Rebuilding Renewal: An Analysis of State Investment in Gateway Cities and a Work Plan for Delivering Transformative Development

Dan Hodge and Benjamin Forman

To achieve measurable, beneficial impact in Massachusetts’ gateway cities, the state must increase and coordinate its investment to produce transformative development through projects that catalyze significant follow-on private investment, ultimately leading to the renewal of entire downtowns and urban neighborhoods. That would include greater strategic investment in economic development and housing, which although most clearly related to growth and revitalization, represents just 14 percent of the state’s investment in gateway cities.
INTRODUCTION

The loss of jobs in the manufacturing industry over the past few decades has led to serious long-term economic contractions and distress in many U.S. cities (small and large), including the Gateway Cities of Massachusetts. Most commonly associated with Rust Belt cities like Detroit, Cleveland, and Buffalo, their declining economic fortunes can be quickly summarized by the drastic reduction in population that these cities have experienced. For example, Cleveland’s population has fallen from approximately 900,000 in 1950 to less than 400,000 today. As described in a recent article in The Economist, the success of economic clusters and their cities can be fragile and challenging to turn around:

Cleveland is a reminder that decline can be as self-sustaining as success...The city’s story is also a warning that rebuilding clusters is fiendishly hard...And reversing decline is harder than capitalizing on success.1

Cleveland, Detroit, Buffalo, and other larger cities tend to grab the headlines of current efforts to revitalize U.S. cities and help them transition to a more prosperous economic future. For example, the Buffalo Billion is a fairly recent initiative in New York to provide a large, catalytic stimulus of investment to overcome decades of disinvestment. This major commitment is focused on

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Figure 1. Massachusetts Gateway Cities

According to M.G.L Chapter 23A, put in place in 2009 and amended in 2010, a Gateway City is a community with a population greater than 35,000 and less than 250,000; a median household income below the Commonwealth’s average; and a rate of bachelor’s degree holders below the Commonwealth’s average. The Massachusetts Gateway Cities include Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield, and Worcester.

Source: Adapted from http://Massdevelopment.com/assets/pdfs/annual-reports/TDI_report_022016.pdf
rising above more incremental approaches that have been tried in the past, and has already led to a corresponding Upstate Revitalization Initiative in New York’s small-to-midsized cities. Here in Massachusetts, while our largest city (Boston) is well-positioned as a dynamic, knowledge-based economic engine that is experiencing measurable growth, we have many smaller regional cities with a tradition of manufacturing that are still struggling to successfully participate in today’s economy.

Over the last decade, Massachusetts has fundamentally shifted its understanding of the needs and opportunities of small-to-midsize cities anchoring the Commonwealth’s regional economies. The state now places considerable priority on efforts to make these so-called Gateway Cities stronger drivers of growth. But, despite this focus, economic conditions in Gateway Cities remain fundamentally weak.

As recent efforts have not moved the needle on key measures related to income, real estate values, and socioeconomic conditions, we must ask what it will take to help Gateway Cities resume their key function as drivers of regional growth and economic mobility. To help answer that question, this article presents new information and analysis regarding:

1) state investment in Gateway Cities
2) real estate development trends
3) recent policy change and the fiscal context for future state investment in Gateway Cities.

This analysis demonstrates that, if there is to be measurable beneficial impact in Gateway Cities, the state must invest more and coordinate this investment to actually produce transformative development — projects that catalyze significant follow-on private investment, leading over time to the renewal of an entire downtown or urban neighborhood.

**STATE CAPITAL INVESTMENT IN GATEWAY CITIES**

We compiled estimates of state capital investment in Gateway Cities over the five-year period spanning FY 2009 through FY 2013. Capital investment is broadly defined as public spending on long-lived physical assets such as transportation infrastructure, housing development, or new public school facilities. In some cases, this spending is supported by general obligation bonds; in others, the investment flows through state tax credits.

Enacted in 2009, the official legislative recognition of Gateway Cities in Massachusetts has allowed the state to prioritize certain cities for investment purposes. For example, the MassWorks program, which consolidated a number of individual infrastructure investment programs into a “one-stop shop,” now requires that at least 50 percent of investment goes to Gateway Cities. While many of these funding priorities were developed under the Patrick administration, the Baker administration has increased the emphasis on state support for local economic development.

Despite this focus, there has been no systematic accounting of the state’s investment in Gateway Cities. This analysis compiles, for the first time, estimates of state capital investment in 24 of the 26 communities designated by statute as Gateway Cities. (Attleboro and Peabody are excluded because they were designated Gateway Cities too recently to supply data for analysis.)

