November, 2008

Partnerships and the Fiscal Implications of Planning and Development: A Case Study of Maynard, Massachusetts

John Mullin, *University of Massachusetts - Amherst*
Zenia Kotval, *Michigan State University*
Zeenat Karamchandani

Partnerships and the Fiscal Implications of Planning and Development: A Case Study of Maynard, Massachusetts

Zenia Kotval, John Mullin & Zeenat Karamchandani

Introduction

Across the United States, governmental authorities are showing increasing interest in public-private partnerships that encourage local economic development. Most often, these arrangements are structured such that a community's public authorities provide incentives such as free land, tax relief, access to low-interest bonds, or training assistance to a private company that agrees to establish itself within the community. While the depth of the public support varies across the country, it is safe to state that the majority of major business location discussions involve some municipal assistance. It is also safe to state that every indication suggests that public-private partnerships will only increase in number and sophistication in the future.

It is this last point that raises some concerns. Too often, particularly in smaller communities without professional resources, agreements are reached without any depth of analysis. Indeed, one frequently hears the phrase 'any job is a good job' or 'what is good for the Widget Company can only be good for Middletown'. So long as communities have such perceptions and attitudes, they are unlikely to reap the full benefits of a potential partnership. In fact, in some cases, local communities may end up worse off financially. Clearly, careful analysis prior to entering into a partnership is essential.

Further complicating the picture is the fact that the nation is in a cycle of dramatic job churning. The record turnover of companies on the Fortune 500 list over the past decade is but one illustration of this. Companies may move to a community with every intention of sinking roots, investing in the community, and serving as a good neighbor, but, given the dynamics of the global economy and the pressures of labor and transportation costs, companies find it difficult to follow through on those intentions.

Small towns across America, particularly in the Frost Belt, but increasingly in the Sun Belt as well, are dotted with the buildings of companies that received governmental assistance but now lie vacant. Consider the 100-year old Hathaway Shirt Mill in Waterville, Maine. Less than 10 years ago, its owners received a $1.5 million US Economic Development Administration grant to modernize the facility. A short eight years later, the company laid off 366 employees, closed its facilities, and is now making its shirts offshore. The agreement did not stipulate a minimum time that the company had to remain in the town. The mill now sits empty in the middle of Waterville (Chuin-Wei, 2005). This example shows it is essential that a community have a thorough understanding of the most important costs and benefits of a public-private investment agreement over time. This example shows how essential it is for the community to think carefully about the wording of their agreement, taking full account of potential costs and benefits.

This paper, a case study of public-private investment in an old mill complex located in Maynard, Massachusetts that was vacated in 1993, is intended to help communities consider those costs and benefits. The next section begins with a brief overview of the literature on public investment, specifically tax incentives and abatements, as it relates to private development. From there on, the paper discusses the Maynard case study in detail. The third section discusses the historical significance of the mill to the town. The subsequent section examines the rationale for investors to purchase the mill and their intentions in revitalizing the structures. The fifth section describes the public-private agreements that were undertaken. The following section analyzes the impact of the resulting agreements from different perspectives, while the paper concludes with a brief final analysis of the impact for Maynard residents.

Role of Public Investments in Private Development

The value and importance of financial incentives to attract economic development has received mixed reviews. While rarely seen as the most important tool, it consistently ranks among the top 10 industrial location criteria (Gambale, 2007). Within the current economic climate, where regulations are stricter, capital is limited and speculative development risky, increasing numbers of communities are becoming real players and partners with private investors. Most often they involve some use of tax credits. While referred to by different names and designations such as empowerment zones, economic target areas and renaissance districts, property and sales tax advantages are critical incentives. Of these incentives, tax abatements are the primary tool used by governments to influence private investment (Oden & Mueller, 1999). Tax incentives come in a variety of forms that essentially give credits, exemptions or abatements on business costs. This improves the profitability of a firm and, in turn, would influence the decision-making process of where to locate. Location decisions would then lead to an investment that would hopefully bring benefits to the host community in the form of new jobs, increased net income, and a perception of being business-friendly to potential investors. Tax incentives are considered 'good politics' (Buss, 2001). When incentives bring desired results, policy-makers can claim credit for intervening. At the same time, when incentives fail to bring about desired results, politicians can blame this on market forces or irresponsible corporate behavior.

For tax incentives to bring about economic growth, they must increase consumption of goods and services in the long run. Rainey and McNamara (1999) found a significant positive correlation between manufacturing establishments' location decisions and tax rates, both property and local income. In a study on business location decisions in each county in Indiana, the authors show that property taxes are a critical factor in business location decisions. Since taxes are a direct cost to a firm, and affect their profits, places with lower property and income taxes are able to attract more manufacturing investment when all other factors are relatively constant within the region.

