Credit Flexibility (H.2638). As a means to increase the attractiveness of existing brownfields tax credits, surplus credits could be sold for cash at 25% discount rate. This bill, filed by the City of Boston Environment Department, will ensure that all private developers or community development corporations, not just those with large tax liabilities, can benefit from the credit.

Home Inspector Licensing (S.351). As a response to last year's state Senate Post Audit and Oversight Committee study (#2250), which outlined numerous problems in the home inspection industry, this bill, filed by Senator Cheryl Jacques, would require the state to establish licensing procedure for home inspectors.

Together, these proposals will give cities and towns increasing flexibility in identifying and managing development issues as well as encourage private development efforts.

Description of Legislation

H. 2635 Commonwealth Zones

PURPOSE: Encourage (1) economic development and job creation and (2) the development of abandoned or underused industrial sites by waiving all state and city property and income taxes for municipally-designated sites.

DESCRIPTION: Areas designated as Commonwealth Zones are typically declining or abandoned industrial areas where incentives for development are extremely low and which are not currently generating revenues. These tax incentives will be for a limited duration and front-loaded to encourage rapid development. In addition to bringing economic opportunities and investments, Commonwealth Zones can be used to encourage the improvement of residential housing stock, since owners must bring buildings up to code to take advantage of property tax waivers. In the state of Michigan, where the concept was introduced, the program has resulted in 76 completed projects with investments of almost $200 million and has created over 4,500 new jobs over the past 18 months.

This legislation would:

- allow municipalities to designate eligible sites within their boundaries as “Commonwealth Zones” and waive local property taxes for these areas
- allow the state to waive state income and property taxes for designated “Commonwealth Zones”
- establish a state board for managing approval process

BUDGET IMPACT: When used for job creation, the state will realize a net gain per job of $855.46 for manufacturing and $38.38 for service industry jobs. When used to create affordable housing, the cost impact to the state varies with the value of the unit, but in all instances is *substantially* less than if the state provided a direct subsidy to build housing.

(See Appendix A for a more detailed financial analysis of the fiscal impact of Commonwealth Zone legislation.)

H. 3780 Investment Tax Credit

PURPOSE: To continue the current Investment Tax Credit for manufacturers, which is due to expire 7/99.

This legislation would:

- extend the current 3% Investment Tax Credit permanently

BUDGET IMPACT: Estimated to be equal to previous year's tax expenditure of $31 million.

H. 1512 "Low Dough": Reduced Interest Rate Loans for Local Development or Affordable Housing Projects

PURPOSE: To provide a pool of state dollars to be used to match funds provided or leveraged by local redevelopment authorities to reduce the interest rates on commercial loans to small business and manufacturers or to create affordable housing.

DESCRIPTION: Under this program, both the state and local redevelopment authorities will together invest a sum equal to the loan principal of a commercially-approved loan in a certificate of deposit with the lender. The interest from the CD is used to reduce the interest rate of the loan. At the end of the term of the loan, the CD is sold and the funds returned to both the state and the redevelopment authority or economic development and industrial corporation, where it can be used for additional such investments.

This legislation would:

- authorize $5 million to create a state funding pool for matching local contributions
- encourage projects such as: (1) the utilization of abandoned property, brownfields sites or sites in an Empowerment Zone, Enterprise Zone, or Economic opportunity Area, (2) the creation of new jobs, (3) the building of affordable housing units, or (4) other specified economic development or employment criteria as defined by each redevelopment authority or economic development and industrial corporation
- participation is a local option and the source of financing is to be determined by each redevelopment authority or economic development and industrial corporation

This program is based on a similar program in Springfield, Ohio and was a finalist in Harvard's Kennedy School of Government's "Innovations in American Government" award program.

BUDGET IMPACT: Very low cost program. State and city administrative costs are limited to in-kind processing. Real costs are limited to the loss of interest income on investments. Any such cost to the state or cities, however, would be recouped by the taxes generated by new jobs and investment.

H. 2559 Enterprise Zone Enhancement Act

PURPOSE: An omnibus bill to enhance the state's current Economic Development Law (Chapter 19) and to further encourage job growth and economic development in Economic Opportunity Areas.

This legislation would:

- *promote and expand participation in Zone.* Augments current activity in designated Empowerment Zones, Enhanced Enterprise Communities, or Enterprise Communities across the state. Includes matching funds for eligible activities, seed money for new group purchasing organizations, and set asides for various education, training, and economic development projects.
- *expand education and job training opportunities in Zone.* Includes set-asides and priority funding for education, School-to-Work, and job training programs.
- *provide additional tax incentives to Zone businesses and employers.* Includes new sales tax exemptions, corporate tax credits, and new job tax credits.
- *reimburse Zone communities for a percentage of tax abatements.* Reimburses communities 50% of property taxes abated for certified projects in Zone.
- *provide a tax credit for donations of new computer equipment to Zone schools and families.* Includes a 5% corporate tax credit for donating state-of-the art computer equipment and computer training to schools or community-based agencies for either in-school use or for distribution to parents of school-age children.

