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## EVALUATION OF THE MASSACHUSETTS COMMERCIAL AREA REVITALIZATION DISTRICT PROGRAM

Jeanmarie Miller  
*University of Rhode Island*

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EVALUATION OF THE MASSACHUSETTS  
COMMERCIAL AREA REVITALIZATION DISTRICT PROGRAM  
BY  
JEANMARIE MILLER

A THESIS PROJECT  
SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
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## TABLE OF CONTENTS

Chapter		Page
I.	INTRODUCTION . . . . .	1
II.	INDUSTRIAL REVENUE BONDS . . . . .	4
	Early History . . . . .	5
	Judicial Decisions . . . . .	9
	Controversy and Policy Changes . . . . .	13
	Pros/Cons . . . . .	18
	IRBs' Effect on Location Decisions and Employment Levels . . . . .	25
	Suggestions for Improvement . . . . .	31
	Footnotes . . . . .	41
	Bibliography . . . . .	43
III.	ORIGINS OF THE MASSACHUSETTS' COMMERCIAL AREA REVITALIZATION DISTRICT PROGRAM . . . .	46
	Introduction . . . . .	47
	Background . . . . .	47
	Massachusetts Growth Policy and Development Act . . . . .	49
	O.S.P. Report: "City and Town Centers" . .	60
	Implementation . . . . .	69
	Footnotes . . . . .	72
	Bibliography . . . . .	74
IV.	CARD PROGRAM: RULES AND REGULATIONS . . . . .	76
	Footnotes . . . . .	84
	Bibliography . . . . .	85
V.	RESULTS OF THE CARD PROGRAM . . . . .	86
	Intention of the Survey . . . . .	87
	Methodology . . . . .	88
	General Information . . . . .	89
	Analysis of Data . . . . .	96
	Trends in the Program . . . . .	106
	Bibliography . . . . .	110
VI.	CONCLUSION . . . . .	111
	Does the CARD Program Justify the Use of IRBs? . . . . .	112
	Recommendations . . . . .	116
	Bibliography . . . . .	119
APPENDIX . . . . .		120

ILLUSTRATIONS

TABLE

1	Tax-Exempt Bonds: Changing Uses . . . . .	19
2	Factors Listed in First Place as Influencing Choice of Location . . . . .	29
3	Cities and Towns with Approved CARD Plans . . .	90
4	Number and Percentage of Total Districts and Those That Responded to the Questionnaire According to the Population of the City/ Town in Which They Are Located . . . . .	95
5	Years When Plans Were Approved . . . . .	97
6	Types of Businesses That Located or Expanded in the Districts . . . . .	100
7	Types of Businesses That Used Bonds . . . . .	102
8	Types and Amounts of Other Financing . . . . .	102

MAP

1	Cities and Towns with Approved CARD Plans . . .	92
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CHAPTER I:  
INTRODUCTION

Currently, a major policy question and an on-going debate exists concerning the use of industrial revenue bonds. IRBs are financial incentives issued by the government to attract firms to specific locations. The interest on the bond is exempt from federal income taxes, so interest rates on the loans are several points below conventional rates. The federal government has threatened to eliminate IRBs completely, despite the existence of a large coalition of supporters. A crucial policy decision such as this deserves careful scrutiny. The usefulness of bonds cannot be examined exclusively in terms of an overall general framework. Each of the methods that have been applied to the bonds' functioning must be given careful consideration, in order to determine if any useful variations exist. One such possibility is the Massachusetts Commercial Area Revitalization District Program (CARD) which utilizes IRBs in a specific way: To target growth into distressed areas of cities and towns.

The purpose of this paper is to determine if a justifiable use for revenue bonds exists. The specific question to be answered is this: "Does the CARD Program justify the use of revenue bonds by achieving its goal of revitalization?" This question can be broken down into three sub-parts:

- (1) Is the CARD Program achieving its stated goals?
- (2) Are revenue bonds a major tool in the success of the program?

- (3) Do the program's stated goals improve upon the functioning of revenue bonds?

If it can be proven that these three questions can be answered in the affirmative, then a justified use for IRBs exists, and the federal government must reassess its proposal for their complete elimination.

A detailed background of IRBs is presented to highlight the heated controversy that presently exists. Next, a chronology of the emergence of the CARD Program indicates the origins of the program's goals. This section provides the background on which to determine whether or not the specific application of IRBs to achieve CARD's goals eradicates the many problems that have previously been cited in using the bonds.

The third chapter explains the program's rules and regulations, and how the program is actually administered.

The fourth chapter presents empirical evidence, collected through a survey of cities and towns with approved CARD plans. This section examines whether or not the CARD program is achieving its stated goals, and assesses the actual and perceived success of the program.

Finally, the conclusion concretely states how CARD's use of revenue bonds is or is not eliminating the drawbacks of IRBs. Recommendations are suggested for the future use of bonds, in addition to steps that must be taken before the federal government makes this serious decision concerning the elimination of the tax-exempt status of IRBs.

CHAPTER II:  
INDUSTRIAL REVENUE BONDS



## Early History

In the first 100 years of our country's history, public works projects were financed either privately or through the issuance of the full faith and credit obligation of the State. By 1850 the unsatisfactory financial record of state-backed public improvements, railroads, canals, and toll roads caused concern and controversy; thus many states passed laws prohibiting the pledge of state or local credit for such projects.

As a result, cities devised the concept of revenue bonds, which is based on the theory that potential customers of the service should incur the costs accrued to provide that service. Therefore revenue bonds could be used in lieu of increased municipal taxation.

The first municipal revenue bonds issued in the United States were offered in Spokane, Washington in the early 1890's. They were certificates payable exclusively from the revenues of the city's waterworks. At that time, there was no legislation governing the issuance of revenue bonds, and the city established through the courts that revenue certificates could be issued because they did not constitute a direct and general obligation of the city. It became apparent that legislation was needed to govern revenue bond financing, so in 1897 the State of Washington authorized the issuance of special revenue bonds. Subsequently municipalities effected large-scale

revenue bond financing of waterworks, power and light systems, and street railways.

This example set the precedent for other states to follow, and by the 1920's they were used throughout the country to finance various public works projects. Since the interest on municipal bonds is exempt from federal income taxes (upheld in the case of McCulloch vs. Maryland), local governments are able to borrow funds in the capital markets at interest rates lower than those available to private borrowers.

During the 1930's the federal government encouraged states to create public housing authorities and allow the issuance of revenue bonds in order to ease the demand for housing. Federal government agencies purchased the bonds, acted as underwriters, and resold them to private investors. During WWII the use of revenue bonds eased up, since very few public works projects were undertaken. After the war however, large flotations of revenue bonds began again, due to pent up demand for services.

Most states have statutes to control the issuance of revenue bonds. They stipulate that the bonds do not enjoy the full faith and credit and taxing power of the government; they are not general obligations of the issuing governmental units; and the interest and principal will only be paid from revenues earned by the project.

The first industrial aid bond was issued in the State of Mississippi in 1936. Authority for the issue came from

the State's "Balance Agriculture with Industry" (BAWI) plan which was legislatively approved, and made industrial aid financing available to all Mississippi communities. This effort came in the midst of the Great Depression, when southern states were feeling the affects of the Industrial Revolution through their depressed agricultural economy. They witnessed the surging growth of their northern rivals, and devised this medium to equalize competition and eventually lead to their economic diversification and rejuvenation. This state program enabled municipalities to sell tax exempt bonds to purchase sites and construct industrial facilities. The facilities could then be leased to private firms for a period of time sufficient for rental payments to cover principal and interest on the bonds. Should the tenant default, he would be subject to eviction. These industrial development bonds are of the general obligation type, which pledge the credit and taxing power of the issuer (the government). Therefore their interest rate is lower than revenue bonds and they are more attractive to the private firm, hence more easily marketed.

The rationale for this use is that bonds will act as catalyts to attract industry that will in turn absorb labor surpluses and rejuvenate dying communities. As new industry grows, payrolls increase which bring greater retail sales and services, property values rise, and the area progresses toward full development.

Little attention was paid to industrial development financing until 1951 when Greenville, Mississippi sold 2 $\frac{1}{4}$ % Industrial General Obligation (Development) Bonds for a well known carpet manufacturer. The Investment Bankers Association took its stand on November 29, 1951. It read as follows:

Whereas, the legislatures in some states have recently enacted laws authorizing municipalities to construct or acquire manufacturing or industrial plants for the express purpose of leasing such plants to private corporations or individuals and to finance such construction or acquisition by the issuance of revenue or general obligation bonds of such municipalities payable solely or primarily from the rentals of such plants; and

Whereas, similar practices in the past have had injurious effects upon public credit; and

Whereas, if this practice is unchecked it may react to the detriment of our present system of free economy and further may ultimately endanger the valuable position of state sovereignty as part of our constitutional dual system of government; now therefore

Be it resolved, that the IBA of America in convention assembled recommends to its members and to dealers generally:

First, that each take it upon himself to become thoroughly informed on this whole development and exercise extreme caution in underwriting or marketing such bonds; and

Second, that each use his best efforts to inform voters, state legislators, prospective issuing units of local governments, and other interested parties of the past experience and inherent dangers of public financing of this character.<sup>1</sup>

Thus the beginning of the controversy over industrial development bond financing.

## Judicial Decisions

Questions concerning the constitutionality of issuing bonds for these purposes can be traced through the history of court opinion on the subject. In 1875, the U.S. Supreme Court heard the case of Citizens Savings and Loan Association vs. Topeka, which questioned the use of municipal bonds to aid industry. The city issued bonds to attract an iron works to Topeka. The company defaulted, and the bank claimed that the city was liable. The court held that in order for the bonds to be paid, funds would have to come through taxation. But taxes could only be levied for a public purpose which this wasn't, so the bonds were declared void. The court defined "public purpose" very narrowly, which has been the major issue in this type of case. A dissenting opinion stated that a federal court could not adjudge a state statute void unless it conflicted with some provision of the Constitution of the United States or of the State.<sup>2</sup> This statement wasn't complied with until the end of the nineteenth century, when the court adopted a broader interpretation of the function of state government. In the case of Jones vs. Portland (245 U.S. 217, 62 L.Ed. 252 (1917)), the opinion of the Court said in part that:

While the ultimate authority to determine the validity of legislation under the Fourteenth Amendment is rested in this Court, local conditions are of such varying character that what is or is not a public use in a particular state is manifestly a matter respecting which local authority, legislative

and judicial, has peculiar facilities for securing accurate information. In that view the judgement of the highest court of the State upon what should be deemed a public use in a particular state is entitled to the highest respect (62 L.Ed. 878 (1920) p. 255).

In Green vs. Farzier (253 U.S. 233, 64 L. Ed. 878 (1920)), state legislation was questioned that authorized capital for businesses to come from bond issues which pledged the full faith and credit of the state (general obligation bonds; industrial development bonds). The Court reiterated its stand that public monies could only be used for public purposes, but left this determination to the state. The case of Carmichael vs. Southern Coal and Coke Company (301 U.S. 495, 81 L. Ed. 1245 (1937)), involved a landmark decision on the question of tax monies spent for the welfare of individuals rather than the community at large. This was adjudged to be in the public interest:

Expenditure of public funds under the present statute for relief of unemployment, will afford some protection to a substantial group of employees, and we cannot say that this is not for a public purpose.

...When public evils ensue from individual misfortunes or needs, the legislature may strike at the evil of its source (81 L. Ed. p. 1256).

In 1938 the constitutionality of Mississippi's BAWI Act was questioned in the case of Albritton vs. City of Winoma. The act was upheld by the State Supreme Court. The appeal was taken to the U.S. Supreme Court and dismissed without an opinion, on the grounds that there was no federal

question. This was the last time a case involving industrial development financing was brought in the U.S. Supreme Court (181 Mississippi 1975, 178 So. 799, 115 A. LR. 1436 Appeal dismissed per/curriam, 303 U.S. 627, 82 L. Ed. 1088 (1938)).

IDBs have caused little difficulty in federal courts for they easily satisfy the requirements of the Fourteenth Amendment. Not so at the state level, since the borrowing and taxing powers of the state must conform to the public service doctrine, and public funds may not be used to aid a private party. These obstacles were overcome in Mississippi in 1938 in the case just cited, when the state court stressed that a constitution could not be a static document; it had to change as times and conditions dictated. The court reasoned that:

(1) ...It is the duty of government to provide for the needs of the poor and to relieve unemployment.

(2) ...No one can deny that the government has authority to do this by the direct use of tax funds to furnish food and shelter in kind or money to buy these necessities.

(3) ...The state can also accomplish this same purpose indirectly by providing employment.

(4) ...Can the state and municipality not engage the assistance of private industry to operate the municipally-owned plant, i.e., can it not use private industry as a means to a public end? <sup>3</sup>

Kentucky's revenue bond act was upheld by the State Court of Appeals (313 Ky. 468, 232 S.W. 2d. 80 (1950)),

but a discussion of public purpose was avoided by recognizing that revenue bonds do not constitute a use of municipal money or taxing power. The use of a city's name and the performance of services as a trustee was not a loan of credit.

Favorable state court decisions have followed the precedents set in these two cases, but there have been decisions opposing industrial development programs. A Florida court held that a proposed revenue bond issue was unconstitutional on the grounds that the state constitution prohibited the lending of public credit for private use (State vs. Town of North Miami, 59 So. 2d. 779 (1952)). The Court did not address the fact that revenue bonds do not involve a municipal liability or tax since they are not a full faith obligation. A Nebraska decision, which was overridden in 1960 by a constitutional amendment, stated that allowing revenue bonds for industrial development involved "fundamental fallacies of reasoning" which would hinder the private enterprise system and eliminate the constitution's protection of private enterprise (State ex. rel. Beck vs. City of York, 194 Neb. 223, 82 N.W. 2d 269, (1957)).

State court arguments have been very similar across the country, although the question of cause and effect is still debated. Decisions have continuously resulted from those points the particular court chose to emphasize; either public funds aiding private enterprise or private



enterprise benefitting the community.

### Controversy and Policy Changes

Of all government-sponsored plans to aid industry, IDB financing has become the most popular type of state and local industrial financing. Prior to 1963, most bonds were issued for small companies to whom conventional sources were not readily available. The volume of IRBs was low and mostly used by southern states. Today, however, many companies are supposedly in a cost-price squeeze that necessitates every possible cost reduction.

The general exemption of all state and local interest represents a political compromise of a constitutional issue, and has been under continual attack since its inception in 1913. The federal treasury has consistently opposed it on the grounds of tax equity and revenue loss. Widespread debate flares periodically, caused in large part by the allowance of intergovernmental immunity to be enjoyed directly by nongovernmental parties i.e., bondholders as ultimate recipients of tax exempt interest.

Although Treasury has historically opposed the tax exemption for interest on all state and local securities and does not liberally interpret the intergovernmental exemption, a contradictory policy was adopted by the Internal Revenue Service in their first publically promulgated policy statement (Rev. Ruling 54-106; 1954 CB 28). This tax policy specifically exempted industrial revenue bonds from taxes, by defining "obligations of a political

subdivision" to include bonds issued by a municipality with the only backing being the revenues generated from leasing the property. This public ruling set forth a very liberal policy in view of prior Treasury policy and of concurrent Congressional efforts in 1954 to remove the interest exemption from all state and local obligations.<sup>4</sup>

The next public ruling in the expansion of policy definition came in 1957 (Rev Ruling 57-187, 1957-1 CB 24), when it was held that interest on bonds issued by an independent development board on behalf of a municipality would be exempt. Thus the intergovernmental immunities exemption was extended to nonprofit groups, which facilitated local governmental financing by alternative methods.

The final liberal interpretation in 1963 (Rev Rule 63-20) was made by extending the previous policy to include specific criteria by which to determine when the issuance of bonds would be on behalf of a municipality:

The municipality must have a beneficial interest in the corporation while its bonds are outstanding; and the bonds issued by the corporation must be approved by the state or municipality, even though the corporation's creation and objectives were previously authorized.<sup>5</sup>

It is apparent that this ruling is aimed at those who abuse the law, and not designed to affect those who operate within it.