While there is significant debate on the actual value of these investment credits, most agree that it is the rationale, scale and frequency that need to be evaluated. Should every community provide tax incentives? Should all types of economic activity be eligible for these credits? When do other jurisdictions begin to be affected by these reduced revenues? What are the break-even points? These questions are being asked and studied on a case-by-case basis. The results are inconclusive. These

deals are not a science, many factors play a role in the outcome and most studies are conducted in retrospect. For example, Fisher and Peters (1997) discuss extensively the current literature on the impacts of development incentives on investment and job growth. They claim that taxes and development incentives are a fraction of labor costs, and therefore act as 'tie-breakers' between locations that are similar in most aspects. Their research on Enterprise Zones depicted that corporate tax credits were more prevalent in these zones than they were statewide. The total incentive package in these zones was found to be worth more than the incentive packages in cities without Enterprise Zones. Bartik (1991) proposed that if a metropolitan area raised its taxes by 10%, it would lose business activity by 10-30% in the long run. This shows the importance of taxes and incentives to the attraction and retention of businesses. Kotin and Peiser (1997) show how tax incentives are being used by cities and towns in California to attract large retail stores mainly to capture the growing sales tax revenues generated by these businesses.

Then there are studies that show a negative relationship between tax incentives and social benefits. One of the main arguments underlying these studies is that tax abatements directly cut into government spending on general benefits, such as funding for schools (Lehnen & Johnson, 2001). Safeguards against the overuse of fiscal incentives include contracts outlining specific goals and benefits expected from the businesses toward the host communities, and correctly assessing the benefits of incentive deals. The greatest income benefits will be realized when incentive deals are geared towards projects aimed at increasing the net wages of low-income residents (Oden & Mueller, 1999). Weber (2002) cautions against the use of subsidies and incentives to firms as *gifts*; instead, she proposes creating legally binding contracts that show direct causal nexus between public investments and community-wide benefit. Public investment in private ventures should trigger some larger social and or economic benefit for the community: more jobs, increased property values, or the stabilization of disinvestment areas, targeting specific businesses or building an industrial cluster.

The purpose of this particular case study is to show the different facets of partnering, the complexities of 'the deal' and the impacts, both measurable and qualitative. The study shows that creating a win-win situation is more art than science.

The Town and the Mill (1800s-1997)

Maynard, Massachusetts is a small town of 5.7 square miles with a population of 10,000 residents, located approximately 25 miles west of Boston (Maynard Historical commission 1971). It is surrounded by several of New England's oldest and most historic towns, including Acton, Concord, Stow, and Sudbury. Founded in 1871, it shares little of the history and character of its neighbors. If anything, Maynard was the place where citizens of neighboring towns placed their economic capital but only rarely their social capital. While its neighbors are most commonly described as rooted, Yankee, historic, classic, quintessential New England, and affluent, Maynard can best be described as new, industrial, immigrant, and working class. It exhibits many of the attributes of New England's mill towns. Indeed, it is a hybrid of the larger Lowell system of mill cities and the smaller Slater system of mill villages (Dunwell, 1978).

The ethnic makeup of Maynard's population has typically reflected the immigrant waves that entered the Greater Boston area over time. First settled by Yankee stock, over the decades, the town accepted waves of Irish, Polish, Finnish, Russian, Italian, and Brazilian immigrants. Not highly educated in comparison with the populations of neighboring towns, the citizens of Maynard tend to be blue-collar and technical workers. They live in small houses, many of which were built by the former mill owners, on lots that typically are less than one-quarter of an acre. They have a strong work ethic and take great pride in their community. It is not uncommon to note two to three generations of the same family still residing in the town. There is a reluctance to accept change.

From the 1840s through to the present, the town's economy has been dominated by what is today a 40-acre, 1.1-million-square-foot complex of 13 redbrick mill buildings (Boothroyd & Halprin, 1999). Early on, the mill (it is always referred to locally as 'the mill') manufactured carpets; later, it turned out blankets for Union soldiers during the Civil War, followed by flannels in the 1920s, plastics in the 1950s, and computers in the 1980s. In other words, the mill has consistently served as a center for the production of goods and services that fed our nation's manufacturing economy. As John Gertner (2003, p. 46) wrote, 'It is not a stretch to say that the mill in Maynard is a microcosm of the U.S. economy.'

The mill complex, in a very real, physical sense, looms over the town. While almost all of the residential and commercial buildings are two stories or less, and overwhelmingly constructed of wood, the mill is five to six stories of red brick. It can be clearly seen from all roads leading into the town center. For the first half of the 20th century, the mill's clock tower and whistle controlled the pace of the community. It also controlled the prosperity of the community. Locally, one still hears the phrase, 'As the mill goes, so goes the town.'

The townspeople feel ambivalent toward it. It is clearly a part of their culture and clearly needed in an economic sense. And yet, it is beyond the town's control; it is operated by outsiders, and its wrought-iron fence and the water surrounding it make it an isolated island. It can be a forbidding place.

Furthermore, the town seems to take a hit from even the gentlest rises and falls of the economic cycle. Growth in the 1840s was followed by bankruptcy in the Panic of 1857; the boom of the Civil War was followed by stagnation and the depression of the 1870s; and stabilization in the 1880s was a prelude to another bankruptcy in the late 1890s. Nowhere can this be better noted than with the mill.

The American Woolen Company purchased the mill in 1898. Through aggressive financing and investment, the company continued to expand over the next 25 years – until it was a quasi-monopoly, running 60 factories, employing 40,000 workers, and earning over $100 million in profits. For a short while, the mill was one of the world's largest woolen manufacturing centers (Mullin, 1992).