BUDGET IMPACT: The bill proposes an overall cap of $50 million on the tax incentives and additional revenues provided. However, it is estimated that the package will generate $45 million in new income and sales tax revenues as well as nearly $725 million in new earnings.

(See Appendix B for a detailed listing of the sections of H.2559 and Appendix C for further information on its fiscal impacts.)

H. 2528 Allow Education and Training to Meet Work or Community Service Requirements

PURPOSE: to allow the regular attendance at an approved educational or job training program to count towards the mandatory work or community service required by federal welfare reform legislation.

DESCRIPTION: Welfare recipients often have significant barriers to employment, such as a lack of high school diploma, reading or math levels below an eighth grade equivalent, or lack of job skills. Good job training or job-related educational programs can go far toward remedying these needs and helping individuals get off welfare and into the workforce. Effective training programs can result in higher placement rates and salaries for welfare recipients moving into the workplace. However, state work or community service requirements can make participation in such programs difficult. By counting participation in approved job training or education programs towards these requirements, those who make the effort to get themselves off welfare need not choose between training and continuing their benefits.

This legislation would:

- allow individuals who had been assessed by the state as having one or more significant barriers to employment to count their job training or educational program attendance towards their community service requirements

BUDGET IMPACT: no new appropriations are requested. The small cost attached to paying benefits for a slightly longer period is offset by the taxes produced by the trainees' higher earning potential once employed. Current federal funding levels are sufficient to cover costs.

H. 2359 Grant Limited Benefit Extensions to Recipients Enrolled in Approved Education or Job Training Programs

PURPOSE: To ensure that welfare recipients participating in approved job training or education programs will not lose their benefits if their training continues past the two year benefit limit.

DESCRIPTION: Federal law limits welfare benefits to two contiguous years (five years over a lifetime). Current recipients who are enrolled in approved job training or educational programs can find themselves in a difficult situation if their benefits expire before they have finished their training. Needing income in order to support their families, they are faced with leaving the program before they have completed their training. By granting short-term benefit extensions of up to one year for those who are enrolled in an approved program, these individuals are able to complete their training and provide themselves with skills for long-term economic security.

This legislation would:

- grant benefit extensions for welfare recipients who are participating in approved training or education programs.
- limit extensions to one year or less.
- require that those programs have job placement as an outcome, ensuring that extension recipients are those who are training or learning to find a job.

BUDGET IMPACT: no new appropriations are requested. The small cost attached to paying benefits for a slightly longer period is offset by the taxes produced by the trainees' higher earning potential once employed. Current federal funding levels are sufficient to cover these costs.

H. 2530 Require Distribution of State Job Training Funds to Recognize Municipal Caseload Size

PURPOSE: To ensure that the state Massachusetts Department of Transitional Assistance (DTA) allocates job training funds to municipalities in a way that reflects the size and needs of a municipality's caseload.

DESCRIPTION: Block grant funds for job training are allocated to municipalities by the DTA. Current law does not specify the criteria which the DTA must use in making allocations. The formula which the DTA has adopted does not necessarily meet the costs of urban areas with a large number of high-need clients. Large urban areas like Boston or Worcester have a higher percentage of welfare recipients with one or more significant barriers to employment (i.e., lack of high school diploma or limited English proficiency) than do most suburban communities. In order to serve their clients and provide them with the skills needed for employment, such areas serve a larger client base and provide a greater number of services than communities with smaller or more heterogeneous caseloads.

This legislation would:

- require the Department of Transitional Assistance to review funding allocation policy and promulgate regulations which take into account the larger caseloads and higher training needs of urban areas.

BUDGET IMPACT: None

H. 2634 Child Care Tax Credit

PURPOSE: to assist parents in meeting the high costs of child care by enacting a state child care tax credit.

DESCRIPTION: this tax credit is patterned after the federal child care tax credit.

This legislation would:

- provide a tax credit for incurred child care expenses.
- amount of credit is $480 for one child and $960 for two or more children

BUDGET IMPACT: If substituted for current child care deduction, revenue losses are estimated at approximately $45 million.

H. 4121 Long Wharf Improvements

PURPOSE: To make it possible for the Department of Environmental Management (DEM) to authorize the Boston Redevelopment Authority to spend the interest accrued on money released to them for improvements on Long Wharf as required by the Department of Environmental Protection.

DESCRIPTION: The current statute does not allow the DEM to expend accrued interest, which could be used towards economic development activities such as renovation and maintenance costs for Long Wharf. The Department of Environmental Management supports this change.

The legislation would:

- amend Section 19A of Chapter 589 of the Acts of 1983 to allow such expenditure.

BUDGET IMPACT: None.

H. 2377 Amendment to Commercial Area Revitalization District (CARD) Statute

PURPOSE: To Amend Chapter 40D to give the City the same financing tools as the state to finance non-profit organizations and Main Streets districts within the City.

This legislation would:
- make non-profit organizations eligible for tax exempt financing from the City of Boston.
- give Boston's financing authority (BIDFA) the option to take right of first refusal for financing applications within its jurisdiction.
- make Main Streets programs eligible for CARD designation.