Revenue Rule 63-20 was the vehicle for expansion of the tax exempt industrial financing activity. Through this medium the means was available for every state to issue

them. Competition between states for industry was no longer impeded by differences in constitutional and statutory authority. With the classification issue resolved, substantial growth followed from 1963 to 1968 in the number of states participating, the size and volume of issues, and the number of large national companies utilizing tax-exempt IDB financing.<sup>6</sup>

On hindsight the liberal policy of IRS toward interest exemption was classed by former Treasury policymakers as an administrative error.<sup>7</sup> Therefore, in 1968 Treasury proposed a reversal of policy and a revocation of the tax-exempt interest. Congress exercised ultimate authority to set tax policy and reached a compromise between opposing views. The culmination was a severe restriction of the scope of allowable tax-free IDB financing (Section 103, IRC of 1954 as amended by Section 107 of PL 96-364 and Section 401(a) of PL 90-634).

The initial legislation amending IRC Section 103 removed all IDBs from exemption, except for: (1) certain "small issues"; (2) specified exempt activities, and (3) industrial parks. Those specifically exempt included activities such as residential housing for family units, sports facilities, convention facilities, industrial transportation (including docks, wharves, grain handling and storage, port facilities, and airport facilities), sewage and air or water pollution control facilities, facilities for supplying local gas or electricity, and

manufacturer's distribution centers. These must satisfy a "public use" to be eligible, which at a minimum includes being open or available to the general public. This definition is up to the discretion of the "exempt issuer" (government) and is governed by local statutes.

"Small issues" refers to the tax exempt limit on size and volume, which seeks to assist small businesses without other means of financing, and to prevent subsidation of large companies who don't need it. The Revenue Expenditure and Control Act of 1968 set the original limits on the size of the issuance at a \$1 million ceiling. Legislation was amended to a \$5 million cap, which includes the capital expenditures made three years before and after the bond is issued. Thus, large high cost projects are excluded. A 1978 amendment increased the issue and expenditure limit to \$10 million, and granted a special exception for expenditure rules when used in conjunction with Urban Development Action Grants (UDAGs). (Capital expenditure limit increased to \$20 million, with bond amount still limited to \$10 million.)

The 1968 legislation expressly brought the taxation and exemption of interest on IDB financing within the purview of tax policy as conventionally developed in the legislative and administrative processes.

Prior to 1968 IDB financing was treated as a municipal securities offering and exempted from regulation under the securities laws. The substantial volume of IDB financing

by large national industrial firms caused the Securities Exchange Commission (SEC) to question the basis on which the issues were exempted from securities regulation. So in 1968 the SEC issued an administrative ruling requiring certain industrial revenue bond issues over \$300,000 to be fully registered with the Commission and to conform to the rules and regulations applicable to any corporate security. General obligation bonds, however, were not subject to the new procedure. This represents an indirect approach to regulation of the IRB, rather than attacking municipal exemption.

Specifically excluded from the new controls are bond issues covering public projects or facilities owned and operated by or on behalf of a governmental unit. These include the typical revenue bond financing of college facilities, hospitals, port authorities, toll bridges, etc. In general, it appears that the exemption from the definition of a security interest is roughly parallel with the tax exemption of IDB issues for certain specified activities.<sup>8</sup>

A full SEC registration requires additional costs as well as an extended time period, which tends to make them prohibitive to small firms in particular, and less attractive in general. Large denomination IDBs are no longer as appealing to tax conscious investors or buyers of municipal bonds. Nor have small firms seen fit to rely on IDBs as they did before, because the new costs tend to offset the

savings from a lower interest rate.

In combination, the Congressional and SEC restrictions have severely curtailed the use of IDBs. No longer is the interest rate differential between corporate bonds and large-denomination IDBs a significant cost reducing factor.<sup>9</sup> The IDB subsidy as initially constructed failed the test of consistency with similar investment subsidies because of the absence of control over or limitation on its availability and use. Lack of control is traceable to the origin of the subsidy as an unintended benefit automatically arising from intergovernmental immunity rather than as a directly initiated tax policy. The 1968 legislative and administrative restrictions established a consistent investment subsidy policy in the tax law.

#### Pros/Cons

The explosion of IRBs represents a continuing shift of tax exempt securities away from their traditional use in financing local government improvements such as roads, sewers and schools. (See Table 1) This spectacular growth and alternative usage has made the bonds immensely controversial. The paramount questions underlying the debate are: What constitutes a "public purpose"? Are bonds achieving this end? Do total "benefits" outweigh the costs borne by the general public?

IDB financing has drawn severe criticism on several counts and from diverse sources. The American Bankers Association, along with the Investment Bankers Association,

TABLE 1  
TAX-EXEMPT BONDS: CHANGING USES

(billions of dollars)

	1960	1970	1975	1977	1978	1979
Education	\$2.3	\$5.0	\$4.7	\$5.1	\$5.0	\$5.1
Transportation	1.3	3.2	2.2	2.9	3.5	2.4
Water and sewerage (government)	1.0	2.4	2.3	3.3	3.2	3.1
Pollution control (industry)	--	--	2.2	2.6	2.7	2.1
Hospitals	NA	NA	2.0	3.3	2.3	3.4
Single-family housing	NA	NA	NA	1.0	3.2	7.2
Other housing*	0.4	0.1	0.6	2.7	2.9	2.6
Industrial aid	--	0.1	1.2	2.3	3.5	7.0
Utilities (power, gas, transit)	0.3	1.1	2.7	4.8	5.8	5.4
Other**	1.7	5.6	13.4	18.7	19.5	10.3
Total	\$7.1	\$17.5	\$31.3	\$46.7	\$51.6	\$48.7

\*Includes single-family housing before 1977.

\*\*Includes heavy refunding--more than \$10 billion--in 1977 and 1978.

SOURCES: Municipal Finance Officers Association, CBO.

Samuelson Robert. "IRBs - Economic Boon or Public Ripoff?" National Journal,  
18 October 1980, p. 1749.

has taken an official stand against IDBs. Both maintain that IDBs are a misuse of a governmental right for a private purpose; and therefore pose a threat to the tax exempt status of all state and municipal bonds. Critics fear that if such issues continue to grow, the U.S. Supreme Court may choose to question what constitutes a "public purpose" and impose severe restrictions upon state and local governments. The two associations also feel that the sale of IDBs drains the pool of investment money available for local public projects, thus fractionally increasing interest rates on "legitimate" municipal bond issues.

A major objection to IDB financing is that companies built through this method have an unfair advantage over those that are not. The counter argument states that this does not hold for established businesses within the community, unless the incoming plant will compete with it. It is recognized that if an unfair increase in competition does result, the financing should not be undertaken.

Economists say that the luring of industries by IDBs: (1) leads to inferior resource allocation because firms will be induced to locate in communities where they would not otherwise go; (2) attracts unstable firms that will continually relocate to find the best deal; (3) interferes with the migration of labor from areas of low productivity to areas of high productivity and better social and cultural opportunities; and (4) constitutes an inappropriate



solution to the unemployment problem compared to the gains which can be achieved through upgrading education levels, job training programs, etc.<sup>10</sup>

It is argued that when a municipal industrial aid program is at work, a taxable private entity is not paying its fair share, and its costs must be absorbed elsewhere. But others argue that this contention ignores the newly created taxable values and spinoffs from the subsidized company.

The AFL-CIO opposes IDBs on the grounds that they induce companies to move from unionized areas into low-wage "right-to-work" states. The company does not expand, but rather substitutes one facility for another. When this happens the economy is not served; no new jobs are created.

The U.S. Treasury's opposition to the federal tax-exemption for IDBs is the concern over the loss of tax revenues via this loophole, which exceeds the subsidy to the borrower. They feel that it amounts to a "federal subsidy to private corporations", and the benefits to industry are achieved only at the expense of a loss of federal tax revenues."<sup>11</sup> According to bonds consultant John Thompson, "...As long as IRB issuance was largely confined to small issues for small or modest-sized companies in states with economic resources well below average, it could be tolerated in our market because the volume was inconsequential in relation to total tax-exempt issues..."<sup>12</sup>

One of the most vocal critics is Ralph Nader whose organization published a report in September of 1979 attacking all forms of tax-exempt financing. His report asserted that IRBs will cost the U.S. Treasury some \$10 million over the next 10 years in lost revenues.<sup>13</sup>

Although these viewpoints generate strong arguments for reducing the use of IRBs, some contain false impressions that are not often addressed.

Evidence does not support the AFL-CIO's contention that IDBs are responsible for firms moving out of unionized areas to escape collective bargaining. Most facilities that use IDBs are branch production facilities representing net additions to plant capacity - not the relocation of an existing facility. They often do locate in non-union areas, but this is due to available labor, raw materials, etc.<sup>14</sup>

The community's ability to build public facilities is more often enhanced by their issuing of IRBs rather than impaired. The new jobs generated broaden the tax base and strengthen the community's ability to pay off obligations. Credit ratings are rarely impaired because revenue bonds are most often used, which are subject to a rigorous credit examination.

It is argued that the IRB system benefits those small depressed areas of our country seeking employment and income for their citizens. According to M. Pratt, "this argument may have had some justification 30 years ago. The

majority of recent IDBs have benefitted the big powerful companies and larger affluent communities."<sup>15</sup> This protest is heard most often from the eastern and midwestern communities seeking new industry. Prior to 1965 when most firms using IDBs were small and considered unattractive, complaints were mild. But when name firms began to construct multi-million dollar plants in southern states, the resistance to IDBs became loud, clear and organized. Suddenly, the negative aspects of IDBs surfaced.

The literature is full of bonds being criticized and their weaknesses highlighted in an attempt to curb their use. Proponents do not often publicize counterattacks since bonds are firmly in place and have always had strong support. The meritorious aspects that have in the past been ignored or improperly perceived must be balanced against the arguments just posed, in order to give equal weight to both sides.

When new industry locates in a community, jobs are created which were not previously available. Not only is manpower needed to construct the plant, but citizens must be trained and employed to operate the facility.

A new plant inevitably means increased commercial activity in the area. Jobs bring new incomes; new incomes cause demand to increase, especially in home construction. Complementary facilities are needed for the primary firm and its employees. In an undeveloped area, it may provide stimulus for new industry, shopping centers, recreational

facilities, etc.

Some areas and communities in the United States will always be relatively underdeveloped and deficient in essential public services. They suffer unemployment in spite of extra efforts to upgrade education and skills. When this happens, localities can use IDBs to recruit industry and jobs. They can be an effective and relatively inexpensive weapon for local economic growth and development.

When firms are recruited with IDBs, the need for more state and federal assistance to combat low incomes at the local level is greatly diminished. While federal tax revenues are lost through exemption "loopholes", government expenditures will also be smaller because unemployment problems will be less acute.

Therefore from this perspective it is reasonable to conclude that the social and economic benefits of greater production, more jobs, higher per capita income, more taxable income, and balanced economic growth may offset, to a large degree, the real disadvantages of IDBs cited above.

A second aspect of IDBs which has gone unnoticed is that they satisfy the preferences of people who would rather remain in a given community provided they can find employment. Jobs created with IDBs help diminish involuntary out-migration. Areas with high rates of unemployment and depressed retailing and service enterprises are often eager for new industry. In a liberal society these prefer-

ences of individuals and local communities, unless clearly against the vital interests of society as a whole, must be respected; moreover, public policy should be responsive to their desires.<sup>16</sup>

It may not be unreasonable to consider the "legitimate" disadvantages of IDBs as simply part of the price that society must pay for achieving balanced regional economic growth. IDBs are quite consistent with the precepts of freedom of choice, local self-help, providing for a minimum standard of living for all members of society, and overall economic development.

#### IRBs' Effect on Location Decisions and Employment Levels

The debate over the proper use of revenue bonds undoubtedly will continue, given its complicated and controversial nature. One possible way of abating the strength of either side is to present facts that will prove whether or not IRBs are achieving what they are intended to do. Are they affecting location decisions of industry, which in turn is expected to increase net employment? The following section will focus on past surveys and studies that attempt to answer this question. But first, an overview of general location theory is presented that indicates how a firm, theoretically, chooses its location.

Most industrial location theories treat patterns of contemporary manufacturing in a nineteenth century framework - transport costs are strongly emphasized and a static viewpoint is adopted. These traditional approaches

seek to find the optimal location for an industry or firm. Two themes are dominant in the literature: the least cost approach, associated with Weber, and the market area approach, associated with Lösch. The former assumes entrepreneurs choose a site where costs, such as transportation, labor and agglomeration/deglomeration costs, are minimized. It is totally concerned with costs; demand is assumed to be constant. The latter sees the optimum location where the largest possible market is monopolized; where sales and revenue potential are maximized. It is totally concerned with demand, leaving costs constant. Both can be criticized for their unrealistic assumptions and closed static viewpoints.

There are numerous elements that influence the choice of a site. Some are: source of raw materials, transportation costs, energy, labor supply, unionization, capital, and entrepreneurial attitudes. The ideal manufacturing area would provide four essential requirements: raw materials, a source of energy, labor and a market.<sup>17</sup> But since ideal requirements rarely exist, an individual choice must be made as to which are most important. Theoretical discussions assume that entrepreneurs strive to maximize their profits by making thoroughly rational locational decisions. This assumption is debated by the contention that the non-economic or personal motives exert considerable influence on decision-making.

Despite the difficulties in attaining a satisfactory

explanation of industrial locative forces, some common forces must be at work since there seems to be a theme to industrial patterns. A start can be made by comparing real world patterns with the abstract landscapes of the location theorists, or by examining case examples of individual industries and the decision-making behind their site choice. With the decrease in importance of traditional economic factors like transport costs, the real world industrial landscape becomes exceedingly complex to interpret.

To assess the effectiveness of the program, it is important to know just how effective industrial revenue bonds are in influencing firms' location and expansion decisions. Unfortunately research in this area has been contradictory. Some surveys have shown that bonds are a critical factor in decisions about location and investment for many firms.<sup>18</sup> Other surveys and evaluations of the effects of bonds on firms' costs have found that bonds never entered firms' choices among states or among particular sites. When the bonds influenced decisions, these were intraregional choices, among similar sites, sometimes across state lines.<sup>19</sup> The bonds almost never affected expansion decisions at an old site; the level of expansion would have been close to the same without the bonds.<sup>20</sup>

A survey of 5,000 companies in seven southern states was conducted in the early 1960's to determine those factors considered important by management in locating

new or expanding industrial facilities. Information derived from the 1,180 responses to the questionnaire in this study indicates that:

- (1) traditional factors of markets, labor and raw materials are as important today as ever in influencing industrial location;
- (2) temporary tax relief has little or no influence upon the final decision if management is looking for a permanent location;
- (3) industry will locate in those areas wherein management foresees opportunities for substantial profit. (See Table 2).

Influences of a secondary nature were found to be of considerable consequence in the final selection of a location. These include non-economic factors such as the political environment, community facilities, and a genuine spirit of cooperation and enthusiasm in assisting new firms to become a vital part of the community. Normally, these secondary forces are not consciously considered until after a general geographic area has been selected.<sup>21</sup>

Conclusions from an empirical analysis done by Hellman, et.al., in 1975 show: (1) that a revenue bond program is the most effective kind of program to increase net investment in the area; (2) among industries, there appears to be a trade-off between growth potential and ability to solve immediate unemployment problems; (3) in Massachusetts those areas that need help the most participate very little in efforts to attract industry.<sup>22</sup> Thus, it is necessary for policymakers to define the purpose of industrial incentive programs and to design and implement the program



TABLE 2  
FACTORS LISTED IN FIRST PLACE AS INFLUENCING  
CHOICE OF LOCATION

Total Mention Rank	First Place Rank	Reasons for Plant Location	Number of Times Ranked First
2	1	Convenience to markets	142
3	2	Availability of bldgs. or other property	96
1	3	Availability of labor	93
5	4	Availability of raw material	89
8	5	Home of management	81
12	6	Center of particular industry	69
9	7	Climate	48
4	8	Lower labor costs	38
6	9	Less unionization	31
14	10	Decentralization of operation	25
10	11	Transportation costs	22
7	12	Local cooperativeness	20
11	13	Adequate power	18
16	13	Financial aid	18
15	15	Favorable tax structure	16
13	16	Transportation facilities	11

SOURCE: Bergin, Thomas and Eagan, William. "Economic Growth & Community Facilities."  
Municipal Finance, May, 1964.

according to that purpose.