One would have thought that stability was assured, but this was not the case. Between 1924 and 1952 there was almost constant economic insecurity at the mill. Slow sales led to layoffs in the mid-1920s, and strikes and lockouts occurred before the Depression of 1929. Then the situation reversed during World War II and the Korean War, when the mill engaged in operations 24 hours daily and seven days a week. Finally, in 1952, with the market for woolens shrinking, primarily due to synthetics, modern mills, and completion from southern firms, the mill closed, and its 2,200 employees were out of work.

Almost immediately, the community leaders of Maynard began to work to revitalize the mill. In June 1953, the mill was purchased by a group of businessmen who formed a company called Maynard Industries Incorporated. That company began to market the facility to growing eastern Massachusetts companies. By 1957, the mill was 90% full. It hosted production centers for Raytheon (defense materials), Dennison Manufacturing (paper materials), American Can (plastics), and 23 other companies. Between 1957 and 1974, Maynard Industries Incorporated attracted more than 82 companies to the facility. One of these firms was the newly founded (in 1957) Digital Equipment Corporation (Digital), which started out leasing approximately 8,680 feet (Mullin *et al.,* 1986).

Digital continually expanded in the mill until, by 1974, it had leased virtually the entire facility and decided to buy it. The company also purchased a vacant plant and built a new one in another part of the town. In 1971, then Massachusetts governor Francis Sargent declared that Maynard had become 'the mini-computer capital of the world' (Rifkin & Harrar, 1988, p. 133).

While clearly a booster phrase, there was some truth to the statement. At that time, Digital was the world's largest manufacturer of small computers. Throughout the 1970s and most of the 1980s, Digital's growth was astonishing. By 1988, the company employed more than 124,000 workers worldwide and approximately 4,000 in Maynard alone. At its peak in 1988, Digital's mill was valued at $32,000,000.

Then, as had happened with the American Woolen Company before it, Digital's ascendance was followed by its slow collapse. In the late 1980s, the market shifted from mini-computers to home-based, personal computers. Digital missed this shift and very rapidly began to lose market share and profitability. By 1990, it had excess capacity in its facilities. As a result, the company closed the mill and began to shut down local operations (Blanton, 1993).

In 1994, Digital sold the mill to a newly formed private healthcare company called Franklin Lifecare Corporation (Zitner, 1994). The price was $1.2 million. It was a fire sale; the town had assessed the value of the mill at $12.5 million. Franklin Lifecare proposed to create a geriatric center at the mill that would include elderly housing, education facilities, a geriatric medical research center, and amenities desired by people aged 55 years and above. The concept included an 'Elder City' of 1,000 residents and 1,000 workers, which it called 'Mill Pond Village.'

However, it was clearly going to take a long time to make the project succeed. Franklin Lifecare was underfinanced, had limited development experience, and had not yet obtained any of the complex health-related permits required by the state. Unfortunately, Franklin Lifecare Corporation also never obtained the necessary long-term financing to implement its concept. In effect, it merely 'pickled' the mill, providing little more than fire protection, security measures to prevent vandalism, and enough upkeep to prevent the physical erosion of the buildings. The town faced the crisis of a non-operating mill and an uncertain future, much as it had almost 100 years ago in 1898.

The town's economic prospects were truly bleak. The general New England economy was in the doldrums, and the so-called 'Massachusetts miracle' had run its course. The defense dollars that had long fueled Greater Boston's economy were becoming harder to find.

Moreover, comparisons between California's Silicon Valley and Boston's nearby Route 128 corridor described the former as the wave of the future and the latter as calcified. In the regional context, Maynard's economy was suffering along with that of most cities and towns in Greater Boston. The empty mill loomed forebodingly over the town whose economy it had dominated for 150 years.

During the years that the mill was owned by Franklin Lifecare, the town's economic prospects were clearly dim, as the data in Table 1 show.

Partnerships and the Fiscal Implications

Table 1. Snapshot of the best and worst of times under Digital and Franklin Lifecare

	Under Digital	**Under Franklin Lifecare**
Peak year (best of times)	1989	1994
Assessed value of the mill	$32,000,000	$12,500,000
Peak property taxes paid	$529,600	$346,375
Tax rate per $1,000	$16.55	$27.71
Percentage of the town's tax levy	7%	3.3%
Last year in operation (worst of time)	1993	1997
Assessed value of the mill	$25,000,000	$3,000,000
Property taxes paid	$671,000	$92,220
Tax rate per $1,000	$26.84	$30.74
Percentage of town's tax levy	6.7%	0.8%
Value of new residential construction	$8,060,315	$6,361,200
Value of new commercial construction	$365,090	$302,750
Value of new industrial construction	$53,100	$11,800
Unemployment rate in Massachusetts	7.2%	4.0%
Unemployment rate in Maynard	6.1%	3.4%
Median value of home price in Maynard	$126,150	$148,250
Median value of home price in surrounding communities	$270,000	$390,000
Percentage difference in value between Maynard and surrounding areas	54%	62%

Source: Massachusetts Department of Revenue and Maynard Assessor's Office.

The mill's assessed value and contributions to the property tax coffers had fallen dramatically. Moreover, the value of new construction in the town had fallen as well. Only the unemployment rate improved during this time.