BUDGET IMPACT: None

H. 2558 City Oversight of Large Development Projects

PURPOSE: To allow municipalities to apply their own planning and zoning standards to major state development projects within their boundaries.

This legislation would:
- require that the construction or occupancy of a building in connection with a public project will be subject to both the state building code and all other local building, fire, garage, health or zoning codes in the city or town where the project is located.

BUDGET IMPACT: None

Description of Legislation Filed by Others And Supported by the BRA

H. 4050 Underground Storage Tank Trust Fund

Sponsored by the City of Boston's Environment Department

PURPOSE: To make additional funds available to municipalities for the cleanup of abandoned underground storage tanks.

DESCRIPTION: The Massachusetts Department of Revenue (DOR) currently administers the Municipal Reimbursement Program, which has an annual budget of $2 million per year, funded by the petroleum products industry. As currently structured, however, the program is a "one size fits all" approach which does not adequately address the needs of large municipalities like Boston, with thousands of abandoned tanks, or allow for all available funds to be distributed. Each municipality is allowed funds to clean-up only one site per year. Municipalities may not apply for more, even if funds remain after awarding money to all the communities which ask for funding. Finally, grants are not approved until after municipalities have done the work, which can make payment scheduling difficult.

This legislation would:

- remove the limitation of one tank per municipality.
- allocate funds based on the amount of gasoline sold in a municipality (fees paid to fund are based on this).
- allow the program to make grants up to its annually authorized limits.
- move the payment schedule closer to the granting of a contract for tank removal or replacement.

BUDGET IMPACT: No cost. The legislation asks that the program be restructured to allow existing funds to be used. The program has existed since 1992 with a $2 million per year budget; to date the DOR has spent $3 million.

H. 2638 Tax Credit Flexibility Act

Sponsored by the City of Boston's Environment Department

PURPOSE: To increase the use of the state's existing brownfields tax credit by allowing eligible credits to be transferable for up to 75% of the original credit.

DESCRIPTION: The new brownfields tax credit acts as an investment incentive for larger developers with large tax liabilities. This proposal is aimed at smaller companies or nonprofit organizations which do not have sufficient tax liability to take advantage of it. This can provide an important source of funding for further redevelopment. Because the legislation restricts its transfer to those already eligible, it ensures that those responsible for the contamination cannot take advantage of this option. Moreover, because the legislation does not specify the tax credits towards which it can be applied, it broadens the likelihood of finding eligible purchasers; existing credits include those for lead abatement or employer hiring incentives in Economic Opportunity Areas (EOAs).

In addition to encouraging brownfields cleanup, this legislation can serve as a pilot to test the feasibility of establishing a market for other recognized but underused tax credits.

The legislation would:

- allow the transfer of brownfields tax credits at up to 75% of their value.
- restrict transfer to individuals or businesses already eligible for existing state tax credits.
- allows tax credit transfers only for successful cleanups.

BUDGET IMPACT: No new appropriation required. Tax expenditures were anticipated when the tax credit was enacted in 1998.

S. 351 State Licensing of Home Inspectors

Introduced by Senator Cheryl A. Jacques (D-Attleboro)

PURPOSE: To establish a state oversight system for the licensing of the home inspection industry.

DESCRIPTION: The home inspection industry in the state is currently self-regulating. There are no standard codes of practice, oversight mechanisms, or licensing requirements, nor are inspectors required to carry any insurance. Potential conflicts of interest also exist between real estate brokers and inspectors. Last year, the state's Senate Post Audit and Oversight Committee reported on these issues and the resulting difficulties and the lack of consumer protection for home buyers. The Senate report recommended a number of reforms, most of which have been incorporated into this bill.

This legislation would:

- require state home inspectors to be licensed and establish qualifications for licenses.
- establish a licensing board to issue licenses, investigate consumer complaints, resolve disputes, and establish a code of ethics.
- require home inspectors to carry errors and omissions insurance or to post a bond prior to obtaining licenses.
- prohibits real estate brokers from recommending specific inspectors.
- require the licensing board to make available to the public the names of qualified inspectors and to publish consumer information on home inspections.

BUDGET IMPACT: Costs to state are primarily administrative and licensing fees could cover costs of administration.

Appendices

A. Financial Impact of Commonwealth Zone Legislation
B. Summary of H.2559, Enterprise Zone Enhancement Act
C. H2559: Potential Impact on the State Treasury and Payback Periods

Appendix A

H.2635: Financial Impact of Commonwealth Zone Legislation

Job Creation

Businesses moving or expanding into designated Commonwealth Zones will realize significant savings in corporate income, excise and property taxes. At the same time, because of new jobs created by the businesses, the state will see a net gain through personal income taxes generated.

