

commercial, industrial, and residential development, create new job opportunities, and increase the economic vitality of our city. To further these efforts, Mayor Petty and I intend to establish a taskforce consisting of commercial and residential property owners and developers, business owners, and other community stakeholders to explore new economic development strategies and ways to use our current tax structure to incentivize new growth and development which will be reported back to City Council in the coming months.

Respectfully submitted,

A handwritten signature in cursive script that reads "Edward M. Augustus, Jr." The signature is written in black ink and is positioned above the printed name.

Edward M. Augustus, Jr.
City Manager



CITY OF WORCESTER, MASSACHUSETTS

Executive Office of Economic Development
Economic Development

Michael E. Traynor
Acting Chief Development
Officer

Heather K. Gould
Chief of Staff - Economic
Development

To: Edward M. Augustus, Jr., City Manager
From: Michael E. Traynor, Acting Chief Development Officer
Date: May 13, 2014
Re: Philadelphia Plan Update

You forwarded an order of the city council requesting an update regarding the Philadelphia Tax Abatement Program and what elements, if any, have been incorporated into the Worcester's economic development strategy in designated areas of the city.

As previously reported (CM Item #8.4B - 2/23/10), the city of Philadelphia created the Philadelphia Tax Abatement Program in 1997 to encourage real estate development throughout the city. The program initially applied only to conversions of previously non-residential properties to residential use. Under this program the value of all improvements to real estate was later expanded in 2000 to apply to improvements in all categories of real estate. The value of all improvements to real estate is abated for ten years. The aforementioned 2010 report to council quoted extensively from a study of the Philadelphia Plan by economist Kevin Gillen, Ph.D. Dr. Gillen has since authored an updated statistical report on the program in April 2013¹ and co-authored a targeted case study in January 2014².

The 2013 Gillen report provides the following updated statistics regarding the Philadelphia Tax Abatement Program:

- When the abatement was implemented in the early 2000s, it was followed by an immediate surge in new construction of 263% in Philadelphia county.
- From 2002-2004, new construction increased 417% in Philadelphia county, while only growing 1.2% in Philadelphia's suburbs.
- As of March 2013, 15,191 properties were abated through the program.

¹ "Philadelphia's Ten-Year Property Tax Abatement: Updated Statistics on the Size and Distribution of Tax-abated Properties in Philadelphia." Kevin Gillen, Ph.D.

² "Fiscal Analysis of Philadelphia's Ten-Year Property Tax Abatement: A Case Study." Kevin Gillen, Ph.D. and John A. Westrum



- Approximately 40% of the abatements are for improvements to existing properties, rather than new construction.

These statistics can be enticing at first blush but the legal and structural differences between Philadelphia's tax policies and Worcester's militate against a replication of the Philadelphia Plan in Worcester.

Unlike Massachusetts municipalities, the city of Philadelphia has the legal authority to enact local tax ordinances. Philadelphia is the second ranked U.S. city for tax burden according to a study by the government of the District of Columbia issued in December 2013.³ A March 2014 schedule listing the city's tax rates since 1952 contains 26 local taxes. As of FY2010, real estate taxes in Philadelphia made up 17.6% of general fund tax revenues, whereas in Worcester real estate taxes account for 42% of the general fund tax revenues.

The success of the Philadelphia Plan rests on the revenues generated by other taxes, which more than offset the abated real estate tax revenues. The largest source of tax revenue is the Philadelphia's Wage Tax (57% of new tax revenues), followed close behind by the Real Estate Transfer Tax (24% of all new revenues). In the case study report, the city waived approximately \$3 million in property taxes but otherwise took in \$6 million from other tax sources directly related to the project. Thus, for every \$1 in property taxes abated, the city received \$2 from other tax sources over the ten year abatement period. An impressive cash-on-cash return but wholly dependent on the plethora of local taxes that are triggered by the increases in construction and population that result from the abatement program.

While the Philadelphia Plan would not have the same tax revenue benefits in Worcester, we have engaged in efforts to incorporate similar or other development incentives while working within the tax laws of the Commonwealth. To enhance the sale of the City-owned parcels at the South Worcester Industrial Park (SWIP), the City Administration created a Tax Increment Financing (TIF) Plan for SWIP that set exemption schedule scenarios to provide local real estate tax exemption percentages based upon the size of the building to be constructed and the number of jobs to be created and retained, over a set length of time. The innovative TIF Plan offers aggressive exemption percentages between 40% and 80% over ten to twenty years and is intended to not only attract companies to SWIP, but to also ensure their success.

In addition, the City Administration worked with its Gateway Cities partners on a Legislative Agenda that included the recently created Housing Development Incentive Program (HDIP). The HDIP offers two tax incentives to property owners or developers interested in completing substantial rehabilitation projects of residential properties for lease or sale as multi-unit market rate housing. These include: a state tax credit for Qualified Substantial Rehabilitation Expenditures awarded through a rolling application process (this tax credit provides for up to 10% of qualified substantial rehabilitation costs of market rate units); and a local real estate tax exemption on all or part of the increased property value, resulting from improvements (this exemption provides a percentage of not less than 30% and not more than 80% on the incremental value of market rate units).

³ "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison 2012. Government of the District of Columbia.

Eligible projects include the substantial rehabilitation of an existing property, including commercial or mixed-use, that results in: two or more units of market rate housing for sale or lease; maximum of 50 market rate units per project; minimum of 80% of units per project as market rate; per unit construction costs of \$30,000 or greater.

The Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD), has approved the city's application to create a HDIP.

This program, in accordance with M.G.L. Chapter 40V, and its implementing regulations at 760 CMR 66.00 will help the City increase residential growth, expand diversity of the housing stock, support economic development, and promote neighborhood stabilization in a designated target area known as the city's Urban Density Residential District. This area is comprised of a number of designations the city has identified over the years as strategic revitalization areas, including the Commercial Area Revitalization District (CARD), the Neighborhood Revitalization Strategy Areas (NRSAs), and the Quinsigamond Village Strategic Plan area.

The City Administration continues to explore new economic development strategies to foster private investment in our downtown and neighborhoods, encourage new commercial, industrial, and residential development, create new job opportunities, and increase the economic vitality of our city.

Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Michael E. Traynor". The signature is written in a cursive, flowing style.

Michael E. Traynor
Acting Chief Development Officer