The findings show that while the town did suffer a loss of revenue, it managed to steer clear of financial difficulty. The mill's declining contribution to the tax base was offset to a degree by increased investment in residential and commercial/industrial properties, rising residential home values, and basic financial management (belt tightening) by the local government. Despite the mill's declining value, there was relatively little change in the town's commercial tax rate. According to Maynard's Annual reports the commercial tax rate only varied from a low of $26.84 in 1993 to a high of $30.74 in 1996.

Moreover, with the entire region in a phase of economic restructuring, new jobs were being created. Digital's former employees were highly skilled and therefore appropriate candidates for Sun Microsystems, which was dramatically expanding its new operations in nearby Burlington, Massachusetts. Sun Microsystems hired so many former Digital workers that it was referred to as 'the son of Digital' or 'Digital reincarnated' (Temin, 2000).

Although it was clear that the town of Maynard was surviving the closing of the mill, it was also clear that the value of its residential properties was growing far less rapidly than were the values of neighboring towns' properties. A quick look at the data in Table 1 shows that the gap between Maynard's median value for home sales in 1993 and the highest median value for home sales (in the neighboring town of Concord) was $143,850. Stated alternatively, the median house price in Maynard was approximately 46% less than that found in Concord. Four years later, the gap was $241,750 or 62% (Warren Group, 2006).

In a final analysis, at the time of the collapse of the Franklin Lifecare project in the late 1990s, the concern of the town's leadership was for the long term. The town was on the fringe of Boston's metropolitan area, was not situated directly on the region's two beltways (Route 128 and Interstate 495), and was a difficult commute over local roads. Town leaders also recognized that there were extensive sleek functional structures available in nearby 'bucolic suburban' settings that were far more attractive than a tired-looking cluster of 19th-century buildings in an old mill town. It was a time of much discussion and little optimism (Dodge, 2000).

However, the town kept in mind that the mill also had potential strengths. First, the facility was in good shape: the buildings were heated, maintained, and protected. In short, any buyer could make the mill

operational quite quickly. Second, the entire complex was fitted with fiber optic wiring, giving its state-of-the-art, cutting-edge telecommunications capability. At a time when one increasingly heard the phrase 'be wired or be gone', this represented a tremendous asset. Third, the complex had no identified environmental problems, which is a rarity in an old mill complex and contributed to making occupation easy. Finally, the office real estate market in Greater Boston was recovering in the mid-1990s. If nothing else, this meant that there was some confidence that market forces would lead to reuse of the mill, much as they had in the early to mid-1950s. On the whole, however, the town was anxious to see action and was willing to sacrifice some short-term interests for long-term gains.

The Investors (1998-Present)

On 1 January 1998, Franklin Lifecare sold the mill to a group called the Wellesley/Rosewood Maynard Mills LP (WRP). The WRP partners had extensive experience in putting together complex projects throughout Greater Boston. They believed they could fill the mill buildings in Maynard with software, office, and manufacturing spaces within three years. Their optimism was based on the following three factors:

1. There was extensive need for flexible space in the region;
2. Maynard was at the center of a subregion in eastern Massachusetts populated by a large, technically competent, and young workforce; and
3. The price was right.

WRP recognized from the start that it would need a capable team with strengths in financing, marketing, construction and engineering, and government relations to make the redevelopment a success. In terms of financing, WRP explored many opportunities within the United States, but no US-based banks were willing to take so great a risk. They refused to finance the project without significant collateral and personal property guarantees, so WRP looked to a foreign bank for assistance.

Japan's Nomura Bank proposed a creative financing solution to WRP. The bank agreed to provide phased funding for the project, starting with the largest building. Subsequent funding was dependent on the success of the first phase. This allowed the bank to reduce its risk substantially. As part of this negotiated financing package, Nomura Bank had the right to review (and reject) all leases. With the initial success of the project, the bank provided additional funding, using the first phase as collateral. The fact that WRP received this credit line was important. It meant that the company was not

dependent upon immediate cash flow from tenants to make the project work, which in turn allowed it to invest in lasting physical improvements that were necessary to attract tenants.

With the financing in place, WRP's marketing experts faced the task of creating a new image for the mill complex. They realized that neither Maynard nor the mill conveyed the sophisticated modern, technical, and scientific image common to locations on Route 128. They also recognized that Digital's stated reason for selling had been that it was too old, too outmoded, and too costly to operate, and they knew that the Franklin Lifecare proposal failed due to a lack of investor confidence.

In addition to addressing the shortcomings of the mill complex site itself, WRP had to deal with the fact that, as author Anna Saxenian has noted, the high-tech community is a closed group that tends to cluster. For example, in Greater Boston, companies strive to be as close as possible to the Massachusetts Institute of Technology, the epicenter of East Coast high-technology research (Saxenian, 1996).

Maynard, despite having been the world headquarters of Digital, was located 20 miles from Massachusetts Institute of Technology, and its mill complex was hardly sleek. Michael Weinstein of Computerworld called it a 'cruddy old mill,' while in Digital's own publication Jamie Pearson described it euphemistically as 'idiosyncratic' (Pearson, 1992). In fact, Digital's leadership had consciously selected Maynard because it was different. It was in Maynard that Digital could build its famed culture of intense chaos, internal competence, and decision-making consensus with a hardworking and willing workforce. But Digital was unique, and perhaps more importantly, in the last five years of its existence (1993-1998), it was looking further and further away from the mill for its operations.