In the examples shown below, for each job created, the state will realize a net gain of $855.46 or $38.38 depending on the industry. In manufacturing, for example, the state gives up $20.24 in corporate taxes for every job created. In addition, based upon the reimbursement provisions in the act[1], the state would reimburse $1022.30 to a city or town for property taxes lost. Personal income taxes, however, return $1,898.00 to the state treasury for a net gain of $855.46 to the state. The amounts for services follow the same pattern as manufacturing but service jobs return less money ($38.38) to the state.[2]

State Impact (per job)

State Impact (per job)		
Fiscal Impact	**Manufacturing**	**Services**
State Expenditures		
State Corporate Taxes Waived	$ 20.24	$ 24.74
Reimbursement to Community	1,022.30	1,277.88
Total State Expenditures	$1,042.54	$1,302.62
Personal Income Taxes Paid to State	$1,898.00	$1,341.00
Net Gain to State Treasury	$ 855.46	$ 38.38

City / Town Impact (per job)

For cities and towns, the result is a net loss in property taxes, though that loss is tempered by the reimbursement provided by the state. In manufacturing, for

[1] Assumes that legislation will limit state reimbursement to municipalities to that for schools and libraries.
[2] Both examples cited above assume that the employees in the newly created jobs do not live in the Commonwealth Zone and therefore will pay personal income taxes on their earnings. If employees did live in the Commonwealth Zone, they would not pay personal income taxes and the result would be a net loss to the state.

example, a city like Boston would give up $1,481.60 in property taxes for every job created. After reimbursement by the state, that loss would be reduced to $459.20. The loss for service jobs would be greater than manufacturing because of the higher property taxes derived from commercial real estate such as office buildings and hotels.

City/Town Impact (per job)		
Fiscal Impact	**Manufacturing**	**Service**
City/Town Property Taxes Waived [a]	$1,481.50	$1,852.00
Reimbursement to Community	1,022.30	1,277.88
Net Cost (Loss) to City or Town	($ 459.20)	($ 574.12)
[a] Based upon Boston's current tax rate of $37.04 per $1000 of valuation and average SF of space required per job in industries cited.		

New Housing

For some cities and towns, a shortage of affordable housing is a serious impediment to economic growth. Others face the costs associated with blighted housing stock that make it difficult to attract new business and residents. The tax benefits from building new or rehabbing older housing units in Commonwealth Zones will be an attractive incentive for private developers to invest in housing and for people to live there. This will be especially true for owners who wish to reside on their property, since they will be eligible for both income tax and property tax waivers. While it is true that both the state and municipalities would see a net loss from forgone revenue for new housing, this approach represents a new way to subsidize affordable housing in an era when federal, state and local subsidies are already over subscribed.

Below are the costs and benefits associated with typical housing units for three family income brackets.

<u>Affordability Analysis</u> (per unit)

Housing is made affordable because the freedom from income taxes pays for about two months rent for each tenant. In the scenarios below, savings for market rate, moderate income, and low income tenants (based upon HUD guidelines) are shown. The landlord receives the gross monthly rent from the tenant, in this case an average of $1,738. After income tax savings, the tenant is actually paying significantly less – on average $1,430 - resulting in an average monthly savings of $308. The monthly savings range from $459 for market rate tenants to $112 for low income tenants.

Affordability Analysis (per unit)				
	Market	**Moderate**	**Low**	**Average** [a]
Family income	$100,000	$48,000	$30,000	$69,500
Gross monthly rent [b]	2,500	1,200	750	1,738
Annual income tax savings [c]	5,504	2,410	1,339	3,689
Net monthly rent after income tax savings	2,041	999	638	1,430
Monthly savings	$ 459	$ 201	$ 112	$ 308

[a] Assuming that 50% of the units in a development are market rate, 25% are moderate, and 25% are low.
[b] Rent is set at 30% of gross monthly household income.
[c] Annual tax savings represent income tax at specified income and $7,500 in personal exemptions (the average of single and married joint returns.)

State and City / Town Impact (per unit)

The production of affordable housing has always been a costly undertaking for state and local government. The next two analyses (state and local impact) show that both the state and city or town would have to give up tax revenue income under this plan, essentially creating a new subsidy for affordable housing. For the state, the loss in personal income taxes would amount to $5,930 for the typical unit, with a range from $1,970 for the low income unit to $7,554 for a market rate one.

State Impact (per unit)				
	Market	**Moderate**	**Low**	**Average** [a]
Family income	$100,000	$48,000	$30,000	$69,500
Annual income tax savings available for consumer spending	5,504	2,410	1,339	3,689
Sales tax generated from spending annual savings [b]	275	120	67	184
Reimbursement to community	2,325	1,116	698	1,616
Net annual cost (loss) to state	($ 7,554)	($ 3,406)	($ 1,970)	($ 5,121)

[a] Assuming that 50% of the units in a development are market rate, 25% are moderate, and 25% are low.
[b] Assuming that all of the savings is available for discretionary spending.

As shown below, cities and towns would also sacrifice property tax revenues, though the impact would not be as much as the state's. Typically, Boston would lose $719 in property taxes per unit. The range would be from $310 for a low income unit to a high of $1,035 for a market rate unit.

