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Testimony of the Boston Municipal Research Bureau
Before the
City Council's Committee on Economic Development & Planning

May 20, 2011

Regarding: Docket #0595. Message and order approving the City of Boston's application to the Massachusetts Economic Assistance Coordinating Council for Certified Project Status of the Fan Pier development project and for approval to enter into a Tax Increment Financing Agreement (TIF) regarding real estate taxes between the City and Fan Pier Development LLC.

Docket #0641. Order for City of Boston approval of the application of Fan Pier Development LLC relating to the Fan Pier Development Project under the Commonwealth's "I-Cubed" Program.

Mr. Chairman, my name is Sam Tyler, President of the Boston Municipal Research Bureau and I am here today to testify in support of Docket #0595 and Docket #0641, the TIF agreement with Vertex Pharmaceuticals and the I-Cubed application for the Fan Pier Economic Development Project.

Before deciding on this recommendation that the City of Boston should support both the TIF agreement and I-Cubed application for this project, the Research Bureau reviewed the documents presented to the Boston Redevelopment Authority (BRA) Board, the TIF guidelines prepared by the BRA and the state regulations pertaining to I-Cubed development support. From this exercise, we believe that the TIF agreement for Vertex Pharmaceuticals Inc. and the I-Cubed application for Fan Pier Development LLC would be beneficial to the City of Boston in creating a larger presence of a major life science employer in an area targeted for innovation, greatly enhance an underinvested area, expand job opportunities and significantly increase the City's tax base.

Fan Pier Development LLC is proposing to develop a 15 acre site of land that, in addition, would include six acres of water. The development would span nine city blocks and be comprised of more than 3,000,000 square feet of office space, laboratory space, residential space, ground floor retail/restaurants/cafes, a hotel, 107,000 square feet of civic and cultural space and 2,325 parking spaces. More than half of the site will be open space, including 3/4 acres of public parks and a continuous Harborwalk along the shore. Maritime facilities of the project will include a 110 slip marina and a water transportation dock. The total cost of the Fan Pier development is estimated to exceed \$3 billion. The Developer is a joint venture comprised of an affiliate of The Fallon Company LLC and Massachusetts Mutual Life Insurance Company.

Vertex Pharmaceuticals Inc. plans to combine offices in 10 different sites in Cambridge, Massachusetts into one office-laboratory complex in the Fan Pier project at a total building cost of approximately \$820.1 million. Vertex will relocate, as a tenant, to all of the office and laboratory space in two new build-to-suit buildings on Parcels A

and B of the Fan Pier Project. In December 2007, the BRA approved an amendment to the Fan Pier Planned Development Area, which allowed Research Center Use at the Fan Pier Project. Currently, the area that makes up Parcels A and B is used as surface parking lots. Both buildings to be constructed are designed to contain 16 floors of class A office and research laboratory space with ground floor retail, restaurant, cafe and other service uses. The two buildings will be interconnected by a two-story bridge at the fifth and sixth stories. The TIF space in both buildings will be leased to Vertex for an initial term of fifteen years. The project is anticipated to start about June 1, 2011 and be completed by December 31, 2013.

The project does meet the TIF guidelines adopted by the BRA as described below.

Area of the City

The City of Boston was established as an Economic Target Area (ETA) by the Commonwealth in 1996. The Fan Pier project is situated within the Crosstown/South Boston Economic Opportunity Area (EOA) making it eligible for financial aid from the Commonwealth and City by way of tax benefits and financing. The Fan Pier Development is governed by the Planned Development Area (PDA) #54 effective January 30, 2008 as amended.

Job Creation

Vertex currently employs 1,241 workers in Massachusetts which would be retained in Boston and the company expects to create approximately 500 new jobs by 2015. Of these new jobs, approximately 202 will be created in anticipation of Vertex occupying the new space in the Fan Pier Project and 298 jobs created after occupancy. In addition, the Vertex project is projected to generate between 1,600 and 2,000 construction jobs during the estimated 30-month construction period. It should be noted that there are currently no jobs on the Fan Pier site.

Priority Sectors

This project meets TIF consideration for projects involving corporate headquarters and the targeted sectors of life science services and research. The development parcels are in an underperforming area with vacant parcels and low-density development and is an area of special interest to the City. The project is in an area close to the MBTA Silver line so it is easily accessible by public transit. This development project in the South Boston Waterfront would create incentive for new and dense development in the surrounding area. Finally, the project is in an area that contains a combination of publicly and privately owned land which is of interest to the City.