To overcome the mill's stigma, the marketing team first endeavored to find a positive physical object at the mill site that could become the symbol of the mill's rebirth. The team quickly settled on the large clock tower that was perched atop one of the mill buildings and that was pictured on the official seal of the Town of Maynard. The complex became known as Clock Tower Place. To announce this new beginning, the company immediately repaired the clock and repainted it in a manner that reflected its original Victorian qualities.

Beyond this, WRP relied on the traditional methods of trying to fill space. It contacted leading realtors, placed advertisements in key journals, and spread the word to trade groups across Greater Boston. It was quite confident that the space would begin to fill because almost immediately after it purchased the property the economy began to revive and prime industrial and office space was again in demand. But

for 6 months nothing happened. The marketing team for WRP soon realized that it had to make some extraordinary moves if it was to attract realtor interest. The following two examples are illustrative of the team's efforts.

The first is the 'Case of the Goldfish Bowl.' The WRP team called approximately 25 real-estate firms and asked them to visit the mill on a Saturday morning in summer 1999. In exchange for the visit, one of the realtors would have his or her business card pulled from a goldfish bowl and would be given the free use of a BMW for 1 year. (The winner later found three tenants for the mill.) The team also agreed at that time that it would provide the use of a free Mercedes, for one year, to any realtor that attracted a tenant who agreed to rent more than 100,000 square feet of space.

The second example involved negotiations with the Electronic Data Systems Corporation, which was interested in leasing 70,000 square feet of space. The Electronic Data Systems Corporation had two sticking points: it wanted a free shuttle bus service to and from the Massachusetts Bay Transportation Authority commuter line, which was located six miles away, and it wanted the cost of relocation subsidized. WRP immediately agreed to provide a free scheduled shuttle to and from the commuter line several times a day as well as an on-demand service if someone needed to get to the commuter line at a time when no shuttles were scheduled. Although the shuttle attracts on average only approximately 20 passengers per day, sometimes the fact that a service is available is more important than its actual use. As one of the owners noted, 'Companies in this neck of the woods have to be assured that even if only one employee needs mass transit, it is available.'

In a sense, the owners became rainmakers. They would take prospective clients through the mill's labyrinth of corridors, talking about the value of connectedness, funky space, and the ability to endlessly expand in place as the company grew.

The final special attribute of the mill that WRP emphasized was the mill's infrastructural capabilities, including its fiber optic wiring. In essence, the mill had all the basics required for production, including that new essential, broadband access. The cost to new tenants of getting connected was virtually nil.

The Art of the Deal

Despite their masterful marketing skills, WRP saw that the Commonwealth of Massachusetts Economic Development Incentive Program would be critical to selling the space. Launched in 1993, the Economic Development Incentive Program was intended to stimulate the creation of jobs and new businesses and

to help established businesses to expand in targeted areas across the Commonwealth. Maynard was located in one of these areas. The key components of the program included a 5% state investment tax credit, a 10% state abandoned building tax credit (buildings had to be at least 75% vacant for two years in order to qualify), and Tax Abatement (TA). WRP took advantage of all three of these incentives, but it was the TA agreement with the Town of Maynard that had the greatest impact on WRP's success.

The TA agreement that WRP signed in April 1998 called for the Town of Maynard to forgive taxation on 95% of all investments in improvements for five years and 50% of all investments in improvements for an additional 10 years.

Critical elements of the TA agreement were as follows:

- A base value for the mill was established at $3,075,000. This was to be adjusted annually by an adjustment factor reflecting increased commercial and industrial property values in Maynard.
- WRP agreed to waive the right to seek an abatement of the assessed base value for the first five years.
- WRP agreed to pay the allocated share of costs assessed to the property levied in connection with any over-ride or debt exclusion vote taken by the Town of Maynard during the duration of the agreement.
- The tax abatement applied to the incremental increase in value, beyond the established base value and any inflation adjustment factors deemed appropriate by Massachusetts general law (usually 3%).
- The Town of Maynard set the tax rate in any given fiscal year pursuant to statute.
- There was an established investment timeline for improvements (a total of $35,000,000 within 30 months of signing the agreement), as shown in Table 2.

In addition to the items listed above, there were provisions in the TA agreement that required WRP to pay certain negotiated costs and abide by certain town requirements. WRP agreed to:

- let the Town of Maynard use the mill's parking lot for a farmers' market for five years;
- make reasonable efforts to purchase goods and services locally and allow Maynard businesses to advertise within the premises through flyers and other promotional materials;

Table 2. Investment timeline

Phase	Investment	Timeframe	Number of buildings to be renovated
Phase 1	$17,400,000	Within 18 months	1
Phase 2	$5,500,000	Within 18 months	7
Phase 3	$7,750,000	Within 30 months	1
Phase 4	$4,250,000	Within 30 months	3

- make a onetime gift of $15,000 to the Board of Selectmen, to be used to match funds for private, state, or federal grants; and
- make an annual gift of $15,000 for the term of the TA agreement to cover town costs incurred in connection with community development and planning activities or services.

