A Complex Recipe for Housing Financing
Brockton Offers Formula for Gateway Cities

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SPECIAL TO BANKER & TRADESMAN

Rob May, Brockton's director of economic development and planning, famously offers up his seven-layer dip to anyone with a taste for the city's downtown.

A 121B Urban Renewal plan forms the base. Then, he mixes in 40Q District Improvement Financing, a 40R Smart Growth Overlay District, a 40V Housing Development Zone and a Transformative Development District. He recently has added an Opportunity Zone for a dash of spice. Apparently, a few stout souls have an appetite for this concoction; a downtown that sat idle for four decades has been steadily drawing private investment.

As a case study for planners and policymakers, May's seven-layer dip raises two central questions: How do we get other Gateway Cities to make better use of available state and federal development tools? And how do we refine these programs so that they form a complementary fabric rather than a conflicting patchwork for cities?

Substantial Development Potential Available

We must approach these two questions with urgency. With vast capacity for mixed-use development around existing Commuter Rail stations, Gateway Cities like Brockton can help tackle the region's vexing congestion and affordability challenges if they can overcome decades of disinvestment. The new federal Opportunity Zone (OZ) program can stimulate reinvestment in these economically distressed areas. However, by design the OZ program requires developers to move fast.

Thankfully, the Baker administration's housing choice legislation offers a resounding answer to how we get more cities to follow Brockton's lead with tools to expedite permitting. Under the bill, city councils could adopt many of these programs with a majority vote rather than the currently required supermajority. Even in pro-growth communities, supermajorities are exceedingly difficult to achieve.

With any luck, the legislature will act promptly on the Gov. Charlie Baker's bill. Authorization will allow cities to streamline permitting, advancing much-needed projects with greater speed and certainty. We must prepare for this law now by homing in on the second question and refine our development policies and programs so that they do not conflict.

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For example, Brockton’s 40R Smart Growth District accelerates the permitting process, but it also requires affordability in 20 percent of the units in a housing project. Unlike in Boston’s red-hot real estate market, the market-rate units in Gateway Cities cannot cross-subsidize affordable units due to relatively low rents. The state should either set aside affordable housing funds so 40R projects in Opportunity Zones can meet aggressive federal deadlines or substitute the affordability requirement with measures that help cities implement existing plans. For instance, the regulations could allow a project to subsidize commercial rents for local businesses or make equivalent investments that contribute to a vision for equitable development.

In addition to enacting housing choice, Massachusetts should take a hard look at existing incentive programs to draw OZ investors. Two current tools that ooze uncertainty include the Historic Tax Credit and the Housing Development Incentive Program (HDIP).

The Massachusetts Historic Rehabilitation Tax Credit, managed by the Secretary of State’s Office, has been notoriously difficult to coordinate with programs overseen by the state’s housing and economic development agencies. We must address this limitation for OZ projects to provide the certainty required to draw the federal subsidy.

As a flexible tax credit equal to up to 25 percent of development expenses, HDIP has been quietly accumulating an impressive track record by breathing new life into abandoned buildings and long-vacant lots. However, the exceedingly low caps of just $10 million per year and $2 million per project introduce uncertainty. MassINC research shows that each dollar in state HDIP funding leverages nearly 12 additional dollars in private investment. When combined with Opportunity Funds, HDIP could provide even more leverage for future development, but the state must have credits available to deploy.

At the end of the day, Gateway Cities need aligned local, state, and federal policies to stimulate private investment. The Baker administration can double down on its valiant efforts to tackle our affordability and congestion challenges by coordinating economic development tools in partnership with the legislature, ensuring that May’s tasty seven-layer dip doesn’t go to waste.

Tracy Corley is the transit-oriented development fellow at MassINC. She recently produced a series of three reports investigating the overlap between Opportunity Zones and state development policies.