Tax Base and Other Financial Benefits

The two new commercial buildings of the Vertex Project are estimated to generate \$55.1 million in new property tax revenue during the seven-year term of the TIF Plan (FY12 -FY18). Annual taxes are expected to increase to between \$16 million and \$17 million after the conclusion of the TIF agreement in fiscal 2019. Vertex will be responsible for paying all real estate taxes relating to its office and laboratory space in both buildings starting when it occupies the buildings in 2014 and thus the benefits of this TIF Plan will come solely to the company. The City will start to receive taxes from this property in fiscal 2012, which with taxes in fiscal 2013 and the first half year of fiscal 2014 will be paid by the developer at full value. Thus, the TIF tax savings for Vertex provided by the City is limited to just four years from fiscal 2015 to fiscal 2018 during which the annual incremental value increase is reduced by 25%, 25%, 20% and 15% respectively for a total tax savings of approximately \$12.1 million. It should be noted that one factor in the decision to provide a TIF agreement to Vertex is the fact that the company will be paying taxes on expansion space that is part of construction that will remain vacant until new employees are hired after occupancy.

In addition, because the two new buildings would be considered a Development Impact Project under the Boston Zoning Code, they would be subject to linkage fees. Based on today's linkage rates, the new buildings would generate approximately \$5.0 million for the Neighborhood Housing Trust and \$995,560 for the Neighborhood Jobs Trust for a total of approximately \$6.0 million.

Alternative Sites

The TIF is being sought from the City because Vertex was courted by a number of states to locate its facility with a strong package presented by the Rhode Island Office of Economic Growth and Community Development. The TIF will provide sufficient incentive for Vertex to locate its headquarters and laboratory space in Boston rather than in another state.

I-Cubed

The Fan Pier Development LLC is also seeking infrastructure support through bond funding of \$50 million under the Commonwealth's Infrastructure Investment Incentive Program (the I-Cubed Program). The infrastructure support is requested to enable the developer to provide the significant resources needed to attract and support tenants such as Vertex. The funds are sought by the developer to support the construction of the Vertex buildings and offer the firm a more competitive lease agreement to keep and expand Vertex in Massachusetts.

I-Cubed is an economic development tool that ties the Commonwealth's payment of debt service for infrastructure bonds with the increased income tax revenue generated from the creation of new jobs to the state from the development. This is an important alternative to tax incentives tied to foregoing a percentage of property tax growth for a period of time. If there is compelling evidence that the company would have relocated outside of the Commonwealth but for the I-Cubed financing, the income from existing jobs that were retained in the state can be counted. If insufficient jobs were established to fund the debt service costs in full, the gap would normally have to be made up by the City. In this case, the existing jobs at Vertex and the 500 jobs estimated to be created by the move would be sufficient to meet the debt service requirement. If for some reason a gap did exist, the developer has committed to backstop the debt payments, freeing the City from this obligation.

Infrastructure support through I-Cubed is requested to help mitigate the more expensive construction challenges posed by the site. The Fan Pier site was created by filling tidal flats in ranges of depth from 12 feet to 54 feet which requires specially designed foundations to transfer structural loads below the soil layers of fill. Each of the two buildings will require the construction of a three-level below grade parking garage to a depth of approximately 40 feet below grade. Such construction will require excavation of all of the soil materials from approximately 53% of the total land area of the Fan Pier Site. Because of the low groundwater table, each excavation will require a costly interlocking steel sheet-pile cofferdam to establish a groundwater cutoff. The installation of these cofferdams also requires the removal of heavily reinforced concrete and granite seawalls which formed the edges of the piers and the deep slips. Also, the former industrial activities on the site have left some areas at the site contaminated with hazardous materials that will need to be removed.

The project also depends on the construction of six urban streets of approximately 1.4 land miles with associated needs for sidewalks and lighting. Underground lines for sewer, water, gas, electricity and telecommunications must be installed due to the lack of utility infrastructure on the Fan Pier site.

Conclusion

In conclusion, the Research Bureau believes that the TIF and I-Cubed agreements would provide a financial benefit to the City of Boston, expand job opportunities for residents and others, strengthen the City's economic base and be a catalyst for additional development in the area. For these reasons, we recommend that the City Council approve Docket #0595 to enter into a TIF agreement with Vertex Pharmaceuticals Incorporated and Docket #0641 to support the I-Cubed agreement between the Commonwealth and Fan Pier Development LLC.