How did the TA agreement impact on WRP? The following illustration compares how the development was predicted to fare with the tax abatement and how it might fare without the benefit of the TA agreement. Consider the following:

A. 1998 base value and tax obligation at 1998 tax rate = $3,075,000 x $30.74/$1,000 = $94,525.50.
B. Hypothetically increased value from improvements in second year of $23,000,000.
    1. Tax obligation without the TA agreement:
        a. Base value of $3,075,000 + 3% inflation = $3,167,250 multiplied by unchanged tax rate of $30.74/$1,000 = tax obligation of $97,361.27.
        b. Increased value of $23,000,000 multiplied by unchanged tax rate of $30.74/$1,000 = tax obligation of $707,020.
        c. Total tax obligation without TA = $97,361.27 + $707,020 = $804,381.27.
    2. Tax obligation with the TA agreement:
        a. Base value of $3,075,000 + 3% inflation = $3,167,250 multiplied by unchanged tax rate of $30.74/$1,000 = tax obligation of $97,361.27.
        b. Increased value of $23,000,000 multiplied by abated ratio (100 – 95%) = $1,150,000 assessed value. This multiplied by unchanged tax rate of $30.74/$1,000 = tax obligation of $35,351.
        c. Total tax obligation with TA - $97,361.27 + $35,351 = $132,712.27.

3. Savings to WRP is $804,381.27 - $132,712.27 = $671,669.
4. Increased tax revenue for the town of $35,351 (in addition to base revenue of %97,361.27).

The potential value of this agreement to WRP is clear. WRP could use the savings in property taxes to help finance improvements to the property and to provide rental subsidies to tenants. Indeed, after the TA was approved, WRP recruited the initial tenants for Clock Tower Place at a rate of $12/square foot. This was a reduction of 30-50% over the market rates of $24/square foot inside the Route 128 ring and $18/square foot closer to the Interstate 495 ring, making this a very attractive proposition.

In addition to the affordable lease rates, the tenants had the prospect of substantial savings from fees related to common area maintenance (CAM) rates. On average, CAM rates in the region increased the lease rates by 10-15% WRP was able to offer CAM rates at a negligible 2%, so while the neighboring towns of Acton and Concord offered CAM rates of $1.50-1.80/square foot, the mill offered rates between $0.09 and $0.20/square foot, depending on the location within the complex.

The tax break could also be used as equity should WRP seek bank assistance, and it made it possible for WRP to predict its long-term tax liability. For its part, the town would receive a slight, but immediate, increase in property tax revenues. More importantly, the town could expect the facility to be used, new jobs to be generated, and the mill's employees and clientele to generate new commercial activity downtown. With all this information in hand, the voters overwhelmingly approved the TA agreement at a town meeting on 27 April 1998 (Maynard Town Warrant, 1998).

With the TA in hand, the mill began to fill quickly (Bushnell, 2002). Between January 1998 and July 2000, WRP leased approximately one million square feet to 85 different companies. Monster.com, the nation's leading online employee placement company moved its entire operations to the mill, converting a conventional 19th-century manufacturing building into a 21st-century postmodernist space complete with modular furniture and nap rooms. WRP also attracted a Gold's Gym, a Corporate Chefs restaurant capable of serving up to 500 patrons, a travel agency, a printing services company, and a full-service bank to a central common area in the mill.

In the case of the restaurant, WRP realized that the eatery could not be profitable until the mill had a good tenant base, so the company was creative. It waived all the restaurant's rental fees for one year based on the philosophy that a good restaurant was better as a draw for tenants than as a profit generator for the mill.

Concerning start-up companies, WRP adopted a philosophy that no company was too small to locate in the mill. As a result, the tenants lease spaces ranged from a maximum of 100,000 square feet to as little as 200 square feet. Moreover, WRP has noted that 22 companies have been able to expand in place. To date, it has lost only two companies due to an inability to meet their needs.

The entire redevelopment process in the first three years seemed relatively easy. How much of a factor did the TA play in this process? Could this redevelopment have occurred without the TA? Popular perceptions are that the TA agreement was too lenient and that the town was left to deal with increased traffic congestion, service costs, and expenditures with negligible increases in revenue. In the following section, the impacts, opportunity costs, and financial implications for the Town of Maynard are assessed in an attempt to answer these questions.

Critical Evaluation of the TA Agreement

To evaluate the success or failure of the TA agreement, the results of the TA are examined from the perspective of the Town of Maynard, the investor (WRP), and planning theory.

From the Town's Perspective

Back in the beginning of 1998, the mill posed an economic challenge to the Town of Maynard. The town leadership knew that Digital considered the mill too expensive to operate and that the Franklin Lifecare proposal had failed. The lost jobs and decline in assessed value of the Digital property were significant, but not devastating. In the short run, the town had the means to meet its obligations. However, over a longer period, the empty mill's impact on the community would become severe.

Town pride was also at stake. To live in a community whose most prominent structures, which dominated the landscape, were silent and rotting away day by day was particularly distressing. Thus the town's leaders were motivated by both fiscal prudence and community pride to bring vibrancy back to the complex, and they were willing to provide incentives to accomplish their aims.

