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# INTRODUCTION





## A. INTRODUCTION

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### The Neighborhood, Its Current Condition, and a Plan for Revitalization

The Beacon/Federal Neighborhood is one of the City’s oldest neighborhoods and is comprised of retail and institutional uses on South Main Street, a stock of older two- and three-story homes, multi-family units, mixed-use commercial buildings, single-story commercial buildings, industrial uses and mill buildings. However, over the past forty years, there has been disinvestment, deterioration, and major underutilization. Any vitality is offset by boarded up buildings on the side streets. Moreover, the residents of the Beacon/Federal Neighborhood census tracts were identified in the 2000 Federal Census as “Pockets of Distress” because of the levels of education, poverty, income, unemployment, and other economic indicators.



With financial assistance from the State Executive Office of Communities & Development, under the Gateway Cities Program, and an open public process sponsored by the City, neighborhood planning for the Beacon Street/Federal Street blocks was advanced over the last four months, resulting in this Beacon/Federal Neighborhood Plan.

It is hoped that the key recommendations of this Neighborhood Plan can be implemented, thereby making a significant impact on the quality of life in the Beacon/Federal Neighborhood. With a better understanding of the demographics and the real estate market potential available for revitalizing this area, the City of Worcester will be able to work with developers, property owners, and financial institutions to build housing and expand the commercial base to meet the needs of the City’s diverse population and lead to a safe and attractive place to live and work.

The Beacon/Federal Neighborhood has a highly important strategic location – it is contiguous with the center of the City. The buildings on Franklin Street look out at City Hall, the Common, and the to-be-revitalized CitySquare. It provides the transition to the residential neighborhoods to the south and west. In order for all of those neighborhoods, those between the City center and Clark University, to be strengthened, it is critical that the transition from the commercial and institutional city center be an area of strength and vitality and be well maintained.

The Neighborhood Plan includes a number of short- and long-term concepts for a revitalized neighborhood that:

- Build on the current successes in revitalization;



- Link the neighborhood to the City’s future in the downtown, CitySquare, Union Station, Canal District and surrounding neighborhoods
- Create a sustainable, mixed-use, walkable, safe, and desired destination for business and living.



This plan is offered in the context of recent and substantial progress in the City on many fronts. With over \$2 billion in public and private construction underway or planned within the city, Worcester’s real estate market is ready for new development. The two million square foot City Square project will revitalize the Downtown and provide a direct

connection between Downtown’s Main Street, Washington Square, and Shrewsbury Street’s Restaurant Row. The 137,000 square foot Worcester Polytechnic Institute Life Sciences and Bio-Engineering Center recently opened at Gateway Park, the latest project in an effort that will result in over one million square feet of new office, R&D, retail, and residential space within the decade. The University of Massachusetts Medical School continues to expand with the construction of the 285,000 square foot Advanced Education and Clinical Practice Center, further establishing Worcester’s position as one of the largest bioscience/higher education centers in the country. The City’s cultural offerings – already including the renowned Worcester Art Museum, Mechanics Hall, and over ten colleges and universities – were recently enhanced by the magnificently renovated 2,300 seat Hanover Theatre for the Performing Arts which opened this past March; located in the Beacon – Federal neighborhood. Finally, Union Station, one of the Commonwealth’s most beautiful public buildings, hosts Amtrak, Massachusetts Bay Transportation Authority commuter rail, and both intercity and intra-city bus service.



However, despite this promising overall environment, the problems of the neighborhood are substantial, ingrained, and resistant to change. It is a conclusion of this study that anything less than a comprehensive approach to dealing with the neighborhood issues is unlikely to be successful. If the issues are addressed just at the margins, ten years from now the neighborhood is unlikely to be much different than it is today. There could still be boarded up buildings, the streets may continue to be perceived as unsafe, and the sidewalks may still be crumbling.

On one hand, the Beacon/Federal neighborhood exemplifies the “Broken Windows” theory of neighborhood quality. The

neighborhood is troubled because so many buildings are abandoned and boarded up, because the streets, curbs and sidewalks are in disrepair, because there are weeds everywhere, and because of the daily impact of emergency shelters attracting and then placing on the streets people with difficult problems. All of these indices of neglect and disrepair are self-reinforcing. They all say – “no one really cares about this neighborhood – so it is OK to act inappropriately and to treat the neighborhood badly.”

On the other hand are the neighborhood demographics which exemplify a “Gateway City.” A number of immigrants start their experience in the American economy in those neighborhoods that provide the lowest cost housing, accessible jobs and accepting environments – and the Beacon Federal neighborhood supports that opportunity. The demographic indicators show that pattern with higher percentages of foreign born, lower educated, poorer individuals, with lower family sizes and higher numbers of people per household, which are also the indicators of “Pockets of Distress.” If these individuals move up the economic strata, they may move on and allow others to enter because they leave behind the social and economic structure that supports that demographic - but discourages major new investment.

In order to make meaningful change in the Beacon / Federal neighborhood a dramatic and explicitly acknowledged public – private partnership must be forged to tackle the key problems, and the key problems must be addressed essentially simultaneously. Only the private sector can mobilize and invest the tens of millions of dollars that are necessary to change the appearance of the buildings and properties in the neighborhood. But the private sector will not make these investments without confidence in and assurance from the public sector that the necessary public investments will be forthcoming.

A three-pronged approach is required – entailing:

- Public Safety and Civil Behavior; under a partnership between the Community Policing Division of the Police Department and the residents, to restore the level of safety and the perception of civility on the sidewalks needed for a revitalized neighborhood. The Police Department is well organized for this – what is needed is an active neighborhood organization committed to improving this specific part of the City.



- Street, Curb, Sidewalk and Open Space Improvements – with public funding based on the growth potential and future tax revenues of that growth; to change the appearance from neglect and disrepair to an appearance of quality public space that is well maintained and inviting to use. This will better link residents with jobs and businesses and make living in the neighborhood an attractive proposition; and,
- Privately-funded Revitalization Projects; to renovate, fill up and use the abandoned buildings, and in the process add living spaces, jobs and vitality. The financing for these privately directed projects will need to be supported with creative financial assistance from the City, State, and Federal governments, including tax credit programs.

These program elements will, of course, be combined with the other significant public investments being made such as the Neighborhood Stabilization Program created through the Federal Housing and Economic Recovery Act of July 2008, the City’s SAVE, Buy Worcester Now, Problem Property, and Foreclosure Intervention and Education programs, and the City/State partnership, entitled “Worcester Communities Count,” which was announced by Governor Deval Patrick in July 2009.

Only a comprehensive, coordinated approach can successfully transform the neighborhood into a place where people thrive, where businesses want to locate, and into which private investment is drawn. This is the challenge.

### **Why This Workbook Was Created**

A Workbook is an appropriate vehicle for presentation of the Plan because of the number of people who by necessity will be involved in the implementation of this Plan. The Workbook is divided into sections with data, plans, and implementing measures. Those needing to understand the human and market potential of the area can turn to the sections with that data. Those wishing to advance the infrastructure plans may turn to the master plan sections. Those wishing to proceed or assist with a revitalization project may review the sections on tools for implementation.

Further, as new market and demographic information is generated, those sections describing the neighborhood blocks and their potential may be updated. As the master plans are further advanced in detail, those plans may be added. As new tools or revisions to the tools are developed, those related sections may be revised. In this way, the Plan and this Workbook may evolve with the neighborhood and the implementing programs.

### **Acknowledgements**

A unique – though troubled – neighborhood has been better understood; new opportunities for change have been uncovered, and the level of interest in reinvestment has been greater than anticipated. For these reasons we wish to give thanks to:

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State Senator Harriette Chandler

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State Representative Vincent Pedone

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District 4 Councilor Barbara Haller

District 2 Councilor Philip Palmieri

City Manager Michael V. O'Brien

Assistant City Manager Julie Jacobson

Executive Office of Economic and Neighborhood Development

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DEMOGRAPHIC AND  
ECONOMIC OVERVIEW





## A. DEMOGRAPHICS AND ECONOMIC OVERVIEW

Worcester County constitutes most of Central Massachusetts, stretching from the northern to the southern border of Massachusetts. The largest city and county seat is the City of Worcester. The Worcester urban area is the second largest in the state after the Boston metro area.

Worcester County has a population of 790,000 persons (2008 estimate)<sup>1</sup>. As shown in Table A, the county has had strong population growth since 1990 somewhat higher than the state average. The county has grown by 5.24% since year 2000, and is estimated to grow another 2.74% over the next five years<sup>2</sup>. Both percentages are higher than the statewide average of 1.42% and 0.45%, respectively, for the State of Massachusetts<sup>3</sup>. As indicated in Figure A, Worcester population growth trended about the same as the statewide population, but increased at a faster rate beginning in 1992.