Reasons for the inconsistency in findings of the various studies may have to do with the areas of the country studied, the periods in which the studies were conducted, and the details of the bond programs. But according to Margaret Dewar, the difference in results are most likely due to differences in methodology.<sup>23</sup> Surveys of firms by mail questionnaire, the most common technique, tend to contain questions that suggest answers, thus biasing conclusions. She conducted her research through personal interviews with open-ended questions that should correct many of these problems.

One potential problem with her study is the small sample used: fourteen firms in eastern Massachusetts. The interviews explored the decision that a move or expansion was necessary, the choice of a region for location, the selection of a location within a region, and the decision to use revenue bond financing.

Results showed that IRBs had nothing to do with the decision to move or expand. The question about places considered for new plant locations showed that firms were not deciding to make interregional moves. When managers talked about the intraregional choice of a new site they mentioned many of the criteria generally believed to be significant in location decisions, such as transportation and labor availability. A liberal interpretation of the effects of the bond program is that five out of fourteen

firms' decisions were affected. The bonds did not cause firms to locate in areas of high unemployment.

These examples are not meant to be a representative sample of the many studies that have been done in this area. It points out that caution must be taken in using IRBs if it is found that other location characteristics dominate firms' decisions. Their true positive impact must be assessed and the use of IRBs must be channeled or targeted to maximize that impact.

#### Suggestions for Improvement

Many suggestions have been made over the years concerning the best way to deal with industrial revenue bonds. These have ranged from precautionary measures, to changes in the scope of the program, to complete elimination.

In 1965 the Municipal Forum of New York issued a report on industrial aid financing in which it discusses the pros and cons, and recommends that this device be used with care. It does not take a position on the issue, but suggests that:

- (1) State agencies should control the issuance of bonds;
- (2) The subsidized industry should help pay for the expanded municipal services that become necessary;
- (3) All local issues should be supported by revenues. The government should not be overprotective of the investor.
- (4) Full disclosure of all pertinent facts is in the public good and should be adhered to.
- (5) Piracy should be prohibited. Municipal industrial aid should be made available only for a bona fide

plant expansion, not relocation.<sup>24</sup>

The committee which issued the report finds that industrial aid financing is consistent with the "American way"; its suppression would be an encroachment upon the philosophy of free enterprise. Opponents who seek legislation are inviting federal invasion of the sovereignty of the states.

The Advisory Commission on Intergovernmental Relations studied the question of industrial development bond financing in a report issued in June of 1963. They did not take a stand on its continuation or elimination, but sought to make industrial aid a more acceptable tool for economic growth. They favored limiting their use to rural and semi-rural areas. The report highlights ways the program has been abused and sets forth a suggested program for states to follow. The program provides:

- (1) All issues would be subject to the approval of a state supervisory agency;
- (2) Their issuance would be limited solely to counties and municipalities;
- (3) The states would give priority to issue to those communities with surplus labor;
- (4) A limitation should be imposed on the total amount of such bonds which may be outstanding at any one time in any given state;
- (5) The states would insure the enactment of legislation ruling out the possibility of "piracy" of industrial plants by one company from another;
- (6) Amend the Internal Revenue Code so that "firms which buy the bonds cannot deduct as a business cost the rents paid for the use of the subsidized plants". This is to check any abuse of the tax exempt provision.<sup>25</sup>

The Commission concludes that industrial aid should be confined to "economically justifiable proportions and circumstances" if it is to be effective.

The Investment Bankers Association took its position opposing industrial aid financing in 1951. Despite this resolution, the interest of businesses have caused more and more investment bankers to enter the field of underwriting industrial aid bonds. As a result the Municipal Securities Committee of the IBA recommended in May of 1963 that legislation be passed as the only way left to curb the use of industrial financing.

Organized labor is unequivocally opposed to municipal industrial aid financing. It claims that it fosters plant pirating from developed to underdeveloped areas. "Already thousands of AFL-CIO members have lost their jobs because of plant piracy while the communities from which their jobs have disappeared become new candidates for the depressed area list. We call upon Congress and the Administration to end the improper use of the revenue raised from the tax-free state and local bonds..."<sup>26</sup>

Those opposed to industrial aid financing fear its abuses. But many feel that abuses can be controlled. They call upon opponents to take a broader view of "public purpose" and realize that industrial aid financing can perform a needed public service.

While a few groups either vehemently oppose or strongly favor industrial revenue bond financing, many feel

that the program's goals and approach must be reassessed. Even though it has been updated over the years, its scope must be refocused to adapt to current economic realities. It is felt that the program has become so widespread as to render itself useless. This is apparent in the popular phrase, "The second war between the states", which used to describe IRB usage.

In order to focus the program and to counter the criticism that the bonds provide unjustified business subsidies, several states have enacted further restrictions. Since 1978 the New Jersey Economic Development Authority's IRB activities have become more closely focused on areas of high unemployment, low per capita income, and low per capita ratables. It has restricted its assistance for commercial and retail facilities to Urban Aid cities, cities eligible for Urban Development Action Grants (UDAGs), or cities which qualify on the basis of its own unemployment-income ratables index.<sup>27</sup> The Authority refuses to support relocation out of large urban cities, and it will no longer provide funds for the construction of facilities built on speculation anywhere outside its targeted cities. Although the program tries to target the bonds to distressed areas, its provisions to pinpoint eligible areas is rather loose.

An "area" incorporates a whole city, and could potentially envelope a region. It doesn't pinpoint certain decaying sections of cities, such as older central business

districts (CBDs). It basically insures that affluent communities don't abuse the program.

One of the more stringent local guidelines is found in Erie County, New York. In February, 1980 the Erie County Industrial Development Agency (ECIDA) adopted a five part policy statement on commercial project revenue bonds:

- (1) Public financing should be used only to induce a firm's location or expansion based on a demonstrable need for such project, its assets to the region and growth potential, and evidence that the project is integrated with targeted redevelopment areas.
- (2) Bonds should be used only for projects that would be economically infeasible without the assistance.
- (3) Only projects that provide needed services in the area will be funded, provided that it does not cause substantial disruption of existing employment or facilities of a similar nature in the area.
- (4) The project must provide substantial employment and capital investment.
- (5) The agency will require that a payment in lieu of taxes equivalent to 100% of the assessed valuation tax levy be contracted to both the county and municipality.<sup>28</sup>

The restrictions apply to commercial projects and not industrial projects because of the disparity between the two in terms of economic benefits, such as the number and quality of jobs created.

In Erie County, areas are targeted according to census tract unemployment statistics, and the amount of effort and funding provided by the city for the area. The entire city of Buffalo is included as a distressed area. It does not

focus the program to specific commercial districts. In addition to geographic targeting, there are eligibility criteria set up for businesses also. The firm must employ a minimum of 100 persons, and contain a minimum of \$2.5 million funding from all sources. Due to these guidelines, they've turned down at least 200 projects, including some companies that have been cited in the past as "chronic abusers" of the program.

ECIDA has qualified five projects in Buffalo, and has closed on two. The Gateway-Waterfront project, which revitalized sixty-six acres of vacant urban renewal land, could not have moved forward without some incentives to developers. The initial developer put \$10 million into the project, which set a precedent for the area and coalesced the investments. It accelerated commitments from banks, and induced a spinoff effect. Eventually, \$90 million worth of additional investments plus a UDAG were attracted to the once vacant area.<sup>29</sup>

The IRB process promotes close cooperation between the public and private sectors, and is attractive to investment bankers because the projects are reviewed for eligibility beforehand by ECIDA. By actively marketing IRBs with specific targeting criteria, ECIDA has been able to avoid many of the abuses of the IRB program in general.

In response to a survey of National Association of Housing and Redevelopment Officials (NAHRO) members in April of 1981, there was overwhelming approval of the



strategy to target IRBs according to some distress criteria. Some of the comments follow:

- IRBs created 8,000 jobs and retained 7,000 jobs in Philadelphia; more than 215 firms, both commercial and industrial, were assisted, stimulating unlimited spin-off development and investment in parts of the city which have suffered decades of high unemployment and low investment...These firms and their employers pay taxes -- federal, state and local -- which more than compensate for any initial loss to the Treasury.

- The Fort Wayne Planning Agency's view of the enabling state legislation is that it is lacking in criteria by which to evaluate a proposed project. "Our planning function would be better served if a standard comprehensive evaluation process were required by law for each IRB issue".

- The Portsmouth Industrial Development Authority has and will continue to restrict use of tax-exempt financing to designated redevelopment or conservation areas. Targeting will enable truly distressed cities to compete more favorably with outlying areas which have vast amounts of vacant land for new development. IRBs are a vital tool in attracting potential developers to areas which in many cases are marginal at best.<sup>30</sup>

Local officials see IRBs as priming an economic pump, not welfare for business.<sup>31</sup>

Since the beginning of the Reagan Administration in 1981 and the ensuing budget cuts, Congressional scrutiny and public debate over the future of IRBs has been widespread. But this is not to say that their functioning has been ignored in the past. In 1978 the Carter administration proposed elimination of the tax exemption for most small issues while expanding it for projects built in designated distressed areas. Congress accepted only the second half of the proposal by raising the capital spending limit from \$10 million to \$20 million for projects located in areas

receiving a UDAG. As of the end of 1980, the Treasury hadn't issued regulations detailing eligibility criteria.

Congressional testimony provided in April of 1981 to the House Ways and Means oversight subcommittee both praised and scorned the use of tax-exempt bonds. Representative Charles Rangel (D - NY), chairman of the subcommittee, submitted a bill that contains specific recommendations for changes in IRB legislation, linking their use for commercial projects to economically distressed areas. It also requires that a comprehensive study be conducted by the Treasury, with analysis of data and recommendations presented to the committee by July 1, 1983. This bill is still pending in committee.

A Congressional Budget Office (CBO) report released in the beginning of 1980 outlined the use and abuse of small issue IRBs, and their effects as they impact on federal, state and local tax revenues. The CBO report noted that sales of small issue IRBs have grown rapidly from \$1.3 billion in 1975 to \$8.4 billion in 1980; and that revenue losses to the federal government in FY '81 are estimated to be slightly greater than \$1 billion. CBO's revenue loss estimates are based on several economic assumptions that have been contested by other economists. The revenue gains from eliminating IRBs would be less than the budgetary cost because feedback effects (lower tax collections from reduced economic activity) would offset part of the revenue gain.<sup>32</sup> Many feel that as a job generating and revenue

raising tool for the local governments, the value of IRBs is underestimated.

The eventual fate of the tax exemptions is still unknown. Policy options offered from Congress, the Administration, CBO and the President's Commission on Housing range from maintaining current law to complete elimination of IRBs. In between are such options as:

- (a) targeting the bonds' use to distressed areas;
- (b) limiting the commercial use of the bonds;
- (c) elimination of the exemption with a compensating federal payment to subsidize taxable bond yields;
- (d) requiring public accountability of the use, either by the pledging of the full faith and credit of the locality or requiring public hearings and referendums;
- (e) a local cash match; and
- (f) choosing between the tax exemption or use of the accelerated depreciation provisions of the Economic Recovery Tax Act.<sup>33</sup>

The President's Commission on Housing will establish a task force to review use of tax-exempt revenue bonds.<sup>34</sup>

The CBO report poses a question for Congress to consider: "Under what circumstances do federal subsidies that lower the borrowing costs of private industry serve a public purpose?" CBO suggests two goals that could be served: (1) stimulating investment and employment; and (2) modifying the market's allocation of credit.<sup>35</sup> They state that if the goal of federal investment subsidies is to increase investment and employment, a general business tax cut such as those contained in the Economic Recovery Tax

Act might be equally effective. If the purpose of the bonds is to stimulate development in economically distressed areas, then Congress may want to consider ways to target IRBs toward specific locations or regions and to coordinate use of the bonds not only with UDAGs, but also with other federal credit programs.

Despite the much publicized and reported abuses that have been connected with IRBs, their merits deserve as much attention so that they can be analyzed and reworked to solve current problems. An alternative to eliminating them in order to curb abuses is to fine tune IRBs to offer a means of attracting productive investments. Without restrictions to curb abuses or targeting requirements to make the financing attractive in under-invested areas, critics of the program have a strong case. But with widespread support from both Democrats and Republicans, their complete elimination is unlikely. The program's goals must be rethought and focused, and the value and potential of IRBs must be realized and altered to conform to these new goals.

## FOOTNOTES

<sup>1</sup>A. Lechner, Industrial Aid Financing (NYC: Goodbody & Co., 1965), p. 2.

<sup>2</sup>Alfred Abbey, Paper presented to the Association of Life Insurance Council. (7 May 1963), p. 226.

<sup>3</sup>Ibid., p. 233.

<sup>4</sup>George Lent, "The Origin and Survival of Tax-Exempt Securities," in National Tax Journal (4 December 1959): p. 314.

<sup>5</sup>Alfred Abbey, op. cit., p.250.

<sup>6</sup>Alan Rabinowitz, Municipal Bond Financing and Administration. (NY: John Wiley & Sons, 1969) Chapter IX, p. 103.

<sup>7</sup>Hart H. Spiegel, "Financing Private Ventures with Tax-Exempt Bonds: A Developing Truckhole in the Tax Law" in Stanford Law Review (17 January 1965): p. 244.

<sup>8</sup>Otha Gray, "Tax-Exempt IDBs: A Policy Analysis" in Southern Journal of Business (April 1970): p. 65.

<sup>9</sup>Arthur Thompson, "Business Experience with IABs as a Source of External Financing," in California Management Review (Winter 1970): p.30.

<sup>10</sup>Arthur Thompson, "The Social Benefits of Tax-Exempt IDBs," in Financial Analyst's Journal (November 1968): p. 100.

<sup>11</sup>Ibid., p. 100.

<sup>12</sup>M. Pratt, "Municipal Industrial Committee Report," in Commercial and Financial Chronicle (18 January 1968): p. 38.

<sup>13</sup>J.S. McMullen, "Industrial Bond Financing: What's it all about?," in Journal of Commerce and Bank Lending (December 1980): p. 20.

<sup>14</sup>Arthur Thompson, "The Social Benefits of Tax-Exempt IDBs," p. 100.

<sup>15</sup>M. Pratt, op. cit., p. 38.

<sup>16</sup>Arthur Thompson, "The Social Benefits of Tax-Exempt IDBs," p. 100.

<sup>17</sup>Michael Hurst, A Geography of Economic Behavior (Belmont, CA: Wadsworth Publishing Co., 1972),: p. 129.

<sup>18</sup>Margaret Dewar, The Usefulness of IRB Programs for State Economic Development: Some Evidence from Massachusetts (Cambridge: Harvard and MIT, Joint Center for Urban Studies, March 1980).

<sup>19</sup>Ibid.

<sup>20</sup>Ibid.

<sup>21</sup>Bergin, Thomas et al., "Economic Growth and Community Facilities," in Municipal Finance (May 1964): p. 149.

<sup>22</sup>Daryl Helman et al., "The Role of Statewide Industrial Incentive Programs in the New England Economy," in New England Journal of Business and Economics (Spring 1975): p. 25.

<sup>23</sup>Margaret Dewar, op. cit.

<sup>24</sup>A. Lechner, op. cit., p. 43.

<sup>25</sup>Advisory Council on Intergovernmental Relations. Report. (June 1963): p. 15.

<sup>26</sup>A. Lechner, op. cit., p. 46

<sup>27</sup>The Port Authority of New York and New Jersey. "Regional Recovery: The Business of the '80s," (1 June 1979).