The TA agreement appears to have been an appropriate vehicle for providing incentives to revitalize the mill. For the Town of Maynard, the TA:

- Enabled the town to collect tax revenues that were well above the amount it would have collected had the mill remained vacant – it should be borne in mind that Franklin Lifecare paid a

scant $1.2 million for the mill and that vacant mills in Massachusetts are commonly assessed at scrap value;

- Replaced a situation in which the owners were headed for bankruptcy and beginning to strip the mill of salvageable material with one of long-term financial stability with a fully functional mill complex;
- Stimulated the creation of a thriving mill complex where between 1,500 and 2,000 workers are employed at the companies occupying the space (Noonan, 2004); and
- Stimulated increased activity in downtown Maynard since the employees at the mill complex frequently walk through the nearby downtown and make local purchases (Costello, 2004). These workers are highly professional, well educated, and relatively affluent; in short, they represent an upscale clientele. While their expenditures to date have not been extravagant, the potential is significant.

In addition, the town has benefited indirectly from the TA agreement in several ways. Its tax rate has stabilized, and at a lower level for both residential and industrial property owners than in the past. In addition, while its commercial and industrial property values have continued to increase, their share of equalized value has decreased, indicating a strong residential market. Finally, service costs are in check, and the municipal budget is balanced.

The projections over the longer term seem to be good. Eight years after the inception of the TA agreement, the town is experiencing a significant net impact gain that is only likely to increase over time. As of May 2005, Moody's gave the Town of Maynard a bond rating of A2, which is quite impressive.

Perhaps most importantly, the Town of Maynard has its heart back. The mill stimulated the creation of the town and sustained it for more than 150 years. Today, because of the actions of the developers and the town, that heart beats once again.

But did the town sacrifice too much to revive the mill? The interviews conducted for this case reveal there is a local perception that the Ta was too lucrative for the developers and that, since Maynard was not suffering from high unemployment in 1997-1998, the return on this investment has been too low. At first glance, one can understand this position. WRP moved into town, put up a sign saying 'space available,' filled the mill with 70 companies, and made millions – or so is the perception.

From the Investor's Perspective

WRP, on the other hand, would argue differently. WRP would maintain that it followed Digital, which saw the mill as a financial drain, and Franklin Lifecare, which could not gain the required financing for its proposal. In effect, WRP agreed to take on a project that was considered a failure by the two previous owners. With its skills and experience in the revitalization of old buildings, a talented team, timely entrance into the market, aggressive marketing, and pursuit of government grants, WRP stimulated the recovery of the mill.

Prior to investing in the mill, WRP was aware of the economic climate in and around Maynard and was prepared to take advantage of it. Above all, WRP was confident that the space would fill. With this in mind, WRP took three critical steps. First, WRP purchased 51% of Franklin Lifecare. This provided Franklin Lifecare with the means to meet its financial obligations cleanly, and its owners became minority owners with WRP. The fact that WRP only purchased 51% is significant. It meant that WRP controlled the mill's future without having to purchase it outright.

Second, as previously noted, WRP went to great lengths to present the mill as a desirable place to do business. It aggressively set out to make the mill attractive. The grounds were replanted and landscaped, and the structures were painted and scrubbed.

Third, WRP pursued a TA agreement. This encouraged the company to become a good corporate citizen. It held open houses, allowed its facilities to be used by the public, and donated funds to community projects. It also launched a public relations campaign designed to influence the voters on its behalf. The efforts paid off. In an often cantankerous town meeting, the owners gained the two-thirds majority required to approve a TA agreement – quite an accomplishment.

Clearly, WRP took a calculated risk. Its time, funds, and reputation were on the line. In retrospect, if WRP made an error in judgment in terms of the court of popular opinion, it was that the company made the recovery look too easy. The rental agreements were quick, the financing was smooth, the grants were quickly obtained, and the mill was filled with little observable effort. In a town that had frequently suffered during economic downturns, the success of WRP was simply too much for people to accept.

From a Planning Perspective

Could this difference of opinion between the town and the company have been avoided? Perhaps. From a municipal perspective, the absence of a strong vision for the revitalization of the mill, the fact

that there was no working master plan, and that there was minimal commitment to planning in the community were all shortcomings.

In fact, there was no synoptic planning theory being practiced in the town, especially with regards to addressing the needs of the mill. There was no formal goal setting, followed by identification of policy alternatives, evaluation of means against ends, and implementation of policy relative to the mill. The desire of the town, as in the early 1950s, was simply to help keep the mill running. If, however, the town had placed the recovery of the mill in a master-planning context, then the expectations of the townspeople would have been stated, the impact of that recovery would have been known, and the qualitative aspects of the recovery publicly debated – all ahead of the coming of WRP. This is one case where thoughtful planning could have greatly improved town-company relations.