This analysis yields revealing findings:

- Massachusetts invests disproportionately in Gateway Cities. Gateway Cities received approximately $3.3 billion in state investment between FY 2009 and FY 2013—just under 40 percent of the $8.5 billion total capital spent statewide. As shown in Table 1, Gateway Cities absorbed about one-third of the state’s education and economic development investments, over half of the energy and environment investments, and more than two-thirds of miscellaneous investments. On a per capita basis, Massachusetts appears to be prioritizing investment in Gateway Cities, as they account for just 25 percent of the state’s population (see Figure 2).

However, much of this spending involves maintaining existing regional state assets (e.g., courthouses) or constructing new ones (e.g., mental health facilities). The proportion of state capital investment in Gateway Cities is also directly in line with their level of economic distress (e.g., they are home to 43 percent of Massachusetts residents living in poverty).

**Figure 2. Gateway Cities’ Share of State Totals 2009–2013**

Source: MassINC research, American Community Survey 2014 5-Year Estimates, Hodge Economic Consulting
**REBUILDING RENEWAL: AN ANALYSIS OF STATE INVESTMENT IN GATEWAY CITIES**

**REAL ESTATE DEVELOPMENT TRENDS**

Real estate trends are a key metric for Gateway City renewal. Property values indicate the extent to which private investment flows to these communities. When market values are extremely low, it is difficult to finance new development and improvements to the existing building stock. The initiation of a focused state effort to spur reinvestment in Gateway Cities coincided with the start of the Great Recession, a financial crisis that led to an unprecedented loss in property value throughout the U.S. While the Boston area generally recovered quickly, Gateway City markets have not fared as well.

These challenges are not unique to Gateway Cities. Low-income communities all over the country have been slow to regain their value. While more research is needed to disentangle all of the factors at play, it appears that the concentration of foreclosed properties in their neighborhoods, flat-to-negative wage growth for low-skilled workers, and the struggles of low-income households making down payments and meeting other underwriting requirements all contribute to the problem.

At the same time, demand for walkable urban neighborhoods is rising. This has accelerated the housing market recovery in large cities and fueled gentrification. In many smaller cities, growing concentrations of poverty have become an ever-larger barrier to meeting demand for urban living.5

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**Table 1. State Capital Investment in Physical Infrastructure by Spending Category for Gateway Cities and Statewide (FY 2009–2013, millions of dollars)**

<table>
<thead>
<tr>
<th>Spending Category</th>
<th>State Investment in Gateway Cities</th>
<th>Share of Investment in Gateway Cities</th>
<th>Total State Investment</th>
<th>Gateway Cities Share of State Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$1,697</td>
<td>50.9%</td>
<td>$5,305</td>
<td>32.0%</td>
</tr>
<tr>
<td>Housing</td>
<td>$262</td>
<td>7.9%</td>
<td>$619</td>
<td>42.4%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$210</td>
<td>6.3%</td>
<td>$608</td>
<td>34.5%</td>
</tr>
<tr>
<td>Energy and Environment</td>
<td>$157</td>
<td>4.7%</td>
<td>$302</td>
<td>51.9%</td>
</tr>
<tr>
<td>Transportation</td>
<td>$240</td>
<td>7.2%</td>
<td>$538</td>
<td>44.6%</td>
</tr>
<tr>
<td>Miscellaneous Investment</td>
<td>$766</td>
<td>23.0%</td>
<td>$1,081</td>
<td>70.9%</td>
</tr>
<tr>
<td>Courts</td>
<td>$282</td>
<td>8.5%</td>
<td>$384</td>
<td>77.4%</td>
</tr>
<tr>
<td>Health &amp; Human Services</td>
<td>$315</td>
<td>9.5%</td>
<td>$386</td>
<td>86.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,331</strong></td>
<td><strong>100%</strong></td>
<td><strong>$8,452</strong></td>
<td><strong>39.4%</strong></td>
</tr>
</tbody>
</table>

Source: MassINC research and Hodge Economic Consulting

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The state’s capital investment in Gateway Cities is dominated by education spending. Between FY 2009 and FY 2013, Massachusetts placed $1.7 billion in Gateway City educational facilities (over 50 percent of its total investment in Gateway Cities), approximately $1.3 billion in primary and secondary schools, and $379 million in higher education. While these educational facilities can play a role in building Gateway City economies and revitalizing Gateway City neighborhoods, there is no process to align these major state investments with broader Gateway City economic development or neighborhood revitalization strategies.

The state’s investments in economic development and housing are the categories most clearly related to growth and revitalization, yet they represent just 14 percent of its investment in Gateway Cities. Moreover, these investments tend to be fairly diffuse, with many cities receiving relatively small grants. The state is making few large-scale investments that would logically be connected to generating transformative development.