<sup>28</sup>Sheryl Lincoln, "Is there - and should there be - a future for IRBs?" in Journal of Housing (November 1981): p. 538.

<sup>29</sup>Ibid., p. 538.

<sup>30</sup>NAHRO, "Small Issue IRBs," News Alert #37 (9 April 1981).

<sup>31</sup>Sheryl Lincoln, op. cit., p. 538

<sup>32</sup>Ibid., p. 539.

<sup>33</sup>Ibid., p. 536

<sup>34</sup>Ibid., p. 536.

<sup>35</sup>Ibid., p. 539.

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CHAPTER III:  
ORIGINS OF THE MASSACHUSETTS  
COMMERCIAL AREA REVITALIZATION DISTRICT PROGRAM

## Introduction

In order to fully understand and appreciate the goals of the Massachusetts Commercial Area Revitalization District (CARD) Program, an in-depth chronology of significant events is necessary. The program did not suddenly materialize one day as a stop-gap measure to relieve some imminent crisis. Rather, the program and its goals evolved over many years of deliberation and debate between a variety of actors. The emergence of the issues on which the program is based cannot be precisely determined. Its tangible background begins in 1973 with the establishment of the Wetmore/McKinnon Commission. Five solid years of consideration ensued which produced a long-term Growth Policy for Massachusetts. This included action recommendations from which implementation tools were devised. The Massachusetts CARD program was one such tool, using the amended industrial revenue bond legislation as part of its incentive package. The specific details of the CARD program are not presented in this section, but the goals and intentions stated herein are directly transferable and applicable to the program. Likewise, the key actors and sequence of events that follow are not specific to the CARD program itself, but they are the indirect forces behind the program's emergence.

## Background

Most states in the U.S. have some form of legislation dealing with land use issues. They range from comprehensive

programs which require state permits for local land use developments, to state coordination of local land use decision-making, to specific land use programs; i.e., surface mining, flood plain regulations, wetland management, etc. State land use legislation has tended to be a response to a problem of crisis proportions, such as Vermont's boom in recreation communities, and the severe drought experienced in Florida.

In the early 1970's, Massachusetts lacked any obvious land use catastrophe that needed an immediate response. Instead, it was experiencing a steady overall economic decline in relation to the rest of the United States. Between 1951 and 1971 urban land increased by 85%, while population only increased 21%. The supply of farmland has declined by 30% from 1945 to 1976. Between 1970 and 1975 the unemployment rate in Massachusetts increased from 4.6% to 12.4% while the national average increased from 4.9% to 8.5%. Much of this is the result of the switch of the state's economy from the industrial to service sector. While national production in manufacturing, mining, and construction grew 17% between 1960 and 1973 it declined in Massachusetts by 11%. Service industries grew 58% nationally and 89% in Massachusetts. Much of the increased growth in the service sector in the state is located in the eastern suburban communities.<sup>1</sup> Although these trends may have had land use implications, they did not warrant special legislation.

The state has a long history of strong, autonomous local self-government. County government and regional planning have been largely ineffective in Massachusetts, since the entire land area is included within the 351 incorporated cities and townships. This tradition was strengthened in 1966 in the Massachusetts Home Rule Amendment, which implied that the control of growth and land use was primarily a local concern. Consequently, past attempts by the state government to influence land use or growth patterns have always been viewed with great skepticism and resentment.

This tradition of home rule must be contrasted with the state legislature's long history of progressive social reforms. Numerous state agencies carry out programs that indirectly shape land use and growth patterns, (transportation investments, air and water quality management, tax policy, etc.) although coordination among them is lacking. There is apparent contradiction between local response to state interference in land use decision-making and the enactment of various statutes which give the state overriding power. One explanation is that since all these bills provide for substantial local involvement in their administration, they manage to win support in the legislature.

#### Massachusetts Growth Policy And Development Act

Prior to 1975, Massachusetts did not have an articulated urban policy. In 1973 the Great and General Court (the legislature) enacted a bill establishing a "Special

Commission Relative to the Effects of Present Growth Patterns on the Quality of Life in Massachusetts." (Chapter 98 of the Resolves of 1973.) The Commission was the result of a resolution filed by Representative Robert Wetmore, in response to the conflict in the late 1960's between economic development and environmental protection. State Senators Saltonstall and McKinnon and Representatives Ames and Wetmore, the prime movers behind this effort, were also concerned because of the lack of a coordinated planning effort in the executive branch. The Commission was given a Broad mandate to study a variety of issues, including: demographic and population trends, the preservation of agricultural land and open space, the supply and utilization of the state's land and natural resources, and methods of community, regional and state planning.<sup>2</sup> The legislature adjourned in November of 1973. For almost a year, the Commission remained inactive.

At the time of the election of Governor Michael Dukakis in November, 1974 the Growth Commission had just begun to identify its goals. The General Court received a great many bills dealing with a variety of issues, including land use, growth policy, environmental protection, economic development, and the reorganization of planning responsibilities. In order for this Special Commission (called the Wetmore/McKinnon Commission) to deal with the scope of these problems it divided its work by creating four investigative subcommittees. The Commission was unfunded and

relied on voluntary staff support to analyze proposed legislation and prepare reports and recommendations.

The subcommittees varied in their ability to attract outside staff support to generate citizen interest. The Public Education and Demographic Information Subcommittees dissolved, and the Growth Policy Subcommittee never produced a final report. Only the Land Use Subcommittee was a success, due in large part to the diversity of its staff. Its chairman, Senator William Saltonstall, was able to attract over fifty representatives of business, industry, labor, environmental organizations, state, regional, and local officials and the academic community to discuss land use in Massachusetts. Staff commitments were obtained from the Department of Urban Studies and Planning at Massachusetts Institute of Technology (MIT), led by Professor Lawrence Susskind, as well as the State Department of Community Affairs.

Initial meetings were attended by over one-hundred people, which eventually divided into six major interest groups. After six months of bi-weekly meetings, perceptions began to change and compromise was reached. Two distinct coalitions formed: the "process-oriented" and the "strong bill" factions. The members of the first group were predominantly state legislators, local officials, representatives of homebuilding and manufacturing interests, and moderate environmentalists. Included in this group was Professor Lawrence Susskind of MIT. They agreed on the

following principles:

- (1) Land use decision-making should remain a local prerogative.
- (2) Local planning is not sufficiently linked to decision-making, and the planning process is not open to public scrutiny.
- (3) The state affects land use patterns through activities which have no central policy guidance.
- (4) Land use policy must achieve economic development objectives, not just preserving environmental resources.
- (5) Land use planning is not just a rural or suburban concern.<sup>3</sup>

To address these problems, the coalition recommended that localities submit annual planning statements to be used as the basis for state land use policies. This approach emphasized the process of local participation as well as the policies that might emerge.

The "strong bill" coalition, which included representatives of certain state agencies, strong environmentalists, and representatives from regional planning agencies, did not agree with this "bottom-up" approach. State agencies were competing for designation as the state's lead land use agency. They felt that growth management problems were well understood, and that local growth policy statements and citizen involvement would take away from things that would really have an impact, such as administrative action by a lead land use agency. The environmentalists felt that the coalition would not address the state's critical environmental needs. The "process-oriented"



approach was viewed as a diluted compromise among divergent groups, and therefore would have no impact. The regional planning agencies had continuously been pressing for reform of middle-level (county) government in Massachusetts. They maintained that a state-wide participatory process would fail, based on the lack of interest in existing participatory opportunities at the regional level.<sup>4</sup>

Thus, by late February 1975, each faction began to draft its own legislative proposals, since there were two distinct concepts of the type of land use bill that Massachusetts should adopt.

At this time Governor Dukakis created a new Office of State Planning (OSP), which was given responsibility for land use, growth policy, and comprehensive planning for the state. This meant that existing state agencies would no longer be in competition for designation as the state's leading land use agency. In addition, the Governor informed the Wetmore/McKinnon Commission that he did not see the need for new land use or growth policy legislation. Dukakis intended to take an administrative approach to the resolution of these issues. This meant that the possibility of passing a strong regionally-oriented land use bill or new environmental legislation was extremely low. As a result of the Governor's stated position, the cohesiveness of the "strong bill" coalition rapidly dissipated.

The March 27, 1975 Land Use Subcommittee meeting began routinely, but discussion quickly jumped to the

problems of a process-oriented legislative approach. Debate and eventual compromise over some of the issues resulted in the first draft of legislation by the process-oriented coalition. The "strong bill" coalition also prepared its own outline of compromise legislation, which contained only minimal concessions. A meeting of the special drafting committee was held on April 16 to prepare final legislation to be presented to the entire Subcommittee on April 24. The "process-oriented" coalition offered its final argument:

...Economic decline is clearly the most highly perceived issue in the state... We must attempt to design legislation that will work towards balancing the needs for economic development and the needs for environmental protection. That is, we must encourage economic growth in areas in which it is appropriate and where people want it... Only a process that involves a large number of people from all levels of government will be able to formulate such policies and carry out their implementation...Local groups, for the first time, will be given a formal mechanism for assessing their changing needs and priorities and informing state and local government of alternative policy solutions which may better address their needs.<sup>5</sup>

The Subcommittee leadership and other legislators present decided that the draft of the "process-oriented" bill should be submitted to the entire Subcommittee for its consideration.

Prior to the full Subcommittee's review, Governor Dukakis appointed Mr. Frank Keefe as director of the Office of State Planning. This marked the permanent dissipation of the "strong bill" coalition, since several of its members had been actively pursuing control of the newly created OSP. More importantly, Keefe committed himself to

working with the Subcommittee, and to review their draft legislation.

An explanation of Keefe's background and position of power indicates his strong influence on the final legislation. The Governor designated Keefe as an ex-officio member of his cabinet, reporting directly to him. Keefe quickly became a major player in the Dukakis administration, through his intimate advisory role to the Governor. When the cabinet, bureaucracy, local officials, and private sector leaders became aware of this, Keefe's influence grew tremendously, which he used to the maximum advantage.

His objectives as director of OSP was influenced by his previous position as director of planning in Lowell, Massachusetts, where he organized a revitalization strategy for the old textile city. He believed that the combination of physical rehabilitation and strong government leadership and action would revitalize the decaying commercial downtown area. He proceeded to build much of this approach into Statewide policy.

The principal vehicle in the administration through which Keefe and OSP exercised a significant role was the Development Cabinet. This group was formed during informal meetings between Keefe and those cabinet members directly involved in growth and urban-related issues: the Secretaries of Transportation, Economic Affairs, Environmental Affairs, Communities and Development, and Consumer Affairs. Dukakis formally designated this group the

"Development Cabinet" in the Fall of 1975. Its role was to deal with a wide range of issues, but their evaluation tended to be in terms of the revitalization of city and town centers. The development cabinet attempted to get relevant agencies and programs to be consistent with the city centers policy. The principal emphasis was the implementation of an economic development policy, channeled to older town and city centers.

The promotion of this orientation cannot be attributed to Frank Keefe alone. Governor Dukakis came to office with economic development as his central theme, along with urban revitalization and halting urban sprawl. These two objectives, distinguished as a growth/development policy and an urban policy respectively, were interrelated. Economic growth was to be targeted and channeled toward urban revitalization. The uniqueness of Dukakis' policies is this linkage between economic growth and the use of the state's powers and leadership to direct it to particular locations. This was clearly evidenced in the state's public investment strategy, and in its commitment to locate state activities in city or town centers.

In addition, Dukakis directed OSP to develop a state master plan to guide the allocation of state funds and to identify appropriate areas for development and preservation.<sup>6</sup>

It is interesting to note that the role played by Professor Lawrence Susskind was considered crucial in the

evolution of the legislation.<sup>7</sup> He and his group from MIT not only worked with the leadership of the Growth Commission but also played a key role in persuading Frank Keefe and the Governor to support the process. His influence on the content of Dukakis policies, though, seems to have been marginal.

This outline of the key actors and their orientations provides a crucial background on which to view the unfolding of the final legislation.

On April 24, 1975 Keefe expressed concern to the Land Use Subcommittee about coordinating state policies which affect growth, streamlining regulatory procedures which impede economic development, and focusing on strategies for revitalization of urban centers.<sup>8</sup> He reiterated the Governor's position against new legislation, using an administrative solution instead. The Subcommittee analyzed this "bottom-up" policy, and recommended several minor changes in the draft legislation.

Next, the leaders of the Wetmore/McKinnon Commission reviewed the revised draft, and were extremely interested in the legislation. They asked Frank Keefe to review it, since its goals were aligned with the duties of OSP.

The staff of the Subcommittee continued to revise the draft legislation in response to comments received. Also, they met with Keefe and his staff regularly in an attempt to convince OSP of the validity of the "bottom-up" approach. Keefe maintained the Governor's position, that integration

and coordination of state and local policies and planning could be handled administratively. This view in the Dukakis administration reflected several factors: first, a new governor's natural impatience at having to wait on a policy which would take months or possibly years; second, a preoccupation on the part of Dukakis and Keefe with urban issues and less concern with general land use and environmental issues; third, a conviction that, because Massachusetts already had very strong land use and environmental laws on the books which was passed in the late sixties and early seventies, administrative action and not new legislation, was needed.<sup>9</sup> The Land Use Subcommittee staff took the position that a joint legislative-administrative approach to the formulation of land use and growth management policies would be more effective than separate efforts by either group. They suggested a new argument relating to the organizational objectives of the OSP. If OSP was to succeed in its policy coordination efforts, it would need a constituency to support its decisions. Since many state policies seemed to have negative or contradictory impacts on localities, the most appropriate constituency would be localities. Through the "bottom-up" growth policy formulation process, localities could express their needs and concerns and provide support for OSP recommendations to change existing policy.

In response to these arguments Keefe began to change his position. He came to see a potential payoff in

developing a constituency for the Governor's program in the towns and cities, so he persuaded the Governor to support the bill. He convinced Dukakis that a state master plan would be difficult to produce and was less important than a comprehensive planning process. Also, legislation would increase public understanding of growth and development issues more successfully than administrative efforts alone.

On July 21, 1975 the Wetmore/McKinnon Commission approved the final draft of the legislation, which contained revisions by OSP and the Land Use Subcommittee. The bill was entitled, "An Act Providing for the Formulation of a Massachusetts Growth and Development Policy." It was sent to the Joint Committee on Commerce and Labor to emphasize the intent to balance economic development and environmental protection.

The Commission members and Land Use Subcommittee staff met with a variety of citizens and interest groups prior to the public hearing, and attracted considerable support for the bill. On the Senate floor the bill received routine consideration. There was little debate since Senators Saltonstall and McKinnon had cleared the way with the Senate leadership.

Review by the House of Representatives did not go so smoothly. Representatives Wetmore and Demers met with every member of the leadership to secure support. At this time a small group of home rule proponents began to

actively lobby against the bill. There was considerable debate during the three readings, with a number of minor amendments included. Wetmore ended the debate by saying:

This legislation is not an attempt to reduce local autonomy. It is an effort to enhance planning capabilities of all levels of government. In the past, much of the land use and growth policy legislation that the General Court has reviewed was based on the predetermined notion that the state government knows precisely what Massachusetts' land use and growth management problems entail. In fact, one of the primary assumptions in previous legislative approaches was that local governments are incapable of dealing with certain types of problems. In contrast, our Commission decided to ask the people of Massachusetts what they think the most important growth and development issues are. We've asked the citizens to help governmental officials to balance our needs for both economic development and environmental protection. We want future growth and development policies to reflect the needs and concerns of citizens and communities throughout the Commonwealth. This effort to involve local officials and citizens in the preparation and evaluation of state-wide growth and development policies is unparalleled by any state in the nation. Cooperation between the executive and legislative branches in the development of this bill has been outstanding. If the bill passes, this cooperation is insured of continuing. State growth and development policies are as much a responsibility of this General Court as of the executive branch. We now have the opportunity to develop coordinated growth policies for the state which will reflect local and regional concerns and have the backing which they need to be effective. For these reasons, I strongly urge passage of the bill. It does not infringe on local home rule. Quite the contrary, it seeks to insure that the cities and towns will have substantial impact on their own and the state's future growth patterns.<sup>10</sup>

With this statement, debate ended and the bill was passed. On December 22, 1975, Governor Dukakis signed the Massachusetts Growth Policy Development Act into law.