City/Town Impact (per unit)				
	Market	**Moderate**	**Low**	**Average** [a]
Family income	$100,000	$48,000	$30,000	$69,500
Annual property tax savings [b] to owner	$3,360	$1,613	$1,008	$2,335
Reimbursement to community	2,325	1,116	698	1,616
Net annual cost (loss) to city	($1,035)	($ 497)	($ 310)	($ 719)

[a] Assuming that 50% of the units in a development are market rate, 25% are moderate, and 25% are low.
[b] Based upon units built at a cost of 100 times the gross monthly rent, and applying Boston's FY99 tax rate of $13.44 per $1,000 of value.

Building affordable housing is becoming a major issue for the state and its communities. Subsidies are not as readily available as in the past. This approach provides a new subsidy as an additional incentive for developers to build affordable housing. In addition, the $2,335 (average) in taxes being forgiven every year, if capitalized at a discount rate of 8%, would equal a net present value of $29,182, providing a 16.8% incentive to the developer to provide this housing at the desired location and configuration. Further, if built by a corporation located in the zone, the profits from the housing would also be free from state corporate taxes.

The new subsidy available under this new approach can readily leverage the traditional subsidies and allow them to work more efficiently. For example, a subsidized two bedroom apartment for low income residents costs about $200,000 to build. Federal, state and local subsidies (currently as much as $80,000, with up to $60,000 from state and local government) to make the units affordable are already stretched thin. Under the Commonwealth Zone approach, an additional subsidy of $2,280 ($1,970 income tax revenue from the state and $310 property tax revenue from the city) per year would become available for the life of the Zone. If the Zone has a 10 year life, as proposed, a new government subsidy of $22,800 is made available. This new subsidy can be of significant help in closing the gap that is always present in financing affordable housing.

Keep in mind that all costs will revert to a net **gain** when the life span of the Commonwealth Zone ends. Further, these analyses do not include expected increases in revenue generated immediately from other sources, such as sales taxes on spending by new workers in the Zone areas or increased property values in adjacent properties and neighborhoods to where new housing is constructed or renovated.

Appendix B: Summary of H. 2559

ENTERPRISE ZONE ENHANCEMENT ACT	
PURPOSE: An omnibus bill to enhance the state's current Economic Development Law (Chapter 19) and to further encourage job growth and economic development in Economic Opportunity Areas.	
Section	**Description**
1 and **2**. Enhanced EOA legislation.	Amend the state's current enterprise zone law and other tax laws to provide matching grants, seed money for new group purchasing organizations, and set-asides or priority in existing state economic and community development funding to existing federal Empowerment Zones or Enterprise Communities.
3. Include 121A as a qualified incentive under CH19.	Amend CH23A as reflected in CH19 to permit 121A designation to qualify as an acceptable municipal tax incentive in a certified project in an EOA.
4. Reimburse property taxes abated in EOAs.	Reimbursement of 50% of property taxes to communities for taxes abated or reduced for "certified projects" in an EOA whether abatements or reductions are through Ch. 121A or state abatement programs.
5 and **6**. $3,000 new job tax credit.	A new $3,000 corporate tax credit (maximum of 20% of the first $15,000 in wages) for each new job created by a "certified project" in an EOA in which an EOA resident is employed. This credit is similar to the federal EOA benefit.
7. Tax credit for donations of new computers	A new 5% tax credit for donations of new state-of-the-art computers, software or instructional equipment to schools or community based agencies in EOAs for either in-school, in-agency, or at-home use. The firm donating the computers or equipment must agree to work with the schools or agencies in training staff and parents in the use of the computers.
8. 1% tax credit for new business with EOA company.	A new 1% corporate tax credit given to a corporation for every million dollar increase in business for goods and services that any Massachusetts firm purchases from a "certified project" firm in the EOA, if new jobs are created (up to a maximum of $50,000 credit annually, for a period of 10 years.)
9. Exempt sales tax on construction materials in an EOA	Exemption from sales taxes on construction materials and equipment during the initial buildout and start-up of a "certified project" **-** either a new business or expansion of an existing business **-** that will create new jobs in the EOA.
10. Sales tax free zones	Sales tax free areas located within EOAs that are free of sales taxes to consumers in designated retail stores. This legislation is designed especially to attract retailers of "big ticket items" such as autos and appliances. This exemption is granted only to "certified projects" as defined by state law where a substantial number of new jobs are created, and only if at least 75% of employees of retail entities are EOA residents as determined during the certification process.
11-14. Tax credit voucher incentive.	This legislation represents a creative alternative to a menu of tax incentives found in existing laws. Under this legislation, the State establishes a pool of tax credits (e.g., $50 million) to be distributed to cities and towns. The State then distributes state tax credit vouchers to cities and towns for use as an economic development incentive. Vouchers are distributed to "certified projects" based upon specific criteria determined by the local community. The value of the voucher pool for a community will be determined using the same proportions used to distribute local aid. A reasonable minimum threshold of incentive amounts should be established for small communities.
BUDGET IMPACT: The bill proposes an overall cap of $50 million on the tax incentives and additional revenues provided. However, it is estimated that the package will generate $45 million in new income and sales tax revenues as well as nearly $725 million in new earnings.	