Total employment growth in Worcester County has virtually mirrored the state totals as indicated in Figure B and Table B.

Table A. Population Growth Summary

Population	Worcester County	Worcester City	Massachusetts
1990 Census	709,728	169,759	6,016,425
2000 Census	750,963	172,648	6,349,097
2008 Estimate	790,276	175,094	6,439,192
2013 Projection	811,968	176,710	6,468,130
Growth 1990-2000	5.81%	1.70%	5.53%
Growth 2000-2008	5.24%	1.42%	1.42%
Growth 2008-2013	2.74%	0.92%	0.45%

Table B. Employment Growth Summary

Population	Worcester County	Worcester City	Massachusetts
1990	359,314	n/a	3,646,584
2000	406,234	n/a	4,096,551
2008	419,958	128,184	4,156,825
Growth 1990-2000	13.1%	n/a	12.3%
Growth 2000-2008	3.4%	n/a	1.5%

<sup>1</sup> Claritas Site Reports, Worcester County, 2008.

<sup>2</sup> Ibid.

<sup>3</sup> Claritas Site Reports, Massachusetts, 2008.

Figure A. Worcester County and Massachusetts Population, 1969-2007

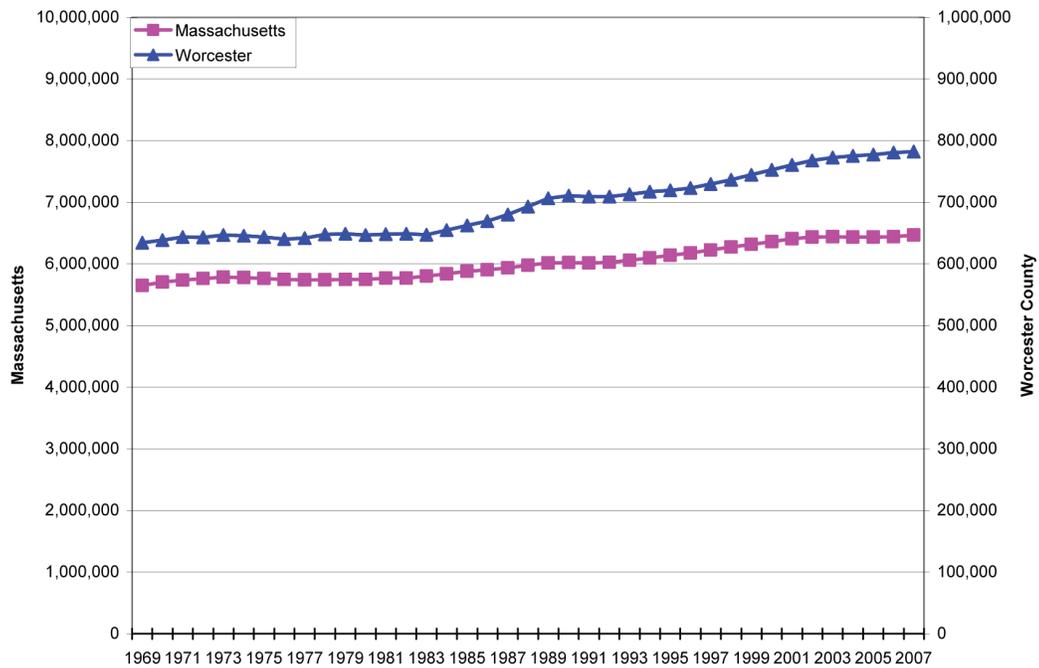
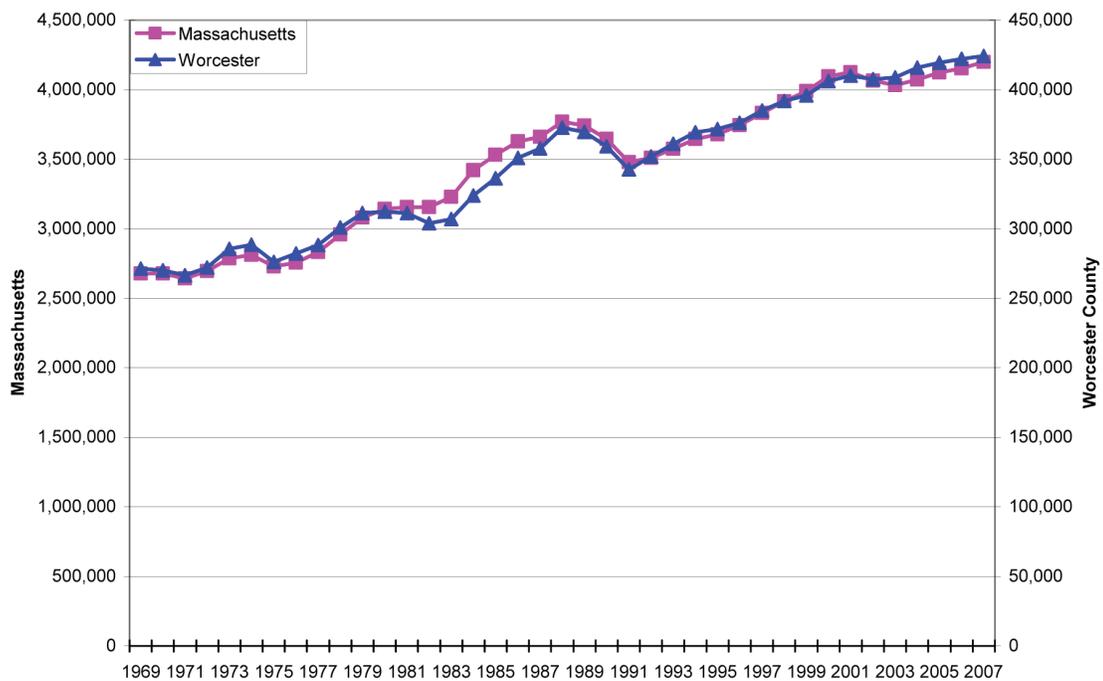


Figure B. Worcester County and Massachusetts Employment Trends

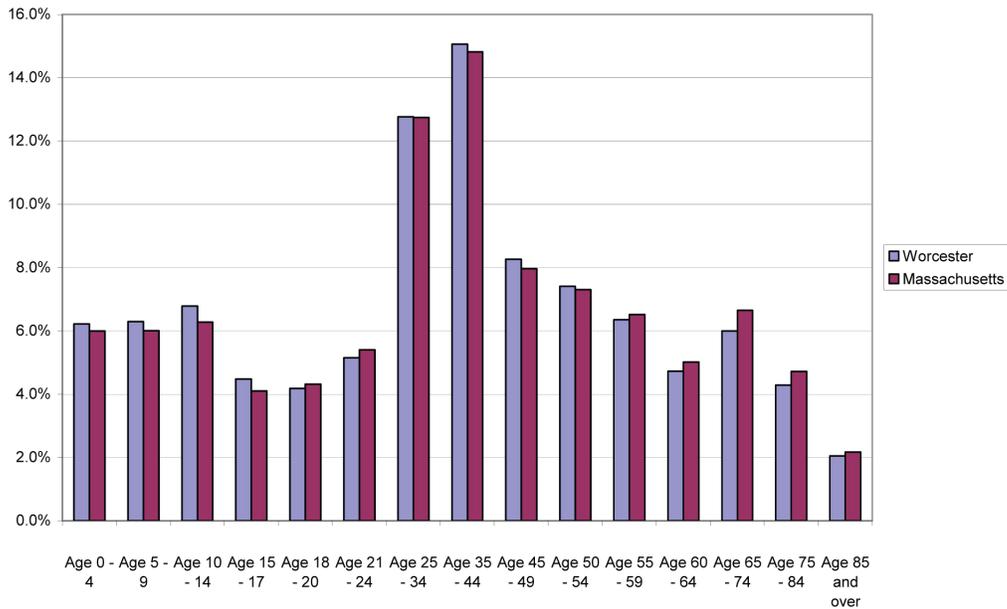


The city of Worcester has a population of 175,100 persons, or about 22% of the county total. The city grew by 1.70% from 1990 to 2000, and by 1.42% from 2000 to 2008. It is expected to grow by 0.92% by 2013 to 176,700 persons.<sup>4</sup>

Detailed demographic characteristics for Worcester County and the city of Worcester are presented in Appendices A and B, respectively.