The state is unable to track its Gateway Cities investments and evaluate their impact. While it may sound simple in theory, a comprehensive accounting of actual state investments in physical infrastructure in Gateway Cities is extremely difficult to produce. This limited analysis presents the best information to date on how the state actually invests in Gateway Cities. The Commonwealth must do a better job in tracking its spending to enable rigorous impact evaluation demonstrating the extent to which public investment has spurred transformative development.
The data findings* reflect the strength of these divergent trends between Boston and the Gateway Cities:

- **A large gulf exists between the market for urban real estate in Boston and the market for urban real estate in the Gateway Cities.** On average, residential property sold for $114 per square foot in Gateway Cities in 2014. In comparison, the median home in Boston sold for $444 per square foot. This disparity might make development outside the city appear attractive, as properties are cheaper there. But that development has not been realized. Rather, high values in Boston have enabled the construction of enormously expensive development, and low values in Gateway Cities make building financially unfeasible.

Figure 3 powerfully demonstrates the gulf between Gateway City markets and Boston by comparing their shares of the statewide population, assessed value, and new growth (a dollar-based measure of value added to municipal tax rolls through new construction and property improvements). The 11 original Gateway Cities account for approximately 15 percent of Massachusetts's population but less than 6 percent of the state's total assessed value. In 2015 they underperformed even that share in new development, with just 5.4 percent of new growth added statewide. In sharp contrast, Boston’s share of assessed value is significantly higher than its share of the state population (10 percent), and the city outperformed its impressive lead in total valuation, capturing nearly 15 percent of new growth in the Commonwealth last year.

- **The Great Recession has widened the gap between real estate values in Boston and the Gateway Cities.** From 2000 until the Great Recession, assessed values in the Gateway Cities were rising at nearly the same pace as Boston’s. In the recovery, Gateway Cities and Boston have followed opposite trajectories. Between 2011 and 2015, Boston saw total assessed value grow by 28 percent, while total assessed value fell by 2 percent in the Gateway Cities. The same post-recession trend is evident in sales data: adjusted for inflation, home prices per square foot are now higher in Boston than at their previous peak, while, on average, Gateway City median sales are still at just two-thirds of their 2005 peak.

  The large disparity between new development in Boston and the Gateway Cities is a defining feature of the recovery. Figure 4 shows how this trend emerges and accelerates over time, as well as its cumulative effect. Since 2000, the value of new development in Boston has been growing each year, with the exception of slight dips before and after the recession. For Gateway Cities, the post-recession trend is generally downward. In 2015, the $770 million in new growth in Gateway Cities was only slightly more than half (58 percent) of the $1.3 billion added to Gateway City tax rolls during the new development peak. The cumulative gap in new-growth development between Boston and the Gateway Cities has grown to almost $11 billion since 2000. In 2015, new growth in Boston exceeded the prerecession peak by more than 20 percent, while last year the value of real estate development added to Gateway Cities rolls was only slightly more than half of prerecession levels.

- **As a leading indicator of new growth, permit issuances suggest that Gateway Cities will likely miss out on capturing the momentum of the Boston real estate market in the current market cycle.** Building permits activity dropped significantly in both Boston and Gateway Cities in the years leading up to the Recession (2006–2008) and through its trough. (see Figure 5) However, in 2011 the

![Figure 3. Share of State Total for Original Gateway Cities and Boston, 2015](image)

* Because these data are not readily available for all 26 Gateway Cities, the statistics presented in this section cover the original 11 Gateway Cities identified in MassINC’s 2007 report: Brockton, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Lowell, New Bedford, Pittsfield, Springfield, and Worcester.
Low real estate values continue to produce a large market gap. In 2013, MassINC research demonstrated that low rents and sales value in Gateway Cities make it difficult to cover the costs of property acquisition, improvement, and construction. Using data on recent sales and construction cost estimates from RS Means, a leading provider of regional building cost estimates, MassINC estimated that the market gap in 2012 was one-third of the cost of construction for units produced for sale and nearly three-quarters of the cost of construction for rental units.

This trend is particularly disconcerting because, in the past, Gateway Cities had quite a bit of permitting, albeit for lower-value development. In fact, the number of building permits issued in Gateway Cities exceeded the number in Boston in every year from 2000 to 2011, except 2006. In the most recent year of data, more than five times as many building permits were issued in Boston than throughout all 11 original Gateway Cities combined.

Between 2011 and 2012, the number of permits issued in Boston more than doubled, while Gateway City permit levels fell another 20 percent. Building permit issuances for Gateway Cities did not bottom out until 2012, and the data through 2014 show only a modest uptick.