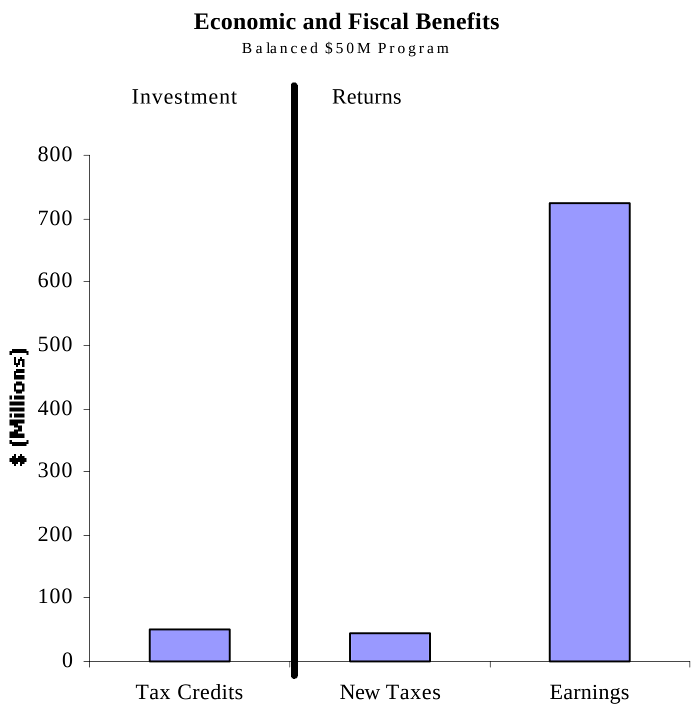
Appendix C:

H. 2559: POTENTIAL IMPACT ON STATE TREASURY AND PAYBACK PERIODS[3]

This legislative proposal is not only good public policy but it make good economic sense. **Nearly every section of the legislation more than pays for itself in a very short time.**

As shown in Figure 1, there is a enormous return on the investment made by providing the tax credits. If all $50 million in credits were to be used in a balanced way as described earlier, the **payback** would result in **$44.7 million** in tax revenues from the **$724.5** million in new earnings from the new jobs created - $36.4 million coming from personal income taxes and $8.3 million from sales taxes on new spending associated with the salaries. Much of this tax revenue would recur annually while the tax credits would be given only once, resulting in a continuing gain for the Commonwealth, as in the case of the $3,000 job credit.

Figure 1



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[3] Excerpted from *Creating Jobs: The Impact of the Legislative Package Proposed by the City of Boston to Provide Economic Opportunities in Cities and Towns Across Massachusetts*. Boston Redevelopment Authority, Policy Development and Research. Publication 508 (May 1997).

Each new job created as the result of the new $3,000 tax credit, for example, would repay its cost of the credit within $18^{1/2}$ months through personal income taxes on earned income and sales taxes on the spending of that income. Each job created as a result of the sales tax exemption on goods and/or services purchased from designated businesses would repay the cost of the exemption within nine months.

The following are estimates of the potential cost and payback periods for each of the section of the bill:

Sections 1-2. Additional appropriation for Economic Opportunity Areas.

In addition to designating Economic Opportunity Areas for priority in the allocation of state funding for economic and community development and job training, the sixth legislative proposal calls for $14.5 million in new state spending in the following areas:

- $3 million each for each of the four federally designated Enhanced Enterprise Communities, or Enterprise Communities across the state (a total of $12 million).

- five grants of $100,000 each for a new or existing organizations in Economic Opportunity areas to engage in group purchasing for materials, supplies, technology, telecommunications, and insurance (including health and workers compensation).

Section 2. Allowing Chapter 121A projects to qualify for incentives.

This is only a technical amendment. There is no fiscal impact on the state. The impact is only on Boston or other cities that give up local taxes. Boston currently uses 121A designation as a payment in lieu of taxes for economic development purposes

Section 4. Reimbursing cities and towns for a portion of the property taxes abated.

Currently, the money lost to the state through tax credits and deductions tends to be significantly less than the revenues lost to the cities and towns through the reduced property tax.

According to the Massachusetts Department of Revenue, property taxes represent on average 51.4% of the revenues used by cities and towns to pay for the services they provide. Corporate excise taxes on the state level, however, represent only 7.3% of the state's total tax revenues. Thus the impact of reduced property taxes is felt more deeply in a local community's budget than the impact of reduced corporate excise taxes on the state's budget.

HB2430 addresses these inequities by asking the state to join the city or town as a 50-50 partner by reimbursing the community for half of the property taxes it loses because of any property tax incentive granted under chapter 19.

A typical example is given below and shown in the following exhibit.

In Boston, a firm expanding into the recently established Economic Opportunity Area was granted a special tax assessment under chapter 19. This special assessment reduces the taxes over a five year period - so the company pays as follows:

> 0% in year 1, 25% in year 2, 50% in year 3, 75% in year 4,
> and 100% in year 5.