A key demographic that is relevant to future economic development in Worcester County is the distribution of population by age group. Figure C shows the percent of Worcester County population by five-year age increment in relation to the age distribution for the entire state. This graph illustrates that the county's age distribution is nearly the same as the statewide age distribution. The Worcester County median age is 37.8 years slightly younger than the Massachusetts median of 38.5 years.<sup>5</sup>

**Figure C. Worcester County and Massachusetts Population by Age Group, 2008**



Other relevant demographic observations include:

- Both Worcester County (\$29,002) and Worcester City (\$22,372) has lower per capita incomes than the statewide average (\$32,102). The Worcester City per capita income is only 70% of the state average.
- A similar pattern is shown by total household incomes. Worcester County has a median household income of \$59,822 compared to \$42,849 for the city and \$62,043 for the state.
- Residents of Worcester County and Worcester City are less well educated than the rest of the state with 27% and 23%, respectively, having college degrees compared to the statewide average of 33%.

<sup>4</sup> Claritas Site Reports, City of Worcester, 2008.

<sup>5</sup> Claritas Site Reports, Massachusetts and Worcester County, 2008

Worcester County has 415,900 employees, 128,200 (31%) of which are located in the city of Worcester. Total business sales in Worcester County are estimated at \$46.4 billion in 2008 with \$14.0 billion occurring in the city of Worcester.<sup>6</sup> The average sales per employee were \$111,158 in Worcester County and \$108,930 in the city of Worcester in 2008, compared to the statewide average of \$109,036 sales per employee. Detailed business characteristics for Worcester County and the city of Worcester are given in Appendices C and D, respectively.

## Trends

In addition to demographic and business characteristics for 2008 from the proprietary Claritas Site Reports service, FXM also compiled extensive population, income and employment data from public sources:

- US Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2009. Tables CA 04, county income and employment summary; CA 25N, full and part-time employment by NAICS industry code; CA 25, full and part-time employment by SIC industry code; and CA 30, regional economic profile.
- Massachusetts Executive Office of Labor and Workforce Development, 2009. ES-202, Employment and wages data; CES-790, Current Employment Statistics.

These sources provided continuous data on changes in population and employment characteristics at the county level from 1969 to 2000 by SIC industry group code, and from 2001-2007 by NAICS industry group code. SIC stands for Standard Industry Classification and was the employment classification system used by the states and federal government to track employment data by industry. In 2001, the federal government adopted the North American Industry Classification System (NAICS) that established a common industry classification system for the US, Mexico and Canada. FXM conducted extensive analysis of SIC and NAICS data for Massachusetts and Worcester County to establish a consistent dataset for 1991 to 2007 based on NAICS industry classifications for analyzing trends in state and county employment.

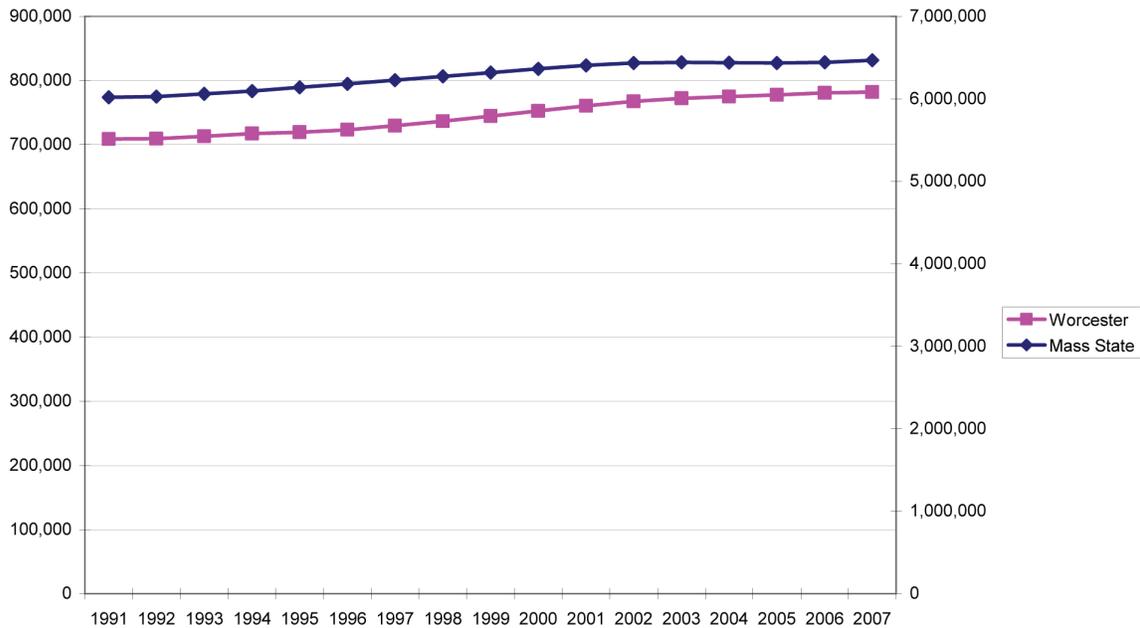
## Population-related Trends

Figure D compares Massachusetts and Worcester County annual population trends from 1991-2007. This chart shows even more clearly than Figure A the more rapid growth of Worcester population from 1996 to 2002, and the slower rate of growth since then. Please note that the 2007 population for Massachusetts and Worcester County do not match exactly the values in Table A because they are from different sources. Claritas Site Reports, used in the earlier table, is a proprietary database which provided annual detailed demographic and employment estimates and is reconciled with government estimates only for Census years. For all other years, Claritas conducts independent research and uses proprietary formulas to derive their estimates. The

<sup>6</sup> *Claritas Business Facts for Massachusetts, Worcester County and city of Worcester, 2008.*

data in Figure D and subsequent figures and tables are from published government sources and are intended to show short and long-term trends in major characteristics; they do not attempt to match the Claritas level of detail between Censuses.

**Figure D. Massachusetts and Worcester County Population**

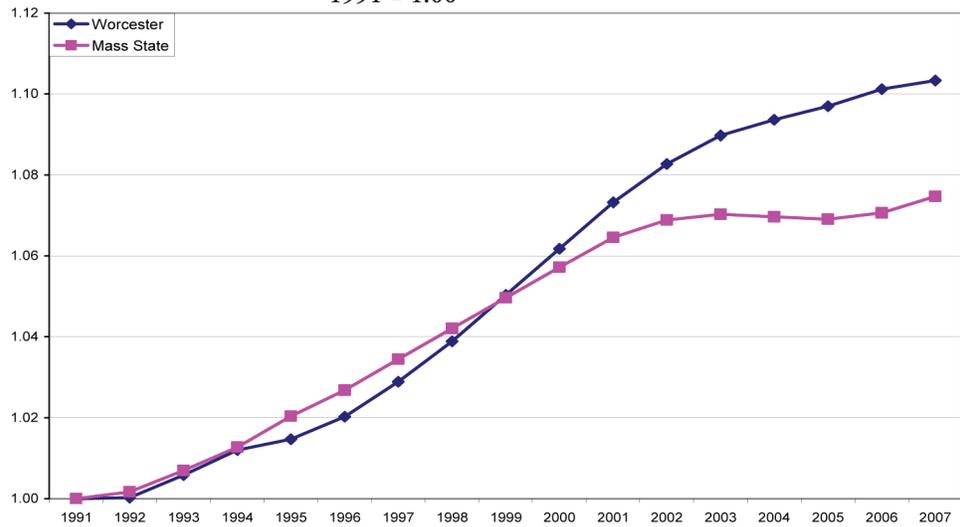


Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

One method commonly used to portray growth trends between two or more datasets is to create an index chart using a common base year and ratioing annual values to that base year. For Worcester County and Massachusetts, 1991 was selected a common base year. Growth relative to 1991 is shown in Figure E; this graph clearly shows that statewide population has increased by more than 7% in the past 17 years while Worcester County grew by slightly more than 10% of 1991 population by 2007.