Final Analysis

While it is difficult to draw direct correlations between Maynard's socioeconomic standing today and the deal made 10 years ago, it is quite evident that the town is in far better position. The residents enjoy lower property tax rates ($13.33), and the commercial/industrial tax rate has stabilized at $22.76 (down from $30.74). New construction and growth can be noted in all sectors, average home values currently stand at $354,000, a 100% improvement since the 1997 figures, and the unemployment rate is holding steady at 4%. The assessed value of the mill is back up to $24 million (an increase from the initial value of $3 million in 1998). The bond rating stays strong and the budget is balanced.

In retrospect, perhaps the 95% tax abatement was too generous. Fiscal impact assessments show a more viable abatement of 70% would have cut down significantly on the costs the town incurred due to the renovations. (Interestingly, however, the long-term assessment shows that the town recouped any lost revenue by Year 9. In other words, after Year 9 there are no cumulative losses for the town to report.) After the TA ends in 2018, the mill will pay its full share of property taxes. In today's market, the mill sale value is in the range of $100,000,000. With an estimated tax percentage of 2%, the estimated annual tax payments will be $2,000,000 (in 2007 dollars).

With the role of partnerships only becoming stronger, the credit crunch deeper and the agreements more complex, the need for longitudinal case studies continues to grow. This case study offers a good model – one that illustrates a partnership that goes beyond just dollars and cents to include creative marketing, long-term planning, and educational elements. It also illustrates that one cannot plan for an

ideal future. We have to make choices, take risks, negotiate deals and take a long-term view of measurable success.

References

Bartik, T. (1991) *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research).

Blanton, J. (1993) Digital will shutter the mill, *Boston Globe*, April 3, p. 29.

Boothroyd, P. & Halprin, L. (1999) *Assabet Mills, Maynard, Massachusetts* (Charleston, SC: Arcadia Publishing).

Bushnell, D. (2002) Life after Digital: Maynard comes into its own, *Boston Globe*, July 13, Real-estate Section, p. G1.

Buss, T. (2001) The effect of state tax incentives on economic growth and firm location decisions: An overview of the literature, *Economic Development Quarterly*, 15(1), pp. 90-105.

Chuin-Wei, Y. (2005) Area recovers from shocks, *Morning Sentinel*, January 11, p. 1.

Costello, M. (2004) Guess who is coming to dinner? Customers flock to local eateries, *Boston Globe*, March 28, Globe West Section, p. 1.

Dodge, J. (2000) A walk through the mill, *PC Week*, February 7, p. 3.

Dunwell, S. (1978) *Run of the Mill* (Boston: Godine Publishers).

Fisher, P. & Peters, A. (1997) Tax and spending incentives and enterprise zones, *New England Economic Review*, March-April, pp. 109-130.

Gambale, G. (2007) 21st annual corporate survey, *Area Development Magazine*. Available at http://www.area-development.com/survey05/serve1.htm (accessed 11 June 2008).

Gertner, J. (2003) The history of American capitalism in a single industrial complex, *New York Times*, June 8, Section 6, p. 46.

Kotin, A., & Peiser, R. (1997) Public-private joint ventures for high volume retailers: Who benefits? *Urban Studies*, 34(12), pp. 1971-1986.

Lehnen, R., & Johnson, C. (2001) The impact of tax increment financing on school districts: An Indiana case study, in: C. Johnson & J. Man (Eds) *Tax Increment Financing and Economic Development*, pp. 137-154 (Albany, NY: SUNY Press).

Maynard Historical Commission (1971) *History of Maynard, Massachusetts, 1871-1971* (Acton, MA: Beacon Press).

Maynard Town Warrant (1998) *Special Town Meeting Results*, April 27, p. 12 (Maynard, MA: Town of Maynard).

Mullin, J. (1992) Development of the Assabet Mills in nineteenth century Maynard, *Historical Journal of Massachusetts*, 20(1), pp. 64-89.

Mullin, J., Armstrong, J. & Kavanagh, J. (1986) From mill town to mill town, *Journal of the American Planning Association*, 52(1), pp. 47-59.

Noonan, E. (2004) Value of Clock Tower Place soars: Assessment up more than tenfold, *Boston Globe*, July 1, Globe West Section, p. 6.

Oden, M., & Mueller, E. (1999) Distinguishing development incentives from developer give-aways: A critical guide for development practitioners and citizens, *Policy Studies Journal,* 27(1), pp. 147-164.

Pearson, J. (1992) *Digital at Work: Snapshots from the First Thirty-five Years* (Burlington, MA: Digital Press).

Rainey, D. & McNamara, K. (1999) Taxes and the location decision of manufacturing Establishments, *Review of Agricultural Economics*, 21(1), pp. 86-98.

Rifkin, G. & Harrar, G. (1988) *The Ultimate Entrepreneur: The Story of Ken Olsen and the Digital Equipment Corporation* (New York: Contemporary Books).

Saxenian, A. (1996) *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge, MA: Harvard University Press).

Temin, P. (2000) *Engines of Enterprise: An economic history of New England* (Cambridge, MA: Harvard University Press.

Warren Group (2006) Median Value of Home Sales. Available at http://ress.thewarrengroup.com/townstats.

Weber, R. (2002) Do better contracts make better economic development incentives? *Journal of the American Planning Association*, 68(1), pp. 43-55.

Zitner, A. (1994) Makeover for the mill: Digital base to become senior housing, *Boston Globe*,

September 23, p. 73.