The total amount of taxes lost to the city of Boston is nearly $280,000.

On the other hand, the state will grant this same firm a 5% tax credit on approximately $1.2 million in physical improvements - giving up about $58,000. The state will grant the company an additional 10% deduction - worth about $11,000 in corporate tax savings - on the renovation costs because it is rehabilitating an abandoned building. Together these total about $69,000.

EXHIBIT

A. City Property Tax Incentive Granted:

Fiscal Year	Tax Due	Tax Paid	Tax Foregone
1997	$108,136	0 (0%)	$108,136
1998	$111,921	$27,980 (25%)	$ 83,941
1999	$115,838	$57,919 (50%)	$ 57,919
2000	$119,892	$89,919 (75%)	$ 29,973
2001	$124,089	$124,089 (100%)	
Totals	$579,876	$299,907	**$279,969**

B. State Corporate Excise Tax Incentives Granted:

Tangible, Depreciable Investment	Amount of Investment	Value of 5% Tax Credit	Value of 10% Deduction	Total Value of Incentives
Building	$1,117,200	$55,860	$11,172	$67.032
Equipment	$ 33,900	$ 1,695	$ 339	$ 2,034
Totals	$1,115,100	$57,555	$11,511	**$69,066**

C. Difference Between City and State Incentives:

Total City Incentive	$279,969
Total State Incentive	$ 69,066
Difference	**$210,903**

Thus, Boston will give up about $211,000 more than the state in tax revenues to support the same company and keep the same jobs.

While the city and the state will both benefit in the years to come (the state through increased payroll and corporate excise taxes and the city from increased property taxes), the city bears the greater expense and has the longer payback period. This is especially true when tax increment financing is used and the property tax relief period can stretch out to as far as 20 years.

Across the state, cities and towns will forego all or some of their property taxes on these projects for between 5 to 20 years. The state, on the other hand, will give up its tax credits or deductions only once and will begin to make up the loss almost immediately through increased payroll taxes.

HB2430 more equitably distributes the tax relief incentives granted under chapter 19 between the state and its cities and towns. It seeks only fairness by asking the state to become a 50-50 partner with the local community by reimbursing half of the property taxes lost to a community using a Chapter 19 property tax incentive. In doing so, the amendment will make Chapter 19 an even more useful tool to attract and keep jobs in the commonwealth.

Sections 5-6. $3,000 tax credit for job creation

HB2592 provides a tax credit of up to $3,000 (or 20% of annual pay for jobs paying less than $15,000) to a “certified project” within an EOA **for each permanent full time job** created for an EOA resident. As each new permanent full-time job is created for residents of an economic opportunity area, the state immediately begins to earn a return on its investment (see below).

According to the U.S. Department of Commerce, Bureau of Census, the average Massachusetts job paid $29,057 in 1994. Since then, wages have generally kept up with or exceeded inflation, which was 9.25% (Jan. 1994 - Jan. 1997, Boston Metro CPI), so that wages now average an estimated $31,745 in 1997. With an effective state tax rate of 5.02%, that job would yield $1,594 in Massachusetts income tax. According to the Consumer Expenditure Survey of the Boston area conducted by the US Bureau of Labor Statistics, approximately 23% of Boston area households’ gross pay is expended on items subject to the 5% state sales tax. Therefore, each job would produce $365 in sales tax for a total tax yield to the state of $1,959 for each job. Over the five-year recapture period, each job would produce $7,968.

Average salary in Massachusetts	$31,745
Tax credit	$3,000
Personal income taxes paid on new salary	$ 1,594
Sales tax revenue generated by new salary	$ 365
Total paid back to State in one year	$ 1,959

If this action increases total employment within the state by encouraging businesses to provide training and experience to members of the labor force who are residents of an EOA and who otherwise would not have the opportunity to attain the skills needed to participate fully in the economy, then an additional fiscal benefit would take place resulting in the program benefits exceeding its costs. Even if total state employment were not increased by the skills-improving aspect of this program, the state would benefit from the private provision of training and experience to workers who might otherwise need state support.

At this rate, each job would repay the state's $3,000 tax credit within eighteen and one half months. Although $50 million of tax credits applied entirely to this program would produce 16,667 jobs, only 5,105 net new average jobs would be needed for the entire total of $50 million in tax credits to be repaid within five years.

Section 7. Providing a tax credit for donations of new computer equipment and software to schools.

Everyone agrees that an understanding of and ability to use technology must be part of every student's education today. The government understands that every investment in education technology returns a dividend. The recently passed National Technology Bill is an example of the federal government's willingness to invest. Massachusetts' $30 million School Technology Bill is an example at the state level.

This bill is an attempt to encourage an investment by the private sector, which itself has much to gain from a computer literate workforce. In the process, the state and local government realize a financial dividend as well.

With new computers costing an average of $2,500, a company donating 10 such units under this legislation stands to gain $1,250. This same amount would also be subtracted in corporate tax revenue to the state. But that loss of revenue to the state would be more than offset by the value of the donation, since approximately half of every local school budget is funded by the state.