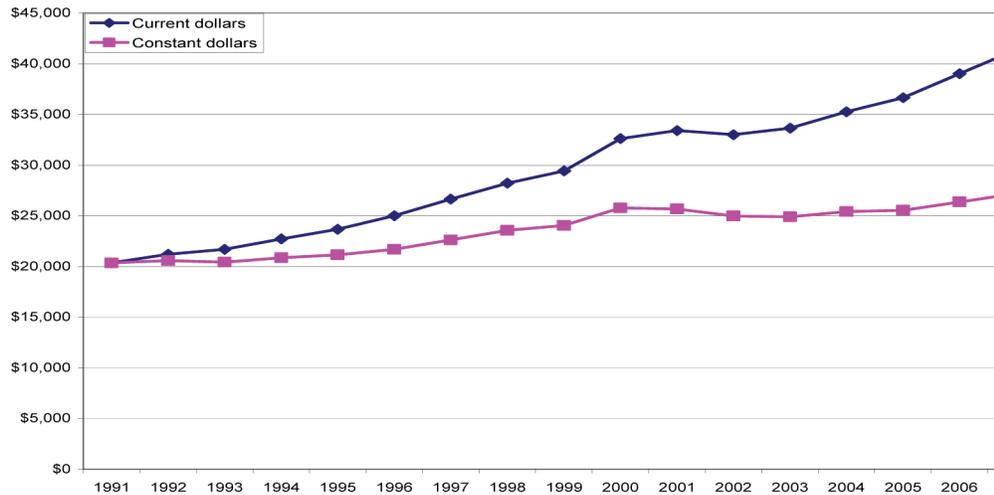
A similar method is used to portray personal income data. That is to again use a common base year and illustrate income growth (total, by household or per capita) in current dollars (i.e., the year in which the dollars were earned) and in constant dollars (showing changes in relative purchasing power). Figure F shows the trend in per capita income for Worcester County. Income per capita has more than doubled in current dollars since 1991, but increased only one-third (33.5%) in constant \$1991 dollars. Current dollars are the value of income in the year it is recorded (i.e. \$1999 dollars are those earned in \$1999), while constant dollars represented the change in purchasing power relative to the 1991 base year. As an example, an income of \$30,000 in 1999 only buys as much as \$25,000 would have in 1991.

Figure E. Massachusetts and Worcester Population Growth Index  
1991 = 1.00



Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

Figure F. Worcester County Personal Income Per Capita



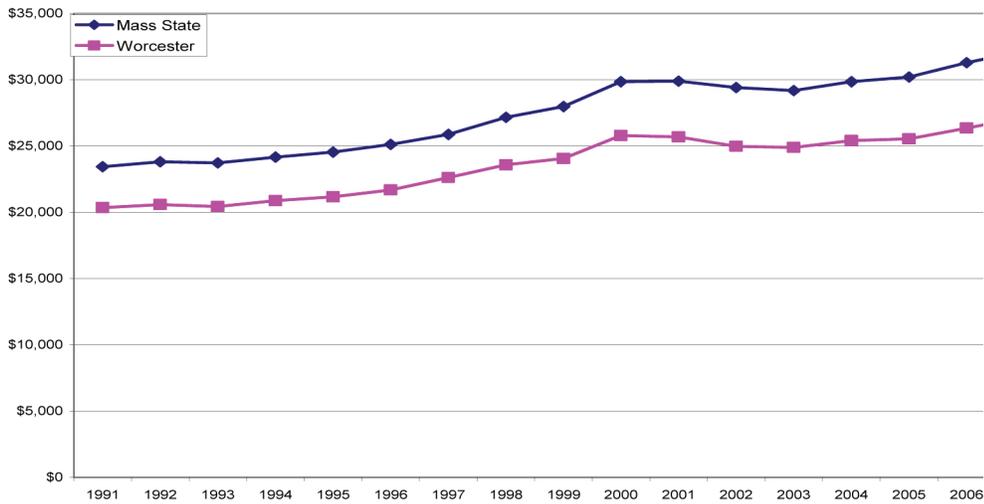
Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

Figure G illustrates the 1991 to 2007 trends for Massachusetts and Worcester County personal income per capita in constant 1991 dollars. Worcester County per capita income trend parallels that of Massachusetts but is about 14 to 18 percent lower.

### Employment-related Trends

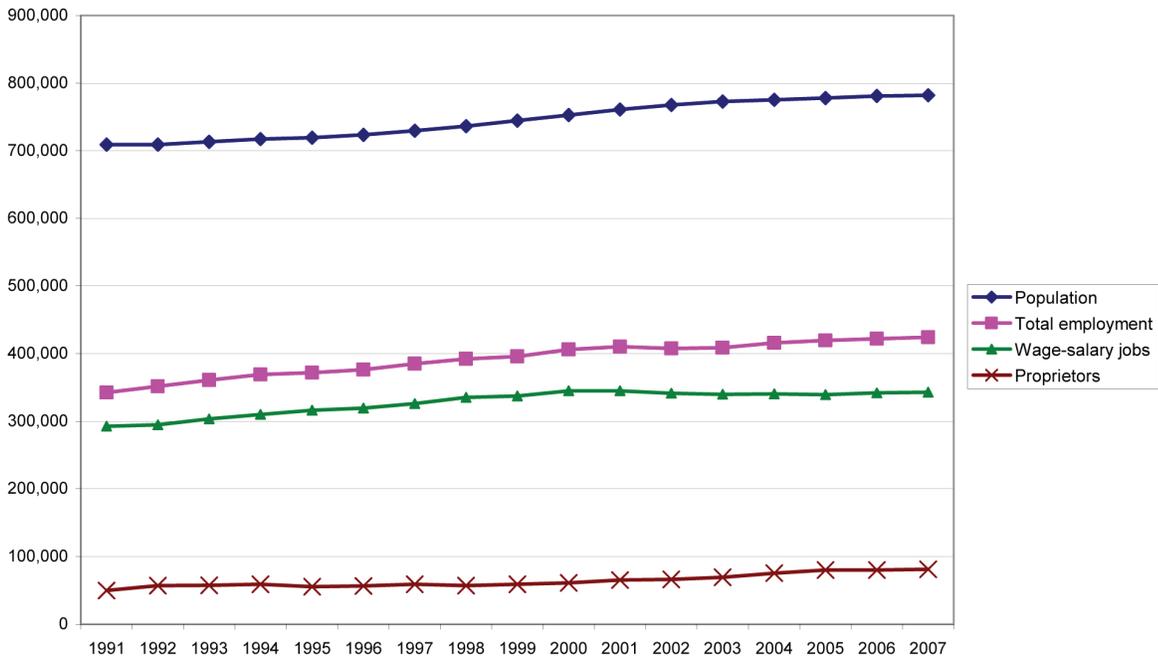
Figure H portrays long term trends in total population and employment by wages and salary jobs and proprietors' employment. Employment growth has been similar to population growth for the 1991-2007 period, but leveled off earlier in 2001 and

Figure G. Mass State and Worcester County Personal Income per Capita  
Constant 1991 Dollars



Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

Figure H. Worcester County Population and Employment, 1991-2007



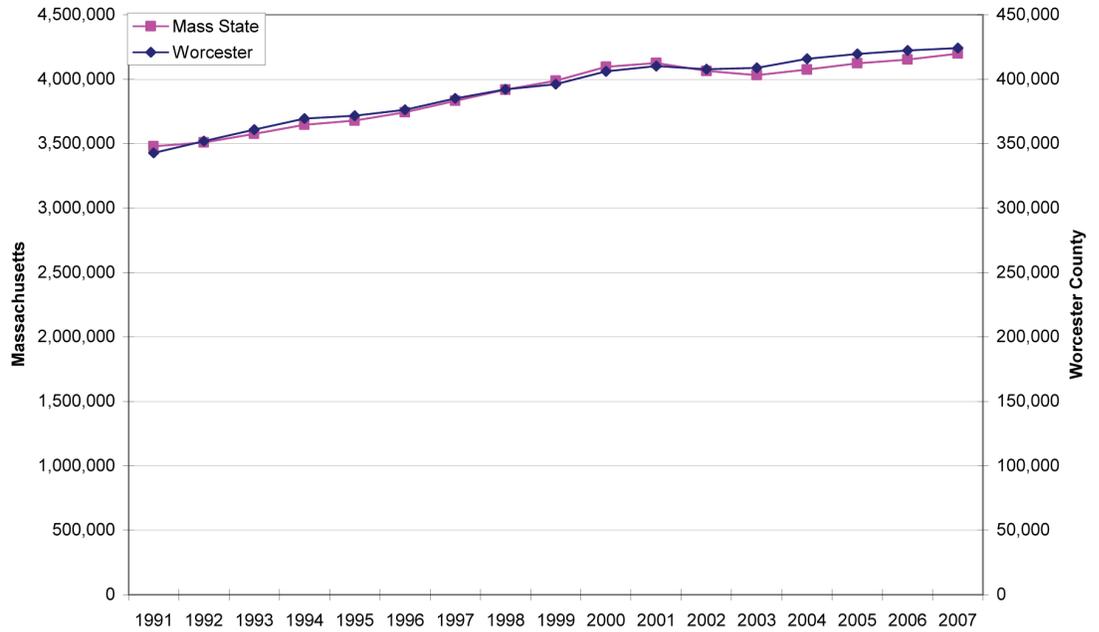
Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

has recently been increasing at 0.5% per year. Wage and salary employment peaked at around 345,000 jobs in 2001 and has declined by 0.5% since then. However, the number of proprietors in the county has grown by 25% indicating that one and two person firms have been the source of new jobs in recent years.