O.S.P. Report: "City And Town Centers"

The first phase of the effort by the Wetmore/McKinnon



Commission to initiate a state comprehensive planning process was over. The legislation itself was not viewed as a solution to the many land use and growth management problems confronting Massachusetts. It was an initial step leading to a new outlook toward planning and implementation of a policy formulation process involving all levels of government in the Commonwealth. The Growth Policy and Development Act represents an agreement between state and local government to engage in a learning process that does not embody a clear cut conception of what the end results will be. It is a creative rather than a reactive approach to both citizen participation and public learning.<sup>11</sup>

The Growth Policy Act mandated a "bottom-up" process consisting of the following steps:

- (1) Local Growth Policy Committees, broadly representative of municipal boards, departments, and interests in each community, would specify local growth management problems and objectives;
- (2) Regional planning agencies (RPA's) would compile local growth policy statements and prepare composite regional reports highlighting development and conservation needs in each part of the state;
- (3) The Office of State Planning would study all the local statements and regional reports and prepare an overall summary of state growth policy objectives responsive to local and regional preferences; and
- (4) The Legislative Commission on the Effects of Growth Patterns on the Quality of Life in Massachusetts (which drafted the Growth Policy Act) would review the OSP report, hold hearings, and recommend legislative and administrative steps necessary to implement growth policies responsive to local and regional priorities.<sup>12</sup>

While the bill establishing this process did not

require any locality to participate, a very large fraction chose to do so. The communities realized that the state was serious about developing a growth policy, so most responded to protect their own interests. No penalties would be imposed if the locality did not set up a committee, but they would incur an indirect "penalty" by foregoing their input into the state planning process.

Three-hundred-and-thirty (330) of the three-hundred-and-fifty-one (351) cities and towns in Massachusetts participated in the growth policy development process. More than six-thousand (6,000) residents served as members of Local Growth Policy Committees; thousands more were involved in various local and regional hearings. For sixty percent (60%) of the cities and towns that prepared statements, the process was extremely valuable at the local level.<sup>13</sup> This is observable now that local growth management policies are more explicit, many more residents understand the implications of current growth management policies, boards and departments are pulling in the same direction rather than working at cross-purposes, action agenda have been fashioned, and individuals who never participated in local affairs have been drawn directly into the work of municipal government.<sup>14</sup>

In October, 1977, the Office of State Planning published its summary report entitled, City and Town Centers; A Program for Growth. It is divided into five sections:

(1) An overview of local perspectives on growth

management;

- (2) A region-by-region review of areawide growth management concerns and priorities;
- (3) A summary of state perspectives on growth;
- (4) An analysis of the points of agreement and disagreement revealed in the first three chapters; and
- (5) A final chapter outlining specific policy and action recommendations.

The summary of local perspectives on growth indicates that cities and towns are especially concerned about preserving their physical character, their social and cultural character, and the political or governmental organization to which they have grown accustomed. According to Local Growth Policy Committees, threats to community character include: rapid and ill-accommodated growth, environmental degradation, the loss of agricultural activities, suburbanization of outlying areas and the urbanization of inner suburbs, loss of open space and historic assets, deterioration of traditional centers, poorly planned commercial developments, and state and federal intrusion into local affairs.<sup>15</sup>

The chapter summarizing the state's view of growth management priorities is not an attempt to respond to the issues raised in the local and regional sections. Instead, it presents the key ideas which are presently being used to guide state investment and regional strategies. These were expressed in two earlier OSP position papers, entitled Towards a Growth Policy for Massachusetts and An Economic

Development Program for Massachusetts, released in October of 1975 and April of 1976, respectively. The state's emphasis is on the location and quality of growth (revitalization of center cities), the level of growth (with respect to economic development, energy, capital formation and transportation), and the role of government in stimulating and channeling growth.

The fourth chapter highlights the points on which the three levels of government agree: increasing economic development; revitalizing city and town centers; maintaining environmental quality; property tax relief; preserving farm land; and sensitizing the state to differences in community preferences.<sup>16</sup> The points of disagreement are posed as "choices": growth/no growth; public policy/market forces; regionalism/home rule; and revenue needs/tax reform.

The final chapter presents an eight part statement of growth policy objectives, which lead directly to specific action recommendations. Some of these recommendations are restatements of proposals that the Governor and his staff have been advocating for some time, while others unquestionably grew out of OSP's effort to respond to the comments of localities and regions. Excerpts taken from the introduction of the report help to illustrate these points:

The title, City and Town Centers: A Program for Growth is intended to convey a primary, though not the only, theme in this report. Certainly, all future growth could not and should not be channeled into existing cities and centers. But after a careful reading and analysis of all growth policy statements, it is clear that if Massachusetts is to retain and

revive community and regional character and if the negative fiscal, environmental and social impacts of sprawl are to be avoided, major emphasis must be placed at all levels of government on the encouragement of new growth and development in our city and town centers.

On the surface, a dilemma emerges from the growth policy process. On the one hand, communities know that the state will and must continue to grow if sufficient employment and housing are to be available for the expanding population. And yet, on the other hand, many communities want to remain the same... Villages don't want to be suburbs; suburbs don't want to be cities; and cities don't want to be wastelands. And in this general desire we have the resolution to the apparent dilemma. By revitalizing the major regional centers and by facilitating the expansion of jobs and housing in central cities we can sustain the character of these communities as employment and population centers. And by encouraging most of the increase in people and jobs in suburban and rural towns to locate in or adjacent to their centers, the identity of these communities will remain separate and distinct from their neighbors and the role of their centers in the life of the community will be enhanced.

Thus, the goal of revitalizing city and town centers is seen as a direct response to an overwhelming desire to preserve the character of the Commonwealth's communities and regions. Perhaps more importantly it is an appropriate response to the often expressed concerns about the loss of farmland, and the deterioration of the environment, exorbitant local and state taxes, the needless waste of limited energy resources, the anticipated demands for decent housing by an unprecedented number of new households, and the nagging problem of chronic unemployment.<sup>17</sup>

Apparently, the structure of the report and many of its recommendations are closely linked with OSP and gubernatorial positions. This suggests an unfortunate degree of "selective perception" (i.e., previously-held positions have dominated the process of categorizing and interpreting new information). The report is clearly a political document and therefore is not likely to include recommenda-

tions opposing the Governor's viewpoint.<sup>18</sup>

Nevertheless, there is evidence to suggest that the major problems addressed in City and Town Centers had been identified since the 1960's by state and local officials, leading citizens, and the media. The growth/urban problems as perceived in the middle and late 1970's in Massachusetts were not new or startling. The significant contribution of the Dukakis years was the linking of problems in a single coherent form, leading to a clear perspective on policy directions.

The major question that still remains to be answered is whether or not the primary objective of the Growth Policy Act - the shaping of a state growth policy responsive to local and regional concerns - could and would be achieved. In October of 1977 a critique of the report was published, entitled The Impact of Local Participation on the Formulation of State Growth Policy in Massachusetts. The authors' analysis found that, by and large, the OSP report is responsible to the concerns expressed in local growth policy statements and regional reports. They present five ways of justifying this judgement:

- (1) The choice of issues and topics discussed in the first two chapters follows those expressed in local and regional reports. Their priorities do not appear to have been manipulated by the state, although OSP did design the questionnaire and guidelines on which they were to base their deliberations.
- (2) Statewide policies have not taken regional differences into account in the past. OSP demonstrates an impressive sensitivity to regional variations

in this report.

- (3) The action recommendations are aimed at making state agencies aware of the need for increased flexibility and responsiveness to each community's priorities when administering programs.
- (4) The recommendations attempt to expand the capacity of local and regional boards to handle their own problems; few additional state regulations have been proposed.
- (5) OSP has proposed very specific measures (through action recommendations) to further the growth policy objectives of the cities and towns in the Commonwealth.<sup>19</sup>

To most observers the process seems to have been a success, since participation was active, local reports were produced, and the OSP summary report was able to reflect a surprising consensus.

Did this consensus (that city and town revitalization was central to the Growth Policy of Massachusetts) occur because of manipulation by Keefe and OSP? Were the local committees and regional agencies co-opted? William Capron thinks not, although he recognizes that OSP was able to influence the outcome in at least three ways:

- (1) By preparing the Dukakis administration's first statement on urban policy, Toward a Growth Policy for Massachusetts, released in October of 1975;
- (2) By formulating and distributing the questionnaire and handbook to local growth policy committees; and
- (3) By preparing the final report of the results of the "bottom-up" process.<sup>20</sup>

The local and regional agencies were serious about this exercise, despite their strong feelings of home rule and their skepticism toward state-run projects. If there

was any indication that the state was trying to co-opt them, local leaders would not have participated to the extent they did. This is partly confirmed by comments received after the publication of the report in September of 1977. From November 1977 through January 1978, the state Growth Policy Commission held seven hearings in various parts of the state to solicit comments from local officials, citizens, and members of local growth policy committees. Over 400 persons participated in these hearings; written and oral statements were received from about 200 persons. The Growth Commission's third interim report summarizes the results of these hearings:

The OSP report was consistently praised for accurately identifying and reporting local sentiments on important growth and development issues.<sup>21</sup>

Thus, the Growth Policy that was to shape Massachusetts' future was a combination of two separate and distinct elements. One was an attempt to develop a new process that would identify the state's most pressing issues and problems through a "bottom-up" approach. The major actors behind this effort were Senator Saltonstall, Representative Wetmore, and Professor Susskind. The other was the promotion of the established goals of the administration at that time. Dukakis and Keefe were the key proponents of this effort. Each of the elements worked in combination with the other, producing a final product that was satisfactory to most, if not all, of the many interested parties.



## Implementation

In actuality, the legislation and subsequent report were only the preliminary steps in achieving the intended results. The Growth Policy Development Act and City and Town Centers provided the framework on which to base implementation strategies. Seventeen bills have been enacted by the legislature, in direct response to specific recommendations included in OSP's report.<sup>22</sup> In addition, a number of administrative actions have been taken through executive orders, and the Growth Policy has guided state resource allocation decisions.

Several of the bills specifically focus on the revitalization of city and town centers. Three bills provide tax-exempt financing, mortgage guarantees, and property tax credit to commercial investors in blighted downtown areas. A local aid program was developed that includes a revised aid formula to help older urban communities. Specific legislation in 1978 was enacted to stimulate economic development and urban revitalization in Massachusetts.

These were developed primarily through the organization of regional conferences beginning in 1976. Extensive meetings between the localities and the state through regional centers were helpful in three important ways. First, state officials developed an appreciation for the realities of local problems. Second, the shortcomings of state programs in addressing local problems and strategies were identified and corrected. Third, and most importantly,

a cohesive working relationship between state and local officials was formed that was the catalyst in developing and approving legislation. This coalition of urban economic interests advanced the development priorities of local officials as well as created a force independent of the state to support growth policy legislation.

Mayors, community development officials, developers, representatives of organized labor, and businessmen were enlisted in the legislative process at critical times. These groups were a key element in the passage of five economic development strategies:

- (1) Legislation established the Massachusetts Capital Resource Company, to provide funding to new businesses in the state;
- (2) Legislation established the Technology Development Corporation, to provide technical assistance and start-up capital to small, innovative technology-based businesses;
- (3) Legislation established the Massachusetts Industrial Finance Agency, to add several important improvements to the industrial revenue bond process;
- (4) Legislation established the Community Economic Development Assistance Corporation, to provide technical assistance to neighborhood redevelopment organizations in their efforts to bring about commercial revitalization and job creation;
- (5) Amendment to the industrial revenue bond legislation of 1968, to include commercial and mixed use projects targeted to distressed communities.<sup>23</sup>

The long-term success of these programs depends on the capacity of state and local governments to organize and administer them. The new administration in Massachusetts under Governor King has eliminated the OSP and has turned

over implementation of the urban policy to the Department of Communities and Development. The new Secretary, Byron Matthews, played an active role in the development and implementation of the Dukakis urban policy, and much of the bureaucracy embraces the policy's central elements. Thus, the foundation and support exists by which to carry through the programs adopted by the legislature.

## FOOTNOTES

<sup>1</sup>Charles Perry and Lawrence Susskind, The Massachusetts Growth Policy Development Act: Intent and Passage (Cambridge: Laboratory of Architecture and Planning, October 1977): p. 3.

<sup>2</sup>Ibid., p. 6

<sup>3</sup>Ibid., p. 10.

<sup>4</sup>Ibid., p. 12.

<sup>5</sup>Ibid., p. 19.

<sup>6</sup>William Capron, The States and Urban Strategies: Massachusetts Urban Strategy: The Dukakis Years (Washington: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, September 1980): p. 7.

<sup>7</sup>Ibid., p. 13.

<sup>8</sup>Charles Perry and Lawrence Susskind, op. cit., p. 20.

<sup>9</sup>William Capron, op. cit., p. 12.

<sup>10</sup>Statement of Representative Robert Wetmore before the Massachusetts House of Representatives, 9 December 1975.

<sup>11</sup>Charles Perry and Lawrence Susskind, op. cit., p. 45.

<sup>12</sup>Lawrence Susskind and Charles Perry, The Impact of Local Participation in the Formulation of State Growth Policy in Massachusetts (Cambridge: Laboratory of Architecture and Planning, MIT, October 1977): p. 1.

<sup>13</sup>Lawrence Susskind and Michael Elliott, A Survey of Local Growth Policy Committees and Their Impacts (Cambridge: Laboratory of Architecture and Planning, MIT, October 1977).

<sup>14</sup>Lawrence Susskind and Charles Perry, op. cit., p. 2.

<sup>15</sup>Ibid., p. 3.

<sup>16</sup>Ibid., p. 9.

<sup>17</sup>Massachusetts. Office of State Planning, City and Town Centers: A Program for Growth (Boston: Office of

State Planning, September 1977): p. ii.

<sup>18</sup>Lawrence Susskind and Charles Perry, op. cit., p. 18.

<sup>19</sup>Ibid., p. 23.

<sup>20</sup>William Capron, op. cit., p. 12.

<sup>21</sup>Ibid., p. 13.

<sup>22</sup>Ibid., p. 18.

<sup>23</sup>Ibid., p. 21

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CHAPTER IV:  
CARD PROGRAM - RULES AND REGULATIONS



A description of the Commercial Area Revitalization District Program serves to illustrate one mechanism that was developed by the Massachusetts Legislature to achieve the goal of urban revitalization. The philosophy of the program parallels the goals of the Growth Policy for Massachusetts, displayed in the report by the Office of State Planning, City and Town Centers: A Program for Growth. It implies that urban revitalization is the keystone for social change, by restoring economic vitality and physical soundness to communities. Local revitalization programs, such as CARD, have as a major goal to attract commercial, institutional, and office investments to city and town centers, close to urban populations. This is expected to reverse the trend toward sprawl, wasteful land use, and erosion of community character. This is based on three strategic principles:

- (1) New is not always better. Revitalization links a community's past to its future, and enhances the attractiveness for private investment through the identification of its own unique "character."
- (2) The definition of revitalization programs has expanded to include the use of public investments to leverage private investment and additional public commitments.
- (3) Effectiveness of revitalization strategies is limited by the bias of federal and state investment programs toward exurban growth, which has reinforced the market bias of the last three decades. The state can help restore some balance in growth and land use decisions by changing the flow of public facility investments to city centers.<sup>1</sup>

The CARD program's goal is to assist communities with older downtowns to reverse the trend of commercial decay by stimulating public and private investment. The public provides needed capital improvements and the private sector uses the CARD program's financial incentives to reverse the cycle of commercial disinvestment. These economic development incentives, previously available only to industrial enterprises, can now be applied to commercial and mixed-use projects in targeted areas. Commercial projects may include the construction of a new building or the rehabilitation of an existing building for commercial purposes (i.e., hotels, office space, restaurants, etc.). Mixed-use projects include the rehabilitation of any single building for mixed commercial and residential use.