Thus, every outlay of $1,250 in tax credits, through which schools gain equipment worth $25,000, produces a net gain of $23,750, or budget savings of $11,750 each for the local city or town and the state.

Section 8. Tax credit for goods and/or services purchased from designated businesses located in Economic Opportunity Areas.

More sales by businesses in an EOA means more jobs. In the services sector, Massachusetts businesses provide 14.0 jobs for each million dollars in business receipts and 9.85 jobs for each million dollars in retail receipts (1992 Census of Services and Census of Retail Trade, Massachusetts, US Dept. of Commerce, Bureau of Census). Each $1,000 of tax credit would therefore produce 1.4 jobs in the services sector, or 1.0 job in the retail sector. This is a modest cost for strengthening the economy within an EOA and increasing local employment. These jobs pay an average of $27,133 in the services sector and $15,164 in retail, so that $1,000 of tax credit would lead to $37,986 (1.4 jobs) or $15,164 (1.0 jobs) of earned income in services or retail sectors, respectively, and $1,907 or $761 of annual Massachusetts personal income tax collections (see below).

With an equal mix of retail and service purchases by businesses receiving tax credits, the cost of the credits would be repaid within eight months by the income tax *payments of new workers alone. The additional sales tax revenues also generated by the spending of these new workers would shorten the payback period to about 6 months.*

Average salary - Retail sector job	$15,164
Average salary - Service sector job	$27,133
Mass. personal income taxes paid in one year-	
1.0 retail sector job	$ 761
1.0 services sector job	$ 1,362
1.4 services sector job	$ 1,907

Section 9. Sales tax exemption on construction materials.

Materials represent about 40% of total construction costs for new construction projects monitored by the US Dept. of Labor, Bureau of Labor Statistics (Robert Ball, Monthly Labor Review, Dec. 1981 and subsequent articles). Exempting this 40% of costs from the 5% sales tax would represent a tax expenditure equal to 2% of total costs. This would provide a significant incentive to renovate abandoned buildings when added to or in place of the value of the 10% deduction now on the books. (This 10% deduction, when applied to the 9.5% Massachusetts corporate tax, is equivalent to a 1% tax credit.) Renovation projects, on the other hand, will generally involve more labor and less materials, so that costs will be lower, and payoffs greater than illustrated here.

The proposed sales tax exemption would be “up front” money that would be especially valuable to small or new developers. This incentive would also contribute to the feasibility of such renovation projects by reducing the present financing requirements of the project as a tax credit in the future cannot.

This tax exemption can also help create jobs. Every $2,818 of sales taxes foregone would stimulate $140,886 of abandoned building renovation, and this in turn would produce one typical construction industry job paying $35,222 throughout the year (County Business Patterns, Massachusetts 1994, US Dept. of Commerce) and paying $1,768 in state income taxes. This private investment in abandoned building renovation would also restore between 1,000 and 2,000 square feet of quality commercial space to productive use, accommodating between 2 and 10 permanent jobs.

Average salary - Construction job	$35,222
Average salary - Typical Mass. job	$31,745
Mass. personal income taxes paid in one year-	
Construction job	$ 1,768
Typical Mass. job	$ 1,594

After the construction worker income taxes are netted out from the cost of this tax credit, income taxes from just one net new permanent job in each company would pay for the remaining tax credit cost in about eight months. As above, the additional *sales tax revenues also generated by the spending of these new workers would shorten the payback period to just 6.4 months.*

Section 10. Sales tax exemption on retail goods purchased in designated areas.

The states gains from increased economic activity most directly from increased income tax revenue and sales tax revenue. But it gains far more from the former than the latter. While the idea of forgoing sales tax revenue to increase the gains that come to the state from economic development might seem counter intuitive, if it can promote economic activity that might otherwise not take place, it can be argued that receiving 80% of something is better than 100% of nothing.

The retail area is one example. Every million dollars worth of retail sales, which generates $50,000 in sales tax revenue also generates approximately 10 retail jobs. The average payroll for these jobs in Boston is estimated at $15,164 (average, all jobs, full time and part time.) (1992 Census of Retail Trade, adjusted to 1997 level with the Boston area CPI.) The average annual Massachusetts income taxes on these earnings is estimated at $761 and the sales tax generated an additional $174 for a total of $935 from each worker.

Thus, every million in goods sold in these tax free zones generates $9,350 in new state income tax revenues. While this might seem to be a net loss to the state of $40,650, it can be argued that the money saved by the state by not having to provide unemployment benefits, welfare or job training to these 10 individuals makes the program at best cost effective and at worst cost neutral.

Sections 11-14. Establishing a tax incentive voucher program for cities and towns.

As far as the proposed $50 million cap is concerned, this represents about one 360th of the total state budget proposed recently, or about one average day's spending in that budget. $50 million also represents only about 1/3 of 1 percent of the state's total tax revenue.

Based upon an average salary of $31,745 in Massachusetts (1997 estimate), the creation of 5,105 new jobs at the state's average salary would completely repay the $50 million in credits within five years.