Figure I plots total employment for Worcester County and the state of Massachusetts for the 1991-2007 period. Worcester County and Massachusetts statewide employ-

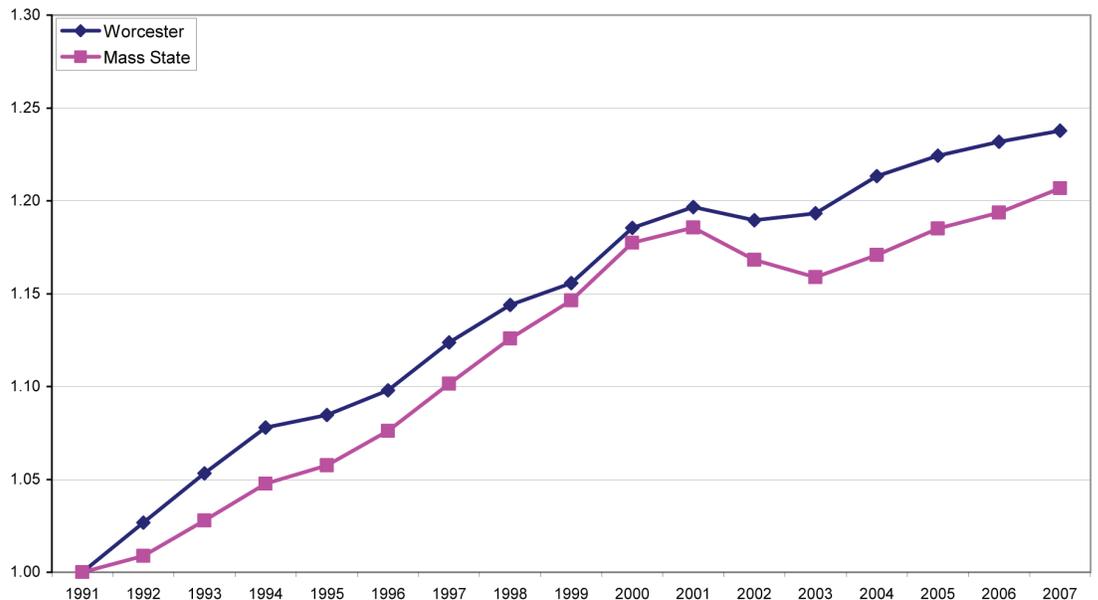
ment have been in virtual lock-step since 1991. This is reinforced by Figure J which shows relative indexed-population growth for the state and county for 1991 to 2007.

Figure I. Worcester County and Massachusetts Employment Trends, 1991-2007



Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

Figure J. Massachusetts and Worcester Employment Growth Index  
1991 = 1.00



Source: US Department of Commerce, REIS Database, Table CA 30 and FXM Associates

Figure K shows growth indices for population, total employment, wage and salary employment and proprietors' employment from 1991 to 2007. What is somewhat surprising on this graph is the magnitude of proprietors' job growth compared to other categories, particularly in the 2000-2005 period. However, the percentage of proprietors relative to total employment for Worcester County is and has been almost exactly the same as in the rest of Massachusetts. Proprietors have grown to 19.1% of total employment in Worcester compared to 18.3% in the rest of the state.

Figure K. Worcester County Population and Employment Index Trends

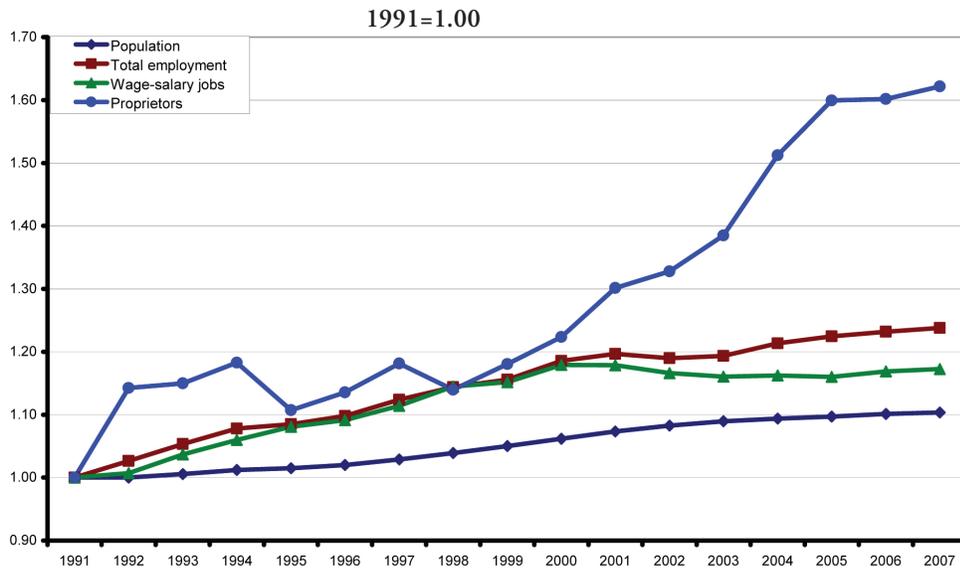


Figure L. Worcester County and Massachusetts Employment per Capita

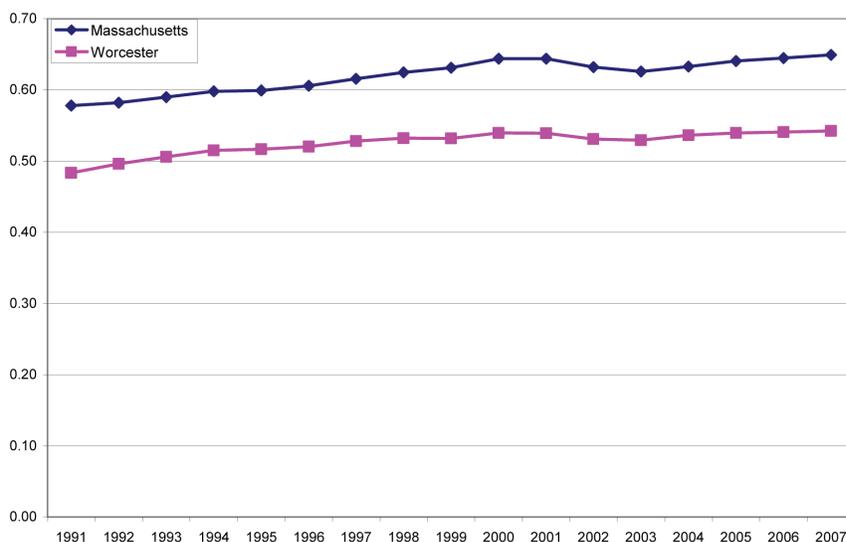
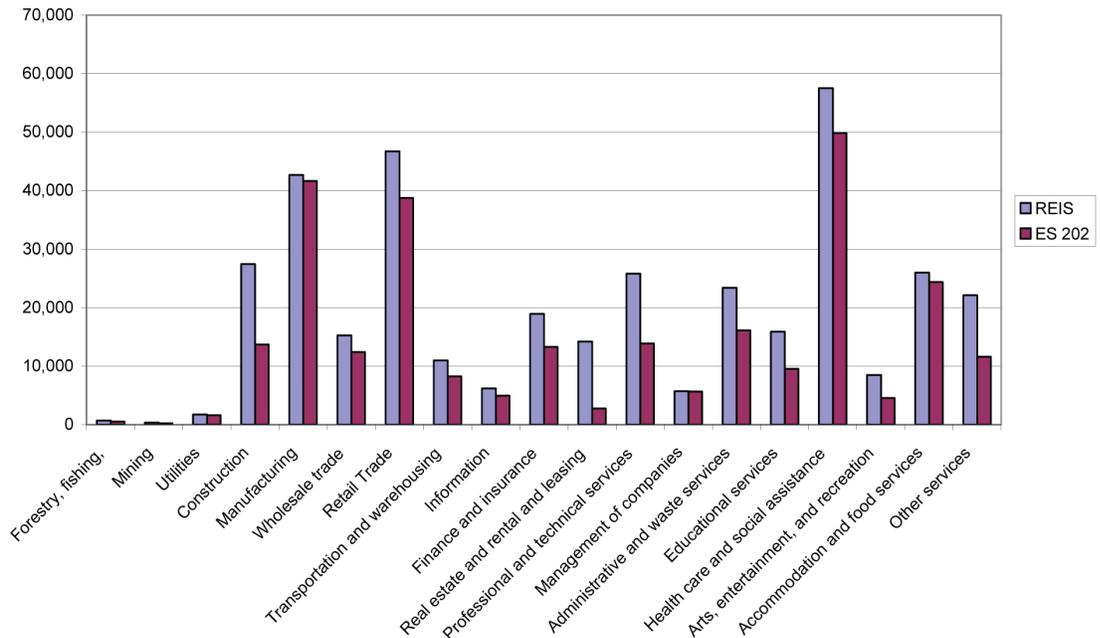


Figure M. Compare REIS and MA 202 Worcester County Employment for 2007



Another interesting trend in Worcester County is the number of jobs per capita in the county compared to statewide average. Figure L shows that the two trends were nearly parallel through 2007 but the Worcester County percentage is about 10 points less than the statewide average. The source of this disparity is a concern because it is not readily apparent from the distribution of population by age for the county which approximates that of the state as a whole.