The first incentive provides financing at interest rates several points below conventional rates through tax-exempt industrial revenue bonds. This is negotiated between the applicant and a private lender and approved by the city and state agencies involved. The interest income to the lender is exempt from federal income taxes, and therefore the lender can offer terms more favorable than those available on conventional loans. The applicant (through a bond counsel) determines if the project meets Internal Revenue Service (IRS) size limits in order to be eligible for tax-exempt financing:

- (1) When the bond issue is over \$1 million, total capitalized expenditures cannot exceed \$10 million over a six year period (three years before and

three years after the bond issuance date);

- (2) When the bond issue is \$1 million or less, the total capital expenditures restriction stated above does not apply;
- (3) When the issue is for a project that has received an Urban Development Action Grant, the maximum capital expenditures limit is raised to \$20 million, but only \$10 million of the bond issue will be tax-exempt.
- (4) When the bond issue is for pollution control, public garages, solid or liquid waste disposal, or certain other exempt facilities, there is no limit on the size of the bond issue or capital expenditures.<sup>2</sup>

For mixed-use projects, there are additional IRS regulations:

- (1) Only renovation of an existing building, not new construction, is permitted.
- (2) Fifteen to twenty percent of the rental units must be for low to moderate income households.
- (3) No more than ten percent of the bond proceeds can go towards the commercial portion of the project, but each building must contain a commercial component.

A second incentive for enterprises includes mortgage insurance on rehabilitation of commercial buildings. This public assistance is limited to approximately \$400,000 per project, and is administered by the Massachusetts Industrial Finance Agency.

The third mechanism of the CARD program to attract private investment is through the Urban Job Incentive Program. This program, administered by the Massachusetts Department of Manpower Development, provides two forms of tax reduction: A credit against a corporation's state

excise tax liability; and a 25% payroll deduction.

Communities committed to revitalizing their downtowns can, with an approved CARD plan, offer financial incentives to developers willing to invest in the CARD area.

In order to be eligible for the program, the municipality must contain a commercial center with the following criteria:

- It must be an older established commercial center; and
- It must be experiencing commercial disinvestment. This includes a large vacancy rate in commercial buildings, loss of commercial sales, loss of significant retail businesses, or physically deteriorating commercial buildings.

Once a community has pinpointed an area that potentially qualifies, it must produce a CARD plan which contains the following components:

- (1) Rationale for designating the CARD. A statement describing existing economic development problems, clarified with data on market conditions over the past several years.
- (2) Plan Objectives. A description of how the problems in Section (1) will be addressed, and how existing commercial enterprises will be encouraged to remain in the CARD area.
- (3) CARD Boundaries. A description of the boundaries through a street and city map, and reasons for delineating those specified boundaries.
- (4) Land Use and Zoning of the district, through a description and a map.
- (5) Plan Strategy:
  - (a) Public improvements and facilities to be provided.
  - (b) Description of each project that could use the development incentives.

- (c) General character of redevelopment, including its emphasis on expanding and attracting businesses.
- (d) Local financial commitment, including issuance of general obligation bonds and use of CDBG funds.
- (e) Compatibility with downtown development, so that the plan complements existing revitalization strategies.
- (f) Land use and design controls, including signage, historic district designation, and design review.
- (g) Conformance with other local plans, including master plans, urban renewal plans and other pre-existing plans.
- (h) Business community participation, involving the plan formulation, marketing the plan, and knowledge of available incentives.
- (i) Local implementing agency's powers and experience.
- (j) Evidence of public hearing to inform citizens of the proposed CARD boundaries.
- (k) Additional documentation, including a resolution by the local governing body, a certificate by a recording officer attesting to the resolution, and an opinion by the Legislative Council that the plan is in accordance with all statutes and regulations.

The draft CARD plan is then submitted to the Massachusetts Executive Office of Communities and Development (EOCD) for review. In order for the Secretary to approve the CARD plan, the following findings must be made:

- (1) That the boundaries describe a predominantly commercial geographic area;
- (2) That the proposed CARD area is suffering from commercial decay;
- (3) That the plan describes specific strategies designed to reverse the commercial decay, in-

cluding public actions and the use of development incentives;

- (4) That the local governing body of the municipality has approved the plan;
- (5) That the business community was involved in planning the CARD;
- (6) That a strategy has been designed to publicize and educate the business community concerning available development incentives;
- (7) That the CARD plan takes into account any officially adopted local plan covering all or part of the CARD area;
- (8) That a local agency has been identified with the capability to oversee implementation, and will be responsible and accountable for the marketing of the plan;
- (9) That the local governing body has held a public hearing prior to approving the plan.<sup>3</sup>

Approval of the CARD plan remains valid for two years. After that time, EOCD reviews the plan to determine if it should be renewed for an additional two years. This is dependent on:

- (1) The use of the development incentives to date; and
- (2) The extent to which the municipality has followed through on its commitments to the CARD, including both public improvements and the strategy for involving the business community.

The important aspect of this program is that it encourages the targeting of all funding sources - public infrastructure, development incentives, and private capital - into those areas that will benefit and need it the most. This philosophy counteracts the tendency to spread scarce resources too thinly, thus resulting in no one area achieving its maximum potential. The CARD program is a catalyst for

the rejuvenation of deteriorating city and town centers across the state. It provides a unique approach to the alleviation of specific growth and development problems that are experienced not just in Massachusetts, but all over the United States.

## FOOTNOTES

<sup>1</sup>Massachusetts. Office of State Planning. Urban Massachusetts Revitalization Catalog (Boston: Office of State Planning, May 1978).

<sup>2</sup>Boston Redevelopment Authority, The Commercial Area Revitalization District Program (September 1981): p. 5.

<sup>3</sup>Massachusetts. Executive Office of Communities and Development, CARD Plans: Rules and Regulations (28 April 1981): p.3.



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CHAPTER V:  
RESULTS OF THE CARD PROGRAM

### Intention of Survey

The major goal of the CARD Program is to revitalize the decaying downtowns of city and town centers. In order to achieve this goal, it encourages the targeting of public and private resources into certain designated areas. One method that is used to attract business into these previously undesirable areas is the provision of tax-exempt IRBs. This financial incentive offers lower interest rates than on conventional loans, and provides needed capital for the location of businesses. The attraction of a few sizeable firms into the district with IRBs, along with the provision of public infrastructure, are intended to act as catalysts for the revitalization of deteriorating centers.

In order to determine whether the CARD Program is achieving its stated goals in Massachusetts, a survey was conducted for collection of primary data. The information received is expected to answer the following questions: Is the CARD Program achieving its goal of revitalizing city and town centers? Are bonds a major tool in attracting firms to decaying downtowns? Do these firms act as catalysts in revitalizing business districts? The answers to these questions will give a good indication of the current status of the program. The survey helps determine, in general, whether the program is successful or unsuccessful, from the viewpoints of the respondents surveyed. It also

pinpoints the program's strengths and weaknesses, and suggest improvements for greater effectiveness.

### Methodology

The type of survey design employed for the evaluation of the CARD Program was the mailed questionnaire. (See Appendix for a copy of the letter of explanation and the two-page questionnaire.) The population consisted of every district within the state with an approved CARD plan as of March 1982.

Since some cities contained more than one district, a separate questionnaire for each district was sent to every city and town with at least one approved plan. The letter of explanation and questionnaire (s) were sent to those persons who wrote each of the plans. Names and addresses were obtained from the CARD files at the State Executive Office of Communities and Development (EOCD), and were assumed to be accurate. It was expected that the authors of the plans were the most knowledgeable about the background of the program, the problems encountered in carrying it out, and the prior conditions in the district. It is possible that the current situation was unknown if the author was no longer employed in that town, but it was assumed that the information could be easily obtained. The potential for systematic bias always exists, since those who completed the survey may have been those most informed or interested in the program. It is realized that those who answered may have had the most information to report,

i.e., the greatest amount of activity in their districts. Thus it is possible that a proportionally greater amount of activity was reported than actually took place across the State.

Strict confidentiality was assured, so as to obtain the most truthful answers and comments. Trends in the data across the state were to be determined, not case studies of individual towns.

Open-ended questions and a comment section allowed for as much flexibility in the answers as possible. This left some discretion in the analysis, but most answers tended to follow a pattern and could be categorized. Trends and causal effects were expected to become apparent in the analysis of the factual and attitudinal data received.

#### General Information

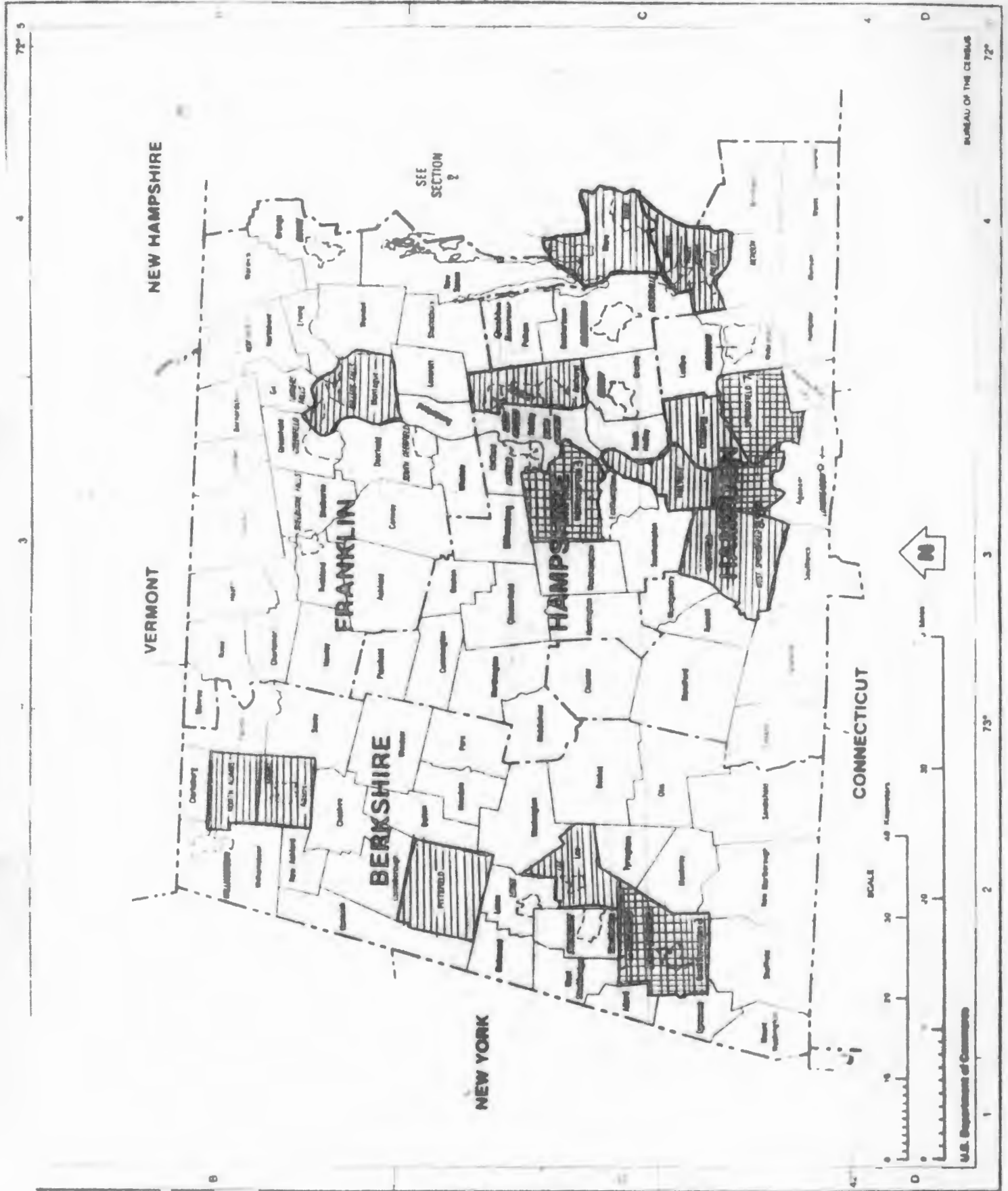
The Executive Office of Communities & Development (EOCD) began approving CARD plans at the end of 1978. Since that time, 93 cities have received plan approval, for a total of 153 districts. Table 3 gives a list of the cities and towns by population with the number of districts located within each. Map #1 presents the spatial distribution of the cities and towns with CARD plans. Table 4 gives the number and percentage of districts according to the population of the city/town in which they are located. These figures are presented to be compared with the cities/towns that answered the questionnaire.

TABLE 3  
CITIES AND TOWNS WITH APPROVED CARD PLANS

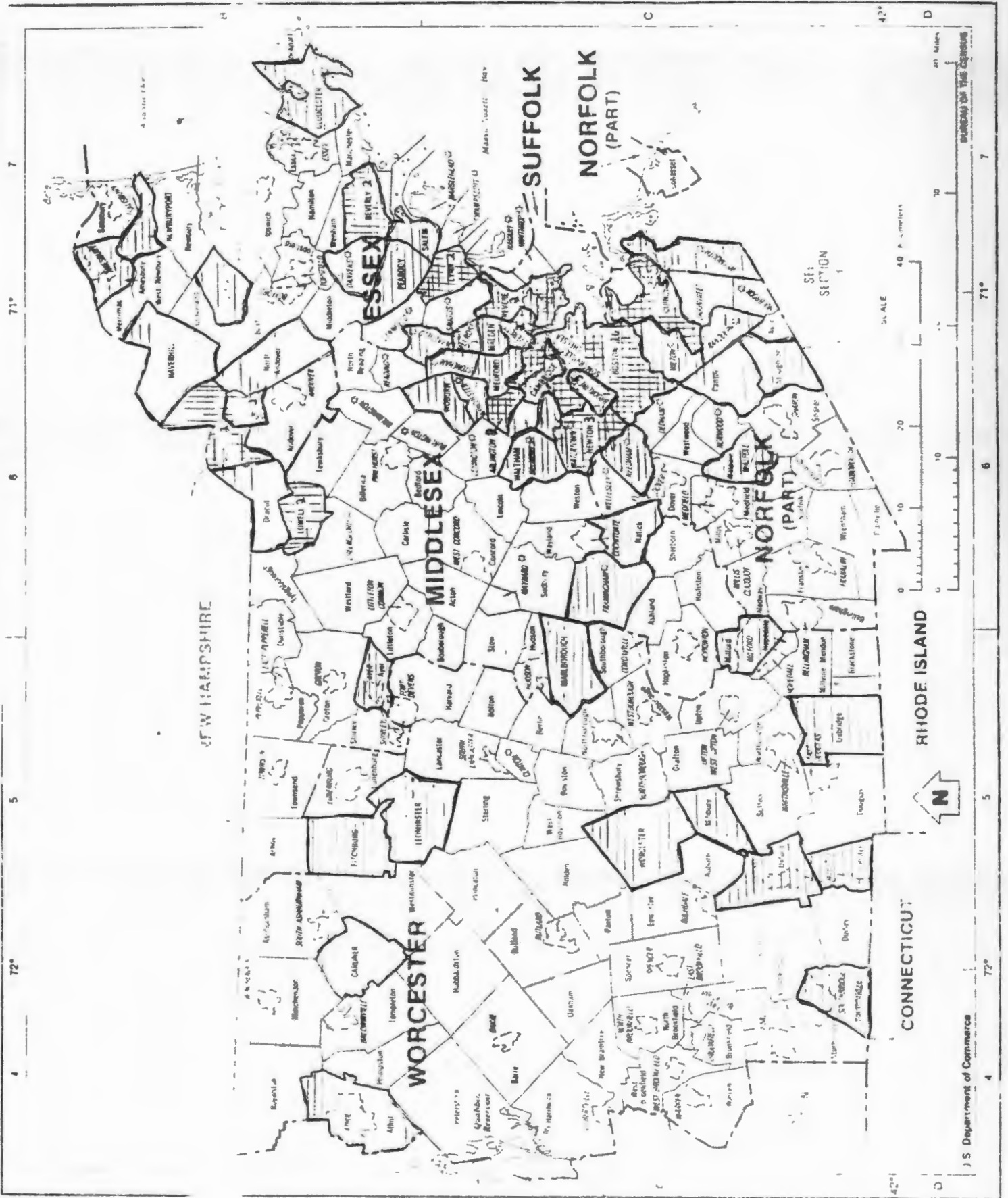
City/Town	1980 Popu- lation <sup>a</sup>	# of Dis- tricts		City/Town	1980 Popu- lation <sup>a</sup>	# of Dis- tricts
Boston	563,000	20	*	Bourne	14,000	1
Springfield	152,000	7	*	Brockton	98,000	1
Cambridge	95,000	6	*	Canton	18,000	1
* Brookline	55,900	5	*	Chelsea	25,400	1
* Quincy	84,500	5		Chicopee	55,100	1
Newton	83,600	3		Clinton	12,800	1
Northampton	29,300	3	*	Danvers	24,000	1
Arlington	48,200	2	*	Dracut	21,200	1
Beverly	37,600	2		Easton	16,600	1
Everett	37,200	2	*	Fitchburg	39,000	1
* Fall River	98,000	2		Framingham	65,100	1
* Falmouth	23,600	2		Gardner	17,900	1
Gt. Barrington	3,000	2	*	Georgetown	5,900	1
Lawrence	63,100	2	*	Gloucester	26,000	1
* Lowell	94,000	2		Greenfield	14,200	1
Lynn	78,000	2		Haverhill	46,900	1
* Melrose	30,000	2		Holyoke	44,700	1
* Methuen	36,700	2	*	Lee	6,400	1
* New Bedford	98,500	2		Leominster	34,500	1
Revere	42,400	2		Malden	53,400	1
* Wareham	18,500	2	*	Mansfield	14,000	1
W. Springfield	27,000	2		Marlborough	30,600	1
Abington	13,500	1		Marshfield	4,000	1
* Adams	10,400	1		Medford	58,100	1
* Amesbury	13,700	1		Middleboro	7,000	1
Amherst	17,800	1	*	Milford	23,500	1
Andover	8,400	1	*	Millbury	12,000	1
* Athol	11,000	1	*	Montague	8,000	1
* Attleboro	34,500	1	*	Natick	31,200	1
* Ayer	6,800	1		Needham	27,900	1
Barnstable	2,000	1	*	Newburyport	17,000	1

