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## Testimony of the Boston Municipal Research Bureau

Before the

Joint Committee on Economic Development and Emerging Technologies

July 11, 2006

### **Regarding: House Bill 5111 – Economic Development**

Senate Chairman Hart, House Chairman Bosley and members of the Committee, my name is Samuel R. Tyler, President of the Boston Municipal Research Bureau, and I am here to testify in support of House Bill. 5111. As you know, H5111 is a bill to encourage economic development in Massachusetts by providing public support of infrastructure improvements for projects that create net new jobs in the state.

The Boston Municipal Research Bureau is a business supported nonprofit organization established to provide independent and objective analysis of financial and public policy issues for the purpose of promoting efficient and responsible government in the City of Boston. We have reviewed this bill with a group of Bureau Directors with expertise in real estate and development and have concluded that this bill would serve a useful purpose in Boston's efforts to develop sections of the city, especially in the South Boston waterfront and Fort Point Channel areas. We also believe that the development supported by this bill would meet the Commonwealth's objectives of job creation, which, in turn, would generate additional state revenue.

With the development incentive of this bill based on job creation rather than property tax relief, H5111 reflects more appropriately the current tax structure between the state and the cities and towns in Massachusetts. This bill recognizes that development that creates net new jobs will benefit the Commonwealth with additional personal income and sales tax receipts and the municipalities with additional property tax revenue. Both levels of government would share in the risks of offering a development incentive and, with careful review before approval; both would share in the benefits of the development project. The active participation of both levels of government with this development incentive would enable the state to be more competitive in efforts to recruit new businesses and expand existing businesses in Massachusetts.

A new state-local infrastructure development incentive tied to job creation rather than property tax deferral is a practical addition in this current fiscal environment. Cities and towns have had to increase their reliance on the property tax for operations over the past six years, making them more cautious about using incentives that defer property tax revenue or allocate a larger share to debt service for infrastructure.

Availability of a job creation development incentive would enable the municipalities to work with the state on projects where this approach is appropriate and to better target projects where property tax incentives such as District Improvement Financing (DIF) would work. In this fiscal year, Boston relies on the property tax for 57% of its total operating revenue. The City utilizes the full levy with no excess capacity available. With a \$2.14 billion budget, eight out of 60 budget accounts represent 86% of the total operating budget. These eight accounts are health insurance, pensions, debt service, state assessments and the four line departments of schools, police, fire and public works. Over the last five years, spending for all other city departments, in aggregate, has decreased by approximately 1%.

H5111 is a complex bill that would apply to a specific type of development in cities and towns that would create net new jobs in Massachusetts. The bill itself provides the framework for this development incentive but regulations that would be promulgated by the Commonwealth's Secretary of Administration and Finance will determine the actual application of the incentive. Use of the infrastructure incentive would require approval of both the state's Secretary of Administration and Finance and the treasurer of the local community after a series of steps described in the bill are fulfilled. This approach follows the format utilized successfully in legislation creating the Boston Convention and Exhibition Center in South Boston.

Based on the information available, we believe that adequate procedures will exist to insure that both the Commonwealth and the local community are financially protected in executing this infrastructure incentive plan. A detailed series of steps are required to be completed for each project before final state and local acceptance is granted.

The bonds issued by MassDevelopment would not be a debt or pledge of credit of the Commonwealth but the state's agreement with MassDevelopment to provide infrastructure development assistance through its operating budget would constitute a general obligation of the Commonwealth. Funding for this obligation will come from the infrastructure assessment from the developer, new state revenues from job creation of the development and if necessary, from local infrastructure development assistance from the host community in the amount of any shortfall.

An attractive feature of this bill is that before an economic development plan is presented to the state and local community for approval, the developer must first complete the permitting process at the local level. That requirement provides strong incentive for the city and town to streamline its building permit process in order to move forward on a more timely basis with a project. The City of Boston is noted for a difficult and time consuming permitting process. While work is underway in Boston to improve its system through a greater use of technology, the benefits of this infrastructure plan will give further incentive to the City to facilitate other aspects of its total permitting process. Efforts of the state to streamline its own permitting system will be bolstered by this bill also.

In conclusion, the Research Bureau does believe that H5111 would be beneficial to the City of Boston by providing a development tool that could be utilized for anticipated projects that would generate net new jobs in Massachusetts in areas of the city in need of significant infrastructure improvements. This bill is compatible with the current state-local tax structure, meets a need for job growth incentives and would contribute to new state tax revenue or at least hold the state financially harmless. For these and other reasons described above, the Research Bureau recommends approval of this bill. We welcome the opportunity to discuss this bill further at your convenience.