As mentioned above, FXM used two basic data sources for employment: The Bureau of Economic Analysis (BEA), Regional Economic Information System (REIS); and the Massachusetts Executive Office of Labor and Workforce Development (Mass Labor), ES 202 Reports. Figure M shows a comparison of employment estimates from these two sources of employment by category. The principal difference between the two datasets is that Mass Labor includes only those workers covered by state unemployment insurance while REIS includes all full-time and part-time employees and proprietors regardless of whether they are eligible for unemployment compensation or not. The principal differences are found in those jobs which have a considerable amount of part-time seasonal employment (Construction and Retail Trade) or self-employed people (Finance and insurance, Real Estate, and Professional and Technical Services).

Year 2007 employment by NAICS category are shown in Table C and Figure N for Worcester County and the city of Worcester. The most significant difference between the two employment profiles is that the city of Worcester has a much higher percentage of jobs (25.5%) in health care and social services than the county (15.5%). The county has greater percentages of its employment in manufacturing (13.0% versus 8.6% in the city) and retail trade (12.1% vs. 8.3%).<sup>7</sup>

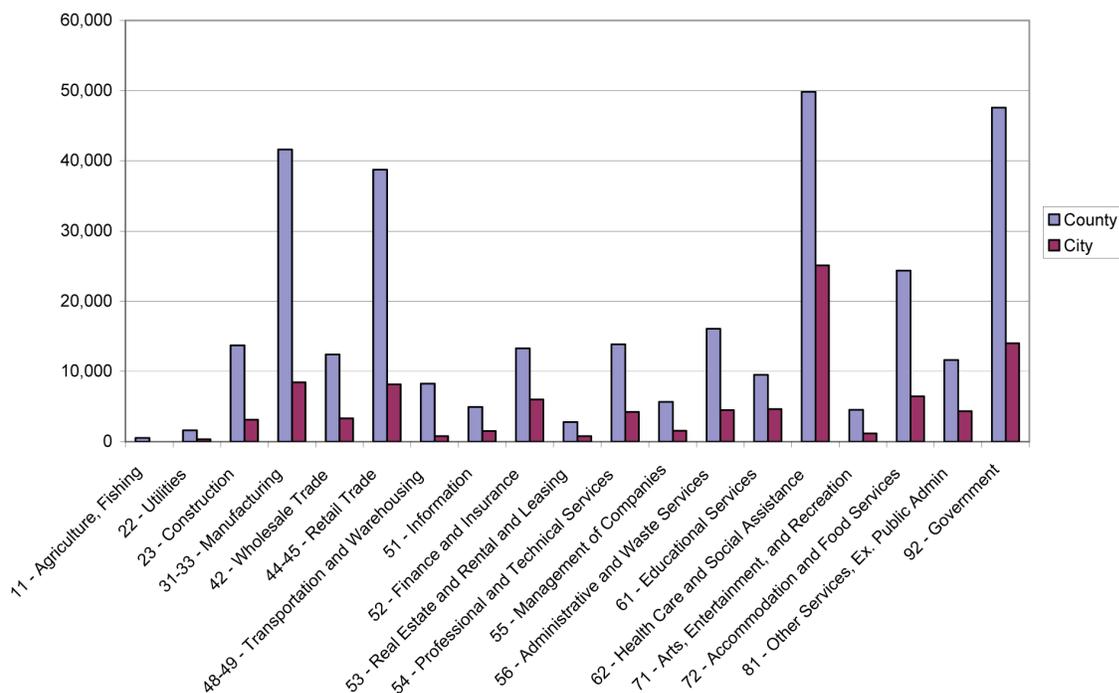
<sup>7</sup> Massachusetts Executive Office of Labor and Workforce Development, ES-202 Reports, 2007.

Table C. Worcester County and City Employment by NAICS Category, 2007

NAICS Category	County	%	City	%
11 - Agriculture, Forestry, Fishing & Hunting	538	0.2%	16	0.0%
22 - Utilities	1,624	0.5%	332	0.3%
23 - Construction	13,706	4.3%	3,146	3.2%
31-33 - Manufacturing	41,651	13.0%	8,459	8.6%
42 - Wholesale Trade	12,391	3.9%	3,323	3.4%
44-45 - Retail Trade	38,769	12.1%	8,181	8.3%
48-49 - Transportation and Warehousing	8,254	2.6%	805	0.8%
51 - Information	4,956	1.5%	1,533	1.6%
52 - Finance and Insurance	13,299	4.1%	6,032	6.1%
53 - Real Estate and Rental and Leasing	2,791	0.9%	803	0.8%
54 - Professional and Technical Services	13,868	4.3%	4,274	4.3%
55 - Management of Companies and Enterprises	5,656	1.8%	1,540	1.6%
56 - Administrative and Waste Services	16,088	5.0%	4,505	4.6%
61 - Educational Services	9,529	3.0%	4,645	4.7%
62 - Health Care and Social Assistance	49,840	15.5%	25,126	25.5%
71 - Arts, Entertainment, and Recreation	4,550	1.4%	1,187	1.2%
72 - Accommodation and Food Services	24,364	7.6%	6,455	6.5%
81 - Other Services, Ex. Public Admin	11,615	3.6%	4,332	4.4%
92 - Government	47,610	14.8%	14,018	14.2%
<b>Total ES 202 Employment</b>	<b>321,099</b>	<b>100.0%</b>	<b>98,712</b>	<b>100.0%</b>

Source: Massachusetts Executive Office of Labor and Workforce Development, ES-202 Reports.

Figure N. Worcester County and City Employment by NAICS Category, 2007

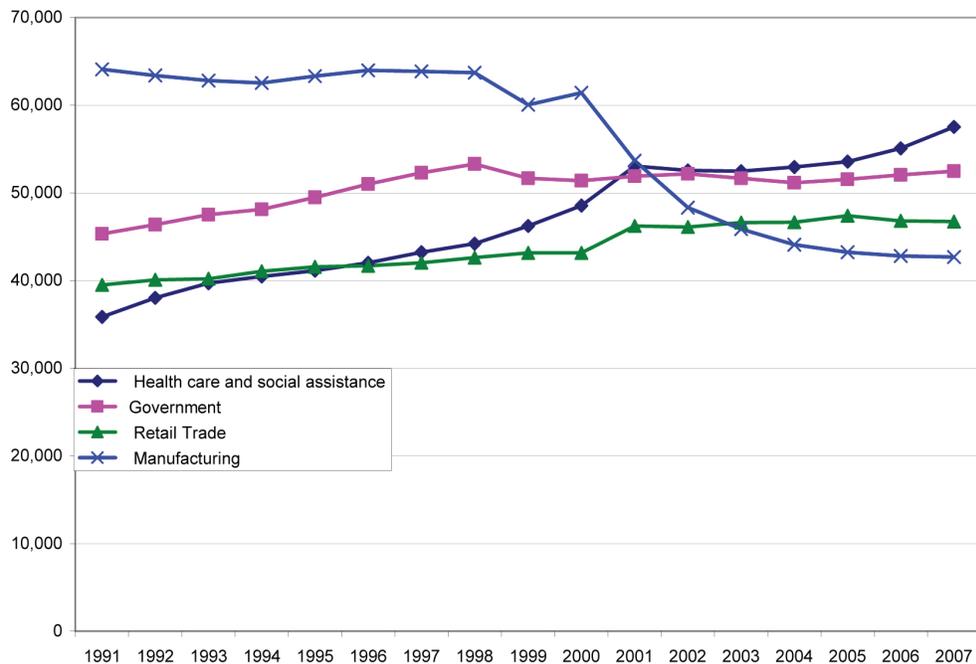


The major employment sectors in Worcester County are: health care, government (federal, state and local), retail trade, and manufacturing. These four categories account for about one-half (47%) of all employment in the county.<sup>8</sup>

Figure O illustrates the trends in major sectors of employment in Worcester County for 1991-2007. Health care jobs increased steadily through 2000, fell off slightly between 2000 and 2003, and have continued to increase at about 4% per year through 2007. Government employment peaked at 53,300 jobs in 1998, and has leveled off at about 52,000 jobs. Retail trade has been steady at 46,000 to 47,000 jobs since 2001. (Uptick in retail jobs in 2000-2001 is probably due to the changing definition of “Retail Trade” between SIC and NAICS categories.) Manufacturing employment in the county has been declining since 1991 with an accelerated drop off from 2000 to 2005; it appears to be leveling off at 42,700 jobs in 2007.