TABLE 3 (continued)

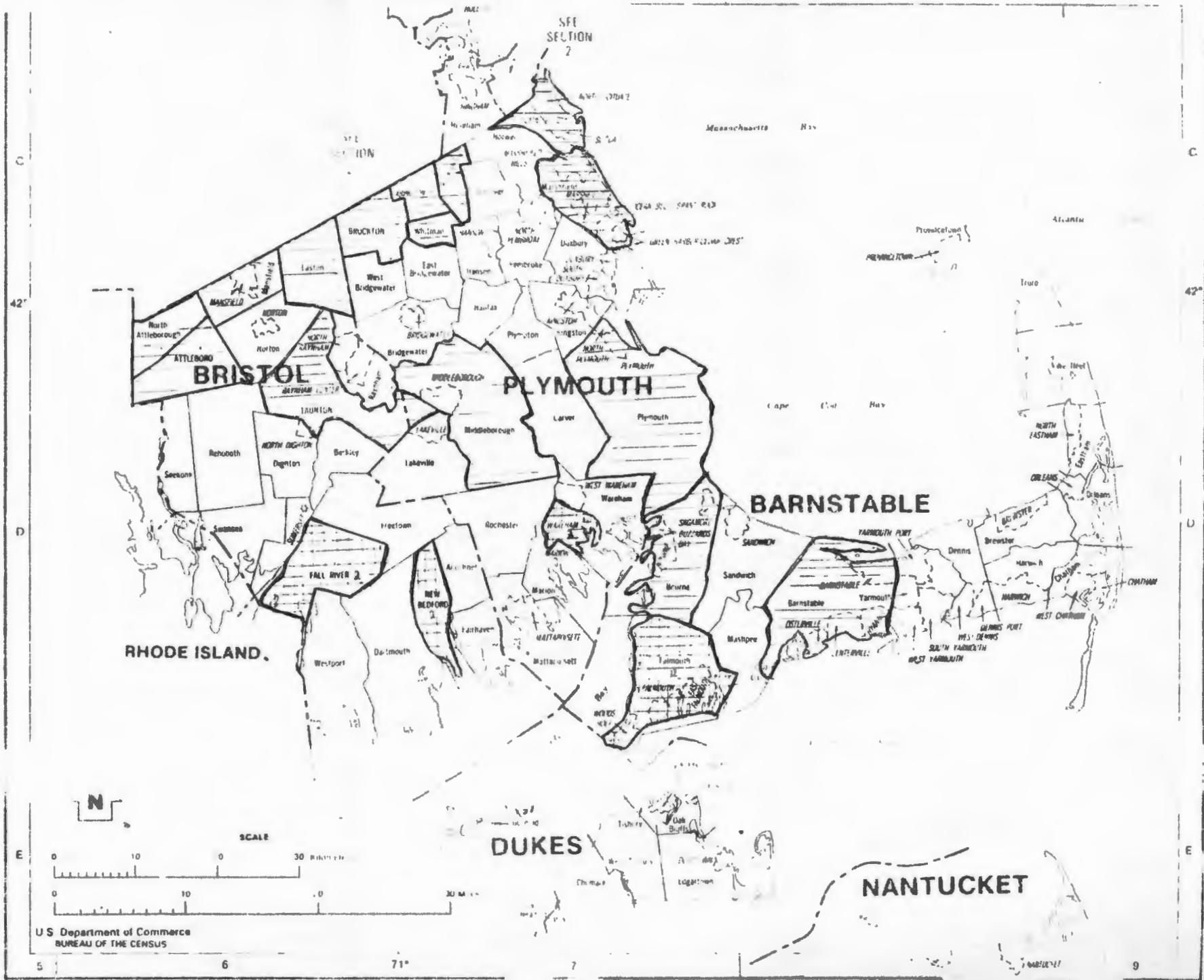
City/Town	1980 Popu- lation <sup>a</sup>	# of Dis- tricts
N. Adams	18,000	1
* N. Andover	20,100	1
N. Attleboro	21,000	1
Oxford	6,000	1
Palmer	4,000	1
* Peabody	48,000	1
* Pittsfield	52,000	1
Plymouth	7,232	1
Randolph	28,200	1
Rockland	15,700	1
Salem	38,200	1
* Scituate	17,300	1
Southbridge	12,900	1
Stoneham	21,400	1
Stoughton	26,700	1
* Taunton	45,000	1
Uxbridge	8,400	1
Wakefield	24,900	1
* Walpole	18,500	1
* Waltham	58,200	1
Ware	6,800	1
Watertown	34,400	1
* Webster	14,500	1
Westfield	36,500	1
Weymouth	55,600	1
Whitman	13,500	1
* Winchester	22,000	1
* Woburn	35,000	1
* Worcester	162,000	1
* Cities/towns that answered the questionnaire, and the population that each reported.		
<sup>a</sup> U.S. Department of Commerce, Bureau of the Census. Massachusetts, 1980. (Population of those cities/towns that didn't answer the questionnaire.)		







(04)



Cities/towns with one approved plan.

Newtons

Cities/towns with more than one approved CARD plan.

TABLE 4

NUMBER AND PERCENTAGE OF TOTAL DISTRICTS AND THOSE THAT RESPONDED TO THE QUESTIONNAIRE ACCORDING TO THE POPULATION OF THE CITY/TOWN IN WHICH THEY ARE LOCATED.

Population	Total # Of Districts	<u># Of Districts (Within That Pop. Cat.)</u> Total # Of Districts	# Of Districts That Responded	# of Districts That Responded./ Total # Of Districts In That Pop. Category
Under 10,000	15	10%	4	27%
* 10 - 15,000	12	8%	7	58%
* 15 - 20,000	11	8%	6	55%
20 - 30,000	21	14%	10	48%
30 - 40,000	15	10%	6	40%
40 - 50,000	8	6%	2	25%
* 50 - 60,000	11	8%	7	64%
60 - 70,000	3	2%	0	0
70 - 80,000	6	4%	0	0
* 80 - 90,000	8	6%	5	63%
* 90 - 100,000	12	8%	6	50%
* Over 100,000	23	16%	16	70%
Total	145	100%	69	--

\* Those population categories in which information was received for at least 50% of the districts in that category.

## Analysis of Data

Of the 93 cities/towns that comprised the population of the study, 42 returned the questionnaire. This is a 45% response rate. Of the possible 153 districts with active plans, data was received for 71 of them. This 46.4% response rate is the more important of the two for this analysis. This sample was considered to be a good representation of the cities and towns that contained districts. All percentages calculated and trends charted for the sample were assumed to be indicative of the program in general.

Column 4 of Table 4 shows the percentage of districts for which data was received by population size of the corresponding city. (Question #2). Those districts for which data was received tended to be located in the larger cities (80,000+), but this is due in part to those cities having the greatest number of districts. Greater than 50% of the districts responded from towns with a population from 10,000 - 20,000 each. Of those that answered the questionnaire, 30% had their plans approved before 1980, 38% were approved in 1980, and 32% were approved in 1981. (Question #7) (See Table 5).

In order to put the data into perspective, it is important to know who the respondents were; 96% can be classified as city or town planners or planning officials, i.e., Planning Board chairmen, Redevelopment of Community Development officials, economic development specialists, etc. The remaining 4% were "others", i.e., Selectmen,

TABLE 5  
YEARS WHEN PLANS WERE APPROVED

Year	Total # of Approved Districts	% of Total Districts	# of Districts That Responded	Total # That Responded
(97) 1978	2	1%	1	1%
1979	34	23%	19	29%
1/80 - 6/80	31	21%	10	15%
7/80 - 12/80	37	25%	15	23%
1981	41	28%	21	32%
1982*	3	2%	0	0
Total	148	100%	66	100%

\*Plan approval as of March 1982.

local Industrial Development Finance Authority officials. (Question #1). A reasonable assumption was made that these people were well-informed about activities in their locality.

The type of commercial centers that were designated as CARDS were as follows: 56% were primary central business districts (CBDs), 30% were neighborhood commercial districts, 10% were secondary CBDs, and 4% were considered to be "strip development" within larger cities. (Question #4).

The questionnaire provided a table on which to list the businesses (by type) that exhibited "activity"; i.e., those that have moved into the district, expanded, or moved out since the plan was approved. Pertinent data that describes each business was requested. Thirty-seven percent (37%) of the districts reported no activity as of yet. Thirty-eight percent (38%) of these were recently approved (in 1981 or 1982), so it may have been too soon to evaluate the success of these districts. The other 62% which have had considerable time to attract businesses listed various reasons for no activity.

Of the 63% that did report activity, a total of 107 businesses, or 96%, have moved into the district or expanded, and only 4% (five businesses) have moved out of the district. These existing firms were all small retail shops; i.e., clothing store, shoe store, camera shop, furniture store, pizza shop. These employed only a few people each. Of those that did locate or expand in the district, 79% were new businesses that moved in and 21% were already

located there, but expanded.

Table 6 lists the types of businesses that located and expanded in the district, and the percentage of each. Since the questionnaire was open-ended, the respondents listed the types of businesses according to their own classification system. No standard definitions were provided, so these categories may not be mutually exclusive. Business/office buildings were represented the most, accounting for 36% of all those who located in the districts. Other uses, i.e., banks, food and clothing stores, services, etc., ranged from three to nine percent each.

The incentive used the most by businesses to locate or expand in the CARDS was the industrial revenue bond. Sixty-six percent (66%) of all 107 businesses used the advantage of tax-free interest on their loans. Table 7 lists the types and percentages of businesses that used the bonds. Office buildings accounted for 53% of the bonds used, while banks accounted for 11%. Table 7 also gives the percentage that used bonds within each type of business. For example, all (100%) of the retail malls, theaters, mixed use, and motels that located in districts used revenue bonds. Only 33% of the food stores, clothing stores, and restaurants used bonds.

Of the 55 bonds that had cost figures attached, a total of \$106,607,000 in bonds was reported. This averaged out to approximately \$2 million per project. Five very large projects received bonds between \$7 and \$10 million

TABLE 6  
 TYPES OF BUSINESSES THAT LOCATED  
 OR EXPANDED IN THE DISTRICT

Type of Business	Total # of Businesses	% of Total
Offices	40	36%
Banks	10	9%
Services	9	9%
Misc. Stores	8	7%
Food Stores	7	7%
Clothing Stores	6	6%
Medical	6	6%
Restaurants	6	6%
Misc. (School, Video)	6	6%
Theater/Museum	3	3%
Hotels	3	3%
Retail Malls	2	2%
Mixed Use	1	1%
Total	107	100%



each. Six small projects used bonds between \$150,000 and \$250,000.

Bonds were backed by other public financing in at least fourteen cases. Of the fourteen bonds supplemented, Urban Development Action Grants (UDAGs) were used for half of the projects. Table 8 lists the types of other financing by amount, and the corresponding IRB figure.

Employment generated in downtowns with the help of the CARD program was a good indication of the program's success. It was possible to determine which businesses located in the district due in part to CARD incentives by counting the number that used bonds. Employment figures were reported for 77 businesses, and they generated a total of 5784 jobs. Ninety-seven percent (97%) of these jobs were provided by the 59 firms that used bonds. That calculated out to be 95 jobs per firm, as opposed to 10.6 jobs per firm for those that didn't use bonds. Obviously, firms that used bonds were large employers.

Ownership status was reported for 70 businesses; 47% were corporations, 24% were individuals, 23% were partnerships, and 6% were non-profit corporations and trusts. Those firms that used bonds were 55% owned by corporations, 34% by partnerships, 9% by non-profit corporations and trusts, and only 2% by individuals. This was contrasted by non-bond users, which were 62% individuals, 35% corporations, and 3% partnerships. The conclusion reached is that corporations tended to take advantage of bonds, and

TABLE 7

## TYPES OF BUSINESSES THAT USED BONDS

Type	# Of Businesses That Used Bonds	% Of Businesses That Used Bonds	Total # Of Businesses	# of Businesses That Used Bonds <u>Total # of Businesses</u>
Offices	37	53%	40	93%
Banks	8	11%	10	80%
Medical	5	7%	6	83%
Services	5	7%	9	56%
Theaters	3	4%	3	100%
Retail Mall	2	4%	2	100%
Food Stores	2	3%	7	29%
Clothing Stores	2	3%	6	33%
Hotels	3	3%	3	100%
Restaurants	2	3%	6	33%
Mixed Use	1	1%	1	100%
Total	70	100%	93	100%

TABLE 8

## TYPES AND AMOUNTS OF OTHER FINANCING

Other Financing Catagories	# Of Projects	Amount	Amount Of Bonds
UDAG	7	\$13,994,000	\$36,434,000
Private	3	8,800,000	11,500,000
Urban Renewal Funds	1	181,000	213,000
312 Loans	1	100,000	400,000
CDBG	2	80,000	470,000
Total	14	\$22,155,000	\$49,017,000

individually-owned firms tended not to.

When asked if the respondent thought that the businesses would have located in the district without the subsidy, 68% thought that it probably would not have. (Question #4).

Sixty-seven percent (67%) of all 107 businesses rehabilitated older buildings in the district and 33% constructed new buildings. Sixty-four percent (64%) of the businesses that used bonds rehabilitated buildings. (Question #5).

Twenty-one percent (21%) of the CARDS were partially or entirely located in a National Register Historic District.