This trend is particularly disconcerting because, in the past, Gateway Cities had quite a bit of permitting, albeit for lower-value development. In fact, the number of building permits issued in Gateway Cities exceeded the number in Boston in every year from 2000 to 2011, except 2006. In the most recent year of data, more than five times as many building permits were issued in Boston than throughout all 11 original Gateway Cities combined.
for rental property. While these gaps range substantially across cities — with Brockton, Lowell, and Haverhill at the smaller end, and Springfield, Fitchburg, and Fall River at the larger end — a significant gap exists in all Gateway City markets.

While the average capital gap for Gateway Cities has decreased slightly since the 2013 analysis, this is driven entirely by lower estimated construction costs rather than by improving market conditions in the form of higher rents and sales prices. Thus, lethargy in Gateway City markets remains a huge challenge. It is worth emphasizing that Gateway Cities are not underperforming the U.S. market or even the overall Massachusetts market, which remain far off their inflation-adjusted peaks. However, because values in these cities are substantially lower, the recession pushed them well below levels that allow for healthy construction activity.

**Actual spending and investments in Gateway Cities are unlikely to expand in the near future, thus not providing the jolt of stimulus needed in these long-distressed markets.**

**POLICY CHANGE AND THE FISCAL CONTEXT FOR FUTURE STATE INVESTMENT**

The difficulties of Gateway Cities in recovering from the recession should not discourage policy leaders from spearheading efforts to stimulate renewal. The state has a coherent strategy for facilitating transformative development, efforts are underway to build capacity at both the state and local level to execute this strategy, and several of the tools required to implement it have been fashioned. The most challenging obstacle will be to identify the funds to resource this effort at full scale, given fiscal pressures.

- A number of simultaneous efforts to promote Gateway City renewal have fused into a coherent strategy for transformative development. The Transformative Development Initiative (TDI) at MassDevelopment, a quasi-public economic development agency, is the core of this new approach. TDI tactically layers activities to build engagement and draw attention to districts targeted for revitalization in the short-term; generate momentum by making modest real estate investments in strategic locations in the medium-term; and facilitate a stream of coordinated development projects, leading to private investment and higher property valuation in the long term. A range of efforts to increase the capacity of both state agencies and Gateway Cities to engage in these activities has blossomed and tools have been developed alongside TDI to facilitate the kinds of public investment needed to produce transformative development.7

- The 2016 economic development bill helps solidify and continue investment in Gateway Cities but actual capital investment commitments remain modest. The economic development bill passed during the summer of 2016 and signed by the Baker administration does place continued emphasis on investment in Gateway Cities. In particular, that bill includes funding levels of $500 million for MassWorks infrastructure investments (with 50% or more allocated to Gateway Cities), $45 million for the Transformative Development Fund (the TDI program), and $45 million for the Brownfield Redevelopment Fund. Plus, there is a new funding program of $15 million for site assembly, site assessment, permitting, and other predevelopment activities for new or established industrial parks, and downtown revitalization efforts.

While that sounds promising, many of those funds represent an upper limit wish list from bond proceeds rather than actual investment commitments. For example, the 2017 Executive Office’s Administration & Finance (ANF) Capital Investment Plan only includes $2 million (out of $45 million) for transformative development spending. Similarly, only $2.5 million is planned for brownfield redevelopment (out of $45 million), and $1.25 million (out of $15 million) for site assembly. This demonstrates two critical issues: Actual spending and investments in Gateway Cities are unlikely to expand in the near future, thus not providing the jolt of stimulus needed in these long-distressed markets. Secondly, this represents another example where greater transparency is needed to track and communicate the actual commitments of investment in Gateway Cities.

- With mounting structural pressures in the state budget, funding Gateway City revitalization at levels sufficient to produce transformative development will be difficult. Fiscal pressures are straining capital spending with the state pushing up against a debt ceiling established in 1989 for the first time and Standard & Poor’s revising its outlook on the state’s general obligation bonds to negative. Medicaid and pension obligations will consume a growing share of state revenue over the next decade. Pushing debt higher
as a percentage of revenues will be difficult, especially with a low reserve fund balance and local aid payments still well below prerecession levels. With these fiscal pressures, making room for additional capital investment in Gateway Cities will require constraining state capital spending in other areas and/or identifying new revenues to underwrite these economic development investments.