One factor in Worcester County’s economic development is office-using employment. Figure P shows Worcester County total and office-using employment for 1991-2007. Office-using employment includes the categories of government, services, professional and technical services, finance and insurance, real estate, and management of companies. Recent trends for each of these six categories are shown in Figure P. Except for real estate, each of these categories have remained relatively stable throughout the 2000-2007 period.

Figure O. Worcester County Employment, Major Sectors



<sup>8</sup> US Department of Commerce, REIS Database, Table CA 25N, and FXM Associates.

Figure P. Worcester County Office-using Employment, 1991-2007

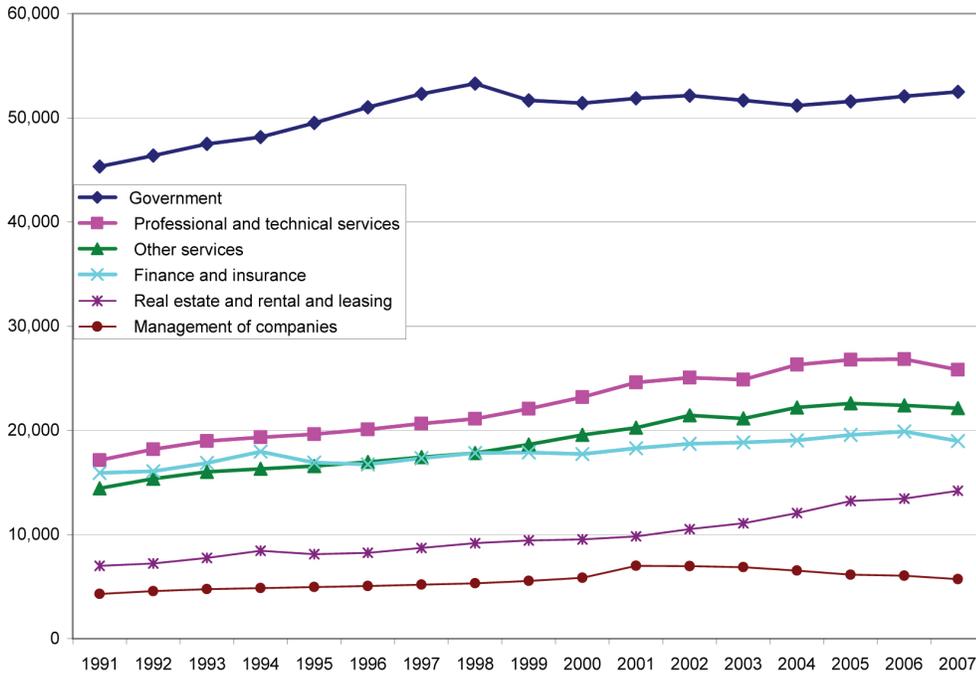
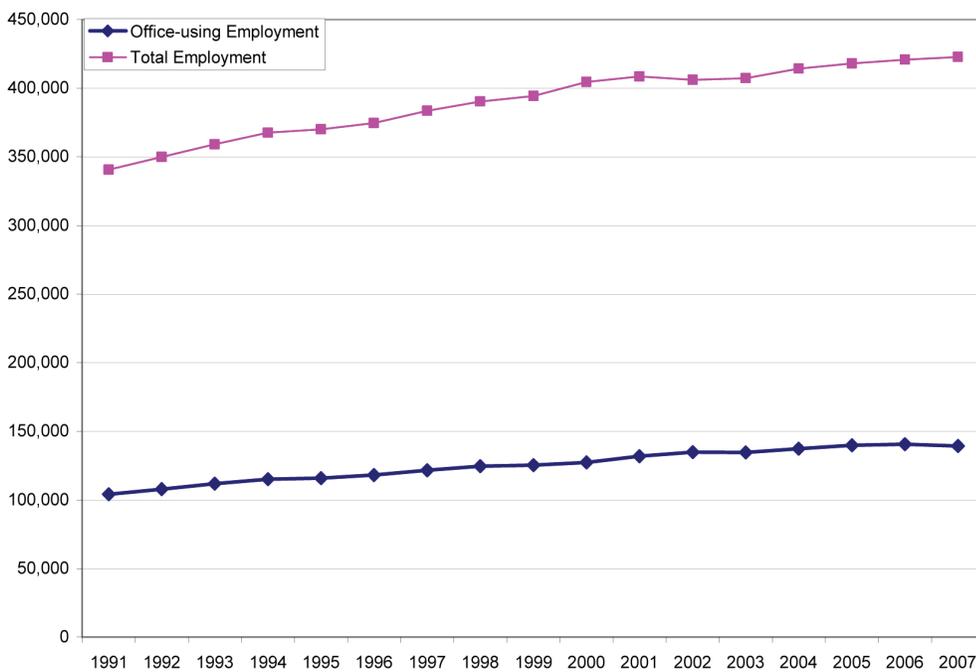


Figure Q. Worcester County Office-using and Total Employment, 1991-2007



## Characteristics Compared to the City of Worcester and Worcester County

This section of the report presents and assesses the available secondary source data on the characteristics of the resident population and businesses within the Beacon-Federal Neighborhood, and includes selective comparisons to the City of Worcester overall and Worcester County. The principal source for this data is the Nielsen Claritas demographic and business service called Claritas Site Reports. Claritas Site Reports is a proprietary database which provides annual detailed demographic and employment estimates and is reconciled with government estimates only for Census years. For all other years, Claritas conducts independent research and uses proprietary formulas to derive their estimates.

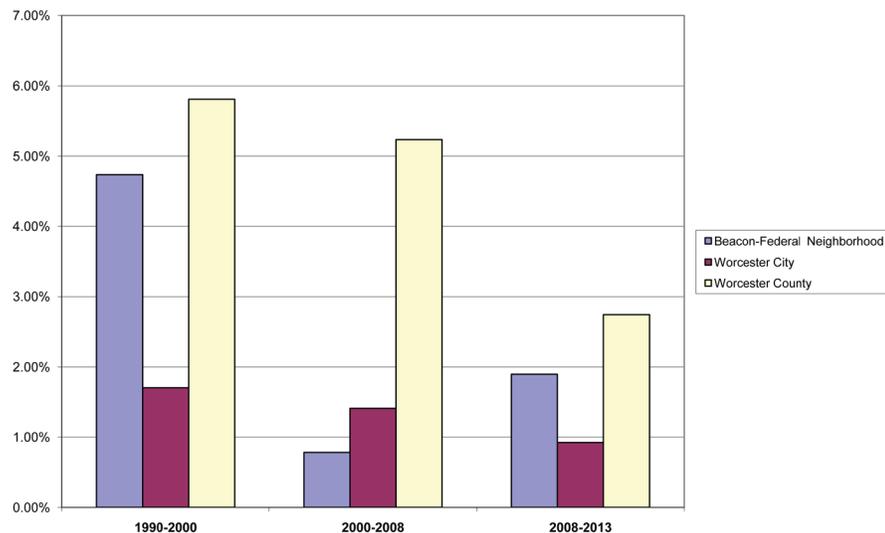
In 2008, the Beacon-Federal Neighborhood study area included 1,159 residents as shown in Table 1. Population grew by about 0.8% from 2000 to 2008, and households shrank by -0.7% resulting in an increase in persons per household from 2.12 to 2.15 over that same period. For 2013, population is expected to grow by 1.90% or more than twice the rate of the city of Worcester as a whole. The relative changes are illustrated in Figure 1 for the Beacon-Federal Neighborhood, the City of Worcester, and Worcester County. The percentages in Table 1 are somewhat misleading since the absolute changes in population and households for the Beacon-Federal Neighborhood are so small.