Eleven firms were reported as having considered another site for location. (Question #5). Of these, nine used bonds to locate in the district. Four contemplated another town, three were interested in the strip development nearby, two considered other sites in town, and one each considered the suburban shopping mall and the intersection of two major highways.

Forty-one percent (41%) of the CARDS reported "strip development" nearby. (Question #10). Seventy-six percent (76%) of these strips have stayed the same, and 24% have expanded. (Question #11). Of those strip developments that expanded, all the CARDS in the vicinity reported a decrease in their vacancy rate. (Question #9).

When asked if parking had become strained in the district since approval, 58% said no, 18% - yes, 11% - always has been, 9% - same, and 4% - yes, but more parking is being provided. (Question #16).

Seventy-three percent (73%) of the districts reported the provision of public infrastructure. (Question #17). Twenty-three percent (23%) of this was the upgrading of streets, 19% was for parking, 19% for sewers, 11% for sidewalks, 9% for water mains, 8% for landscaping, 6% for lighting, and 5% for traffic improvements. Forty-six percent (46%) of the funding for this infrastructure was Community Development Block Grant (CDBG) money; 15% was from local funds; 15% was from UDAGs; 8% was from state funds; 8% was from Economic Development Administration (EDA) funds; and 8% was from the Urban Systems program. (Question #17).

When asked who initiated the idea to establish a district, the breakdown was reported as follows: 46% by the city/town, 22% by the planning department, 13% by businesses, 7% by both the city and businesses, 6% by both the planning department and businesses, and 6% by both the planning department and the city/town. (Question #12). Of the businesses that requested the plan, half of them eventually located in the district using a revenue bond. (Question #13).

The vacancy rate in 82% of the districts had stayed the same since plan approval. No districts had shown an increase, and 18% had decreased their vacancy rates. This drop was significant, at an average of 41% per district. Before plan approval, the average vacancy rate was 11.7%, as opposed to 8.3% afterward. (Question #9).

Eighty-three percent (83%) of the respondents felt

that there had been at least some visible improvement in the district since the CARD program was initiated. (Question #18). Seventy-eight percent (78%) said property values had increased in the district (Question #19), and 86% said that the tax base had increased. (Question #20). It was not possible to determine how much the CARD Program had exclusively contributed to this revitalization, since other efforts and market forces may have been working in combination with CARD. However, only 22% of the respondents felt that the district would have been revitalized without the program. Twenty-four percent (24%) envisioned revitalization eventually, but they felt that it would not have occurred so soon or as quickly without CARD. (Question #21).

Question #22 requested a description of the problems that the respondent had experienced with the program. Thirty-three percent (33%) claimed that they had no problems whatsoever with the program. Thirty-six percent (36%) of questionnaires received explicitly stated that the major problem with the program was that the use of the IRB incentive was restricted to large firms. The cost of the bond counsel was prohibitively high, and made the issuance of bonds under \$200,000 unprofitable. EOCB is currently working on a solution to this problem, which is considered to be the major flaw in the program. It consists of a provision for "umbrella loans", in which a number of projects can each get a separate loan, but share one bond and one bond counsel. This would reduce the processing costs, and

make smaller loans feasible. The bonding process discriminates against smaller towns who have trouble attracting the larger enterprises that tend to use the bonds. Therefore most towns don't receive the full range of intended benefits from the program. But the problem is not restricted to the small towns. One-half of Boston's twenty districts have had no bonding activity. These are all neighborhood commercial districts that have attracted projects with development costs under \$250,000. The bond council would cost \$20,000 each, so in the long run it is not a profitable deal. One respondent suggested that the revenue bonds be supplemented with a special provision in the district for Small Business Administration (SBA) loans.

Eight percent found that banks were not interested in issuing the revenue bonds. A few other problems were stated once or twice, such as the bond's interest rate is still too high for many firms to borrow money at, the packaging of the bonds was difficult, and obtaining financing was difficult for firms even if the plan was in place.

#### Trends in the Program

The analysis of this data and the results of various cross tabulations present important implications concerning the CARD Program. The program is generally attracting businesses from out of the area to locate in the district, and is encouraging the expansion of existing firms somewhat. Very few businesses have been forced out, with the aggregate result being a net increase in businesses. This is one in-

dication that the districts are being revitalized. Most of the businesses that locate in the districts used revenue bonds. These firms tend to be large, labor intensive, corporate-owned offices that have rehabilitated existing buildings for occupancy. The bonds were successful in redistributing firms from what are often thought of as more desirable areas to these decaying downtowns. This indicates that the bond incentive is extremely important for the proper functioning of the CARD program. The bonds have contributed to the revitalization of the city and town centers by attracting large businesses that provide new employment for the area. These firms serve as the critical anchor that is crucial in any revitalization effort. They provide spinoff benefits to the district and make it less risky for smaller firms to locate nearby. It overcomes the "prisoner's dilemma", (see page 114) which is a persistent problem in less desirable areas.

In addition to private firms contributing to the district, almost all of the towns are displaying their commitment to the area through the provision of public infrastructure, and the targeting of funds. Most of the cities/towns initiated the process to produce a plan, which highlights the "decaying" district as the focus for the town's revitalization efforts.

The combination of public and private commitments to designated areas is the surest way to achieve the goals of the CARD Program. The statistics show that vacancy rates

have dropped substantially in certain districts, and that property values and the tax rates have increased in most districts. A consensus has emerged that the CARDS show a definite visible improvement since inception.

Thus, the three questions posed at the beginning of this chapter can be answered in the affirmative. The CARD Program is achieving its goal of revitalizing city and town centers; bonds are a major tool in attracting firms to decaying downtowns; and these firms are acting as catalysts in revitalizing the commercial districts.

Comments received on the questionnaires highlight the localities' confidence in the program. (Question #23). A number of the respondents stated that CARD was the key to their revitalization efforts. It is a successful tool in rejuvenating their decaying downtowns, and has brought life back into their dying community. Many feel that it is a superior program that can promote an area's full potential when used in combination with other tools. The program has opened communication between the public and private sectors, and a working relationship has been established through the CARD Program. This is a valuable outcome that will perpetuate and add to the success of future endeavors.

The concept of the CARD Program has been transformed into reality in Massachusetts. Concrete results are quantifiable, and the program can be adequately evaluated. With this information presented, a conclusion can be reached concerning the value of revenue bonds when used in specific



situations.

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CHAPTER VI:  
CONCLUSION

## Does The CARD Program Justify The Use Of IRBs?

Chapter II highlights the controversial nature of IRBs, and outlines some of the major problems that exist in their continued use. These assertions are justified when directed at the IRB legislation in general. But these negative reports have failed to consider alternative ways of using IRBs. They take the narrow viewpoint that IRBs are generally not working, and therefore have no justifiable use and should be completely eliminated. This paper attempts to move beyond this stunted analysis by evaluating a targeting program that incorporates revenue bonds into its functioning. A reiteration of the fundamental shortcomings of IRBs is posed, and the CARD Program's response to these is presented.

A major contention is that bonds do not affect firms' location decisions because they are available in almost every state of the Union. The original intent of the legislation has been disguised, resulting in a solution that does not attend to the problem. The CARD Program however, requires businesses to locate in a certain designated area in order to receive the subsidy. Targeting assures that the bond will benefit distressed areas. Moreover, evidence shows that almost all of the firms who chose the district over an alternative location used revenue bonds.

Currently, the federal IRB legislation allows a firm to locate anywhere and receive the subsidy. This includes affluent, high employment communities in which the firm

would have located anyway. The CARD Program affects location decisions on an intra-regional level, or more precisely, an intra-city level. This means that businesses will be redistributed from the prosperous strip development and suburban shopping malls (where demand for space often tends to exceed the supply) into the older downtown commercial centers (where the supply of space generally exceeds the demand). Firms need to see that the city is committed to the downtown area, by improving on the existing infrastructure and channeling available funding into that area. The incentive makes the downtown location more attractive by reducing the risk involved.

The Investment Bankers Association (IBA) contends that the issuance of revenue bonds is getting out of hand, and some measure should be taken to restrict their use. This is exactly what the CARD Program does; it realizes that bonds as incentives are not properly used in many cases, so it limits them to specific areas where they will be advantageously utilized.

The long-standing argument over what constitutes a "public purpose" continues to be debated. IRBs use public funds to subsidize businesses, so it is deduced that federal taxes are aiding private enterprise. The problem with this argument is that the ultimate goal of the subsidy is being overlooked. It is true that public money is being transferred to the private sector, but this is not meant to be the end result. These subsidized firms in turn are

expected to provide jobs to these unemployment areas, which will eventually create spinoffs i.e., complementary businesses, that lead to revitalization of the whole area. Many argue that if a business uses a bond to locate in a previously prosperous area in which market forces are working favorably, then the bond is not being used for its intended purpose. The CARD Program dispels this argument by designating the neediest areas, and directing bonds to commercial centers that will benefit the most. The provision of jobs and upgrading of a city/town constitutes a public purpose that is the responsibility of the whole nation.

Others point out the inequity that results from only certain firms receiving IRBs. Businesses in the area that don't receive the subsidy are discriminated against, and it upsets market competition. This is true if the subsidized firm is a direct competitor of an existing firm. But the CARD Program is sensitive to this by not approving a bond when there is a competing firm nearby which is prospering. In addition, many of the districts are initially risky areas where few single firms would consider locating in isolation. However, if all businesses at the same time agreed to locate in the district, then no subsidy would be needed to revitalize the area. In reality this never happens, and is known as the "prisoner's dilemma". This means that the first few businesses to enter a distressed area require an advantage to overcome the prisoner's

dilemma. Once this process is begun and spinoffs are created, the area is no longer distressed and should lose its CARD designation.

Economists say that redistributing firms by providing subsidies leads to inferior resource allocation. Firms will not be as efficient in the forced location as in the area that would be chosen according to market mechanisms because they would not be maximizing their cost/benefit ratio. This means that there would be reduced national productivity and a lower gross national product (GNP). But businesses are only concerned with their own expenditures when they choose a location. They don't consider the money the government must spend so that they can locate wherever the market steers them. They take for granted the provision of infrastructure which the government often automatically provides according to the whims of business. The government goes deeper into debt and taxes are raised each time new infrastructure must be provided. In addition, environmental considerations are often neglected by business. Haphazard growth involves hidden costs that must be addressed eventually. Our scarce natural resources must be protected by government through the promotion of concentration of growth. Business profit-maximization decisions may be wasting valuable resources, because only one side of the picture is looked at. Market location decisions may be efficient for business in the short run, but may not be in the best interests of the nation in the

long run. The Massachusetts CARD Program was designed to capitalize on existing infrastructure in established city and town centers. It is inefficient from the national point of view to abandon useable infrastructure or to spend more money providing it somewhere else. In addition, established cities and towns each possess a unique character that deserve to be maintained. The costs of sprawl are too easily overlooked, and should be checked by controlling and targeting growth into existing city and town centers, the chief goal of the Massachusetts Growth Policy.

Thus the CARD Program's goals present a sound approach to growth policy. Most of the shortcomings of the present IRB legislation are eliminated when applied to the CARD philosophy. In order to determine whether the use of bonds in this capacity is justified, the success of the CARD Program in achieving its goals must be proven. In addition, bonds must be an integral part of this success. Chapter V confirms the success of the program with the use of IRBs, by presenting empirical data. In general, districts show signs of visible improvement since the inception of the CARD Program. This revitalization would not be possible without the availability of IRBs. Thus, through successfully achieving its goal of revitalization, the CARD Program presents a justifiable and beneficial use for industrial revenue bonds.

#### Recommendations

The Federal government has seriously considered the complete elimination of industrial revenue bonds. This is



due to the tremendous loss of money to the federal treasury, and the extensive publicity covering the exploitive use of bonds by large profitable companies.

The repeal of all industrial revenue bonds means that the CARD Program will lose its major implementing device. This is illogical since the program is successful and dispels most of the problems facing bonds. Proponents obviously have not examined all the facets of IRBs and their potential. If they had, they may have realized that it is not an "all or nothing" decision. IRB legislation should be reassessed in terms of the variations that exist for their use.

General IRB legislation for business enterprises is responding to old problems. Their use began in the 1930s in response to inequalities caused by the Industrial Revolution. These problems are no longer occurring in the same form. New problems have emerged, and we are still using an old remedy that was not designed for our current situation. This is why the legislation must be rethought and manipulated to respond to today's world. The economy of the Northeast and the role of cities in general are being transformed from that of production centers into service centers. This evolutionary process cannot and should not be disputed. Rather, programs should respond to this changing structure by promoting the service industry in city and town centers. This should be undertaken not just in the booming regions. A balance must be reached

for equity across the U.S. Since the CARD Program uses bonds for this purpose, it has found a way to employ the subsidy for current needs. Targeting bonds to specific areas and for specific purposes is the key to their successful future.

Additional research into this area is necessary before any amendments could even be suggested. IRBs have been selectively used in various ways in a few regions in addition to Massachusetts, i.e., Erie County, New York; New Jersey metropolitan areas; Portsmouth, Oregon. However, the Massachusetts program appears to be the most sophisticated and structured approach. The other methods should be evaluated also, to extract any successful variations for the improvement of the CARD philosophy. The foundation exists for bonds to be fine-tuned to serve a useful purpose again. A concerted effort must be undertaken to refine and polish the functioning of the CARD Program with the use of IRBs, so that it can act as a model for all the states in the Union to follow.

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APPENDIX

Department of Community Planning  
36 Upper College Road  
University of Rhode Island  
Kingston, RI 02881  
March 5, 1982

re: CARD Plan

Dear Sir/Madam:

I am currently a second-year graduate student in the Department of Community Planning and Area Development at the University of Rhode Island. This questionnaire is an integral part of my Master's thesis project, entitled, "An Evaluation of the Massachusetts's Commercial Area Revitalization District Program." Each individual or group throughout Massachusetts who wrote a CARD plan will receive this questionnaire, and I am hoping to obtain as close to a 100% return as possible. If you are not the aforementioned party, please forward this to the author of the plan.

You can be assured that your responses will remain completely confidential. This data in no way will be disaggregated by town; I am looking for trends in the data for the State as a whole. I have been in contact with, although not commissioned by, Mr. Ed Mangini from the Executive Office of Communities and Development. He will review this report upon completion in May of 1982.

It would be greatly appreciated if you would complete one questionnaire for each district in your community, and return it promptly to the above address. If you have any questions whatsoever, please feel free to contact me at home (401-789-1455), or leave a message at my office (401-792-2248) and I will get back to you shortly. Thank you very much for your time and effort.

Sincerely,

Jeanmarie Miller



6. Is the CARD in a National Register Historic District? \_\_\_\_\_
7. When was the CARD plan approved? \_\_\_\_\_
8. Date plan was renewed: \_\_\_\_\_ Renewal not requested: \_\_\_\_\_
9. Vacancy rate in district prior to plan approval: \_\_\_\_\_ Currently: \_\_\_\_\_
10. Is there an established "strip development" within a few miles of the district that contains the same types of businesses? \_\_\_\_\_
11. Has this expanded, declined, or stayed the same since approval? \_\_\_\_\_
12. Who initiated the idea to establish a CARD district (i.e., town, business, Chamber of Commerce, etc.)? \_\_\_\_\_
13. If a single business requested the plan, has it located in the district using a revenue bond? \_\_\_\_\_
14. Do you think the business would have located in the district without the subsidy? \_\_\_\_\_
15. Are there similar market areas nearby where the business could have located? \_\_\_\_\_
16. Has parking in the district become strained since approval? \_\_\_\_\_
17. What types of infrastructure has the city provided in the district, and how was it funded? \_\_\_\_\_  
\_\_\_\_\_
18. Is there a visible improvement in the district since approval? \_\_\_\_\_
19. Have property values generally increased in the district? \_\_\_\_\_
20. Do you feel that the tax base has increased in the town? \_\_\_\_\_
21. Do you think the revitalization of this commercial district would have taken place in the near future without the program? \_\_\_\_\_
22. What problems have you experienced with the program?
23. Other comments: (Attach an additional sheet if necessary)