DE DELIVERING TRANSFORMATIVE DEVELOPMENT

A comprehensive transformative redevelopment policy would leverage current state investment in Gateway Cities and secure significantly more resources for stimulating private economic activity in their weak markets. Attuned to the state’s fiscal realities, we think that a work plan for achieving such a policy boils down to three tasks:

1. Identify revenues to increase the level of investment in transformative development.

Changing the weak market conditions that make it impossible for the private sector to unlock the very real untapped potential in the Commonwealth’s Gateway Cities will require a stream of well-placed public investment at a significantly higher magnitude than is currently available. As demonstrated by the Upstate New York Revitalization Initiative, other states are making larger commitments to encourage economic renewal in long-distressed markets. Unfortunately, given Massachusetts’ fiscal realities, making a similar commitment to Gateway Cities will be difficult.

One option is to generate own-source revenues to service debt. For example, the legislature has enabled higher real estate tax rates to support land preservation on the Cape and Islands. Changes could be made to capitalize a fund with the proceeds going to transformative development where this is a priority. For example, a city or region could adopt an additional increment on the real estate tax styled on the Vermont approach, which captures capital gains on land sales based on length of ownership.

Another possibility is allowing transportation-related revenues to finance transit-oriented development projects. In the near future, finding new revenue sources to support transportation infrastructure will be critical to improving the state’s transportation system and overcoming structural challenges in the capital budget. Using some of these additional revenues to support complementary place making investments around transportation nodes could promote highest and best-use development, significantly increasing the efficiency of transportation infrastructure.

The bulk of funding administered for transformative development directly should be awarded through a competitive process to ensure that the best projects are selected without feeling the political need to spread resources too thinly.

2. Better align investments with targeted redevelopment strategies.

On top of additional spending, concerted effort will be needed to ensure that the state’s investment in Gateway Cities generates revitalization. With over $3.3 billion flowing to Gateway Cities over five years, this stream of state resources must be channeled to realize economic development and revitalization objectives. To be sure, these state investments are generally made for other reasons, but to the greatest extent possible, they should receive priority when they also align with a well-conceived renewal strategy.

Project selection criteria are needed for each new investment. These criteria should include whether the location of the investment is in a designated district for transformative development and how it will help attract follow-on private sector investment. And additional effort will be needed to help state agencies innovate. Leaders should examine models for programming state investment for revitalization with particular emphasis on developing new designs for educational facilities. The Baker Administration recently formed a taskforce to examine future investments in higher education. This working group is well positioned to articulate the need to prioritize projects that show true synergy with regional economic development strategy.

3. Increase transparency and accountability.

To ensure that funds targeted to Gateway City revitalization produce returns for taxpayers, there must be greater transparency and accountability. This begins with how funds are awarded and extends to how funds are actually expended and their impact in stimulating private investment.

The bulk of funding administered for transformative development directly should be awarded through a competitive process to ensure that the best projects
are selected without feeling the political need to spread resources too thinly. Improving systems to track where and when public resources are placed in communities will also be central to ensuring that state expenditures produce transformative development.

To be more specific: Massachusetts needs a stronger system to track where and when state resources are placed in communities. Data for the large sums expended through Brownfields Tax Credit and state investment allocated through the capital plan exemplify a lack of transparency.

MassDevelopment has already provided considerable leadership in impact evaluation, commissioning a baseline assessment of Gateway City economic conditions and developing metrics to measure subtle increases in district-level activities with the potential for higher levels of private investment. With leadership from ANF to help agencies better track spending, MassDevelopment can play a central role in analyzing and evaluating the impact of the Commonwealth’s capital investment in these markets.

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Endnotes

1.) “Silicon Valley 1.0: Cleveland can teach valuable lessons about the rise and fall of economic clusters,” The Economist, July 23, 2016.

2.) This article is derived from a full research report which can be downloaded at: http://massinc.org/research/rebuilding-renewal/

3.) A 2013 reference guide highlights state resources for Gateway Cities, some of which are designated specifically for these cities: http://www.mass.gov/hcd/docs/dhcd/cd/gateway/statere-source/335a14c3-revitalizationofgatewaycities.pdf

4.) http://www.mass.gov/hcd/community/funding/urban-agenda-grant-program.html

5.) This observation may oversimplify slightly, as major cities have been enjoying the agglomeration effect of the transition to a knowledge economy and commensurate job growth, but even suburban developers are trying to meet demand for more walkable communities, which suggests that a significant consumer niche should exist for small-to-midsize cities with historic urban fabric, especially when these cities lie within a strong major metropolitan economy.


7.) These efforts include the Working Cities Challenge, led by the Federal Reserve Bank of Boston, now in its second round of funded grants for Massachusetts cities, and profiled in an earlier MassBenchmarks article: http://www.massbenchmarks.org/publications/issues/vol17i1/8.pdf