Table 1. Population and Household Summary

Description	Population			Households	
	Beacon-Federal Neighborhood	City of Worcester	Worcester County	Beacon-Federal Neighborhood	City of Worcester
1990 Census	1,098	169,971	709,728	384	63,962
2000 Census	1,150	172,865	750,963	543	67,112
2008 Estimate	1,159	175,303	790,276	539	68,597
2013 Projection	1,181	176,918	811,968	543	69,465
Growth 1990-2000	4.74%	1.70%	5.81%	41.41%	4.92%
Growth 2000-2008	0.78%	1.41%	5.24%	-0.74%	2.21%
Growth 2008-2013	1.90%	0.92%	2.74%	0.74%	1.27%

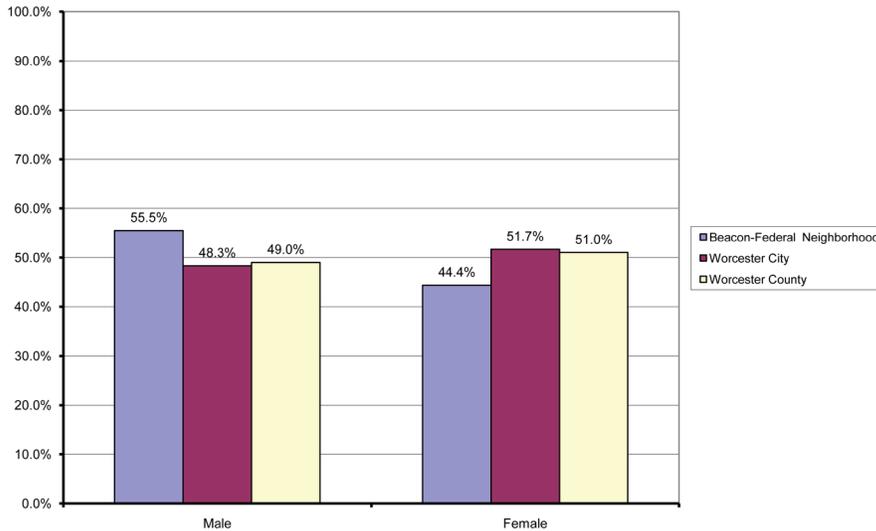
Source: Claritas Site Reports, 2008.

Figure 1 Percent Change in Population, 1990-2013

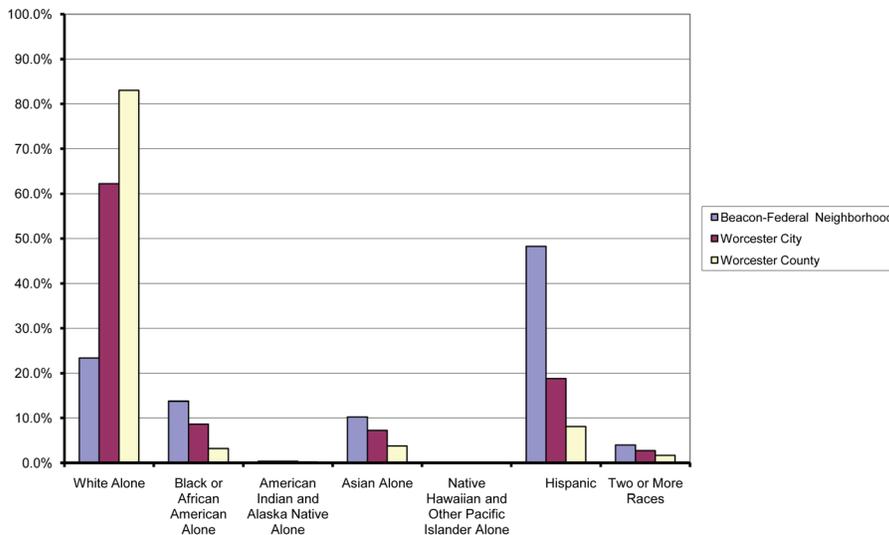


There are several notable characteristics of the Beacon-Federal Neighborhood which differentiate it from the city and the county. The first is the male-female imbalance: 56% of the population in the neighborhood is male, compared to 48% and 49% for the city and county, respectively. This difference is illustrated in Figure 2.

**Figure 2. Male and Female Populations**



**Figure 3. Race/Ethnicity**



A characteristic is the predominant Hispanic nature of the neighborhood. Figure 3 shows that nearly one-half of the Beacon-Federal Neighborhood residents are Hispanic compared to 19% for the city and 8% for the county as a whole. This ethnic characteristic is underscored by Figure 4: 45% of the households speak Spanish at home compared to 35% which speak English at home. The latter statistic is less than half of the proportion of English-speaking households in the city and the county.

Figure 4. Language Spoken at Home

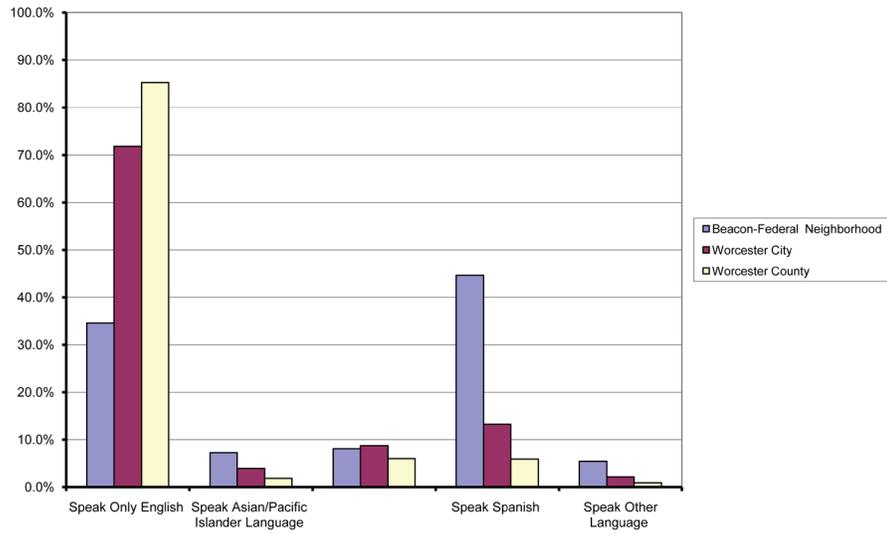


Figure 5. Population by Age

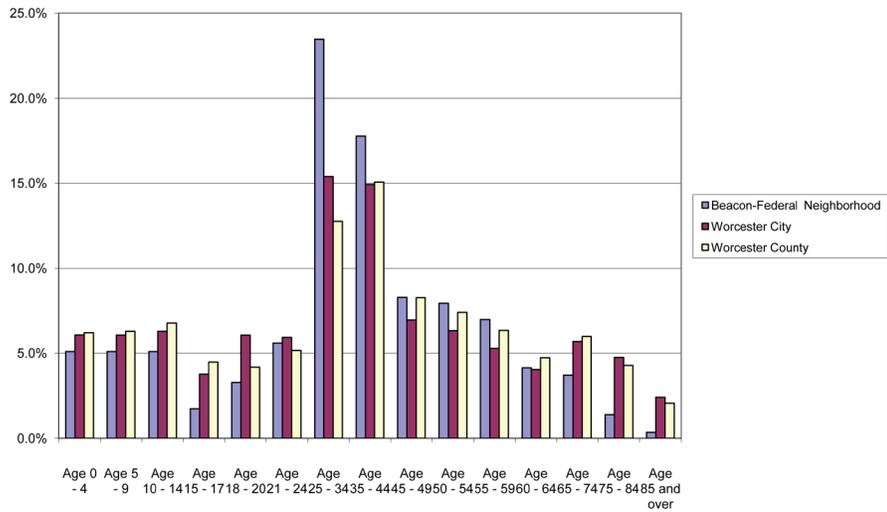


Figure 5 shows the distribution of population by age group in 2008. The Beacon-Federal Neighborhood has a higher proportion of its population in the 25-34 and 35-44 age cohorts than either the city of Worcester overall or the county of Worcester. The median age in the neighborhood is about the same as the city's, 35 years, but younger than the county's median age, 38 years, as shown in Figure 6.

Figures 7 and 8 show the relative educational attainment for Beacon-Federal Neighborhood residents compared to the city and the county of Worcester. It is striking that a significantly high proportion (36%) of neighborhood residents are without a high school diploma making it difficult for them to compete in today's job market. Only 14% of Beacon-Federal Neighborhood residents have a college degree compared to 23% for the city and 27% for the county.

Figure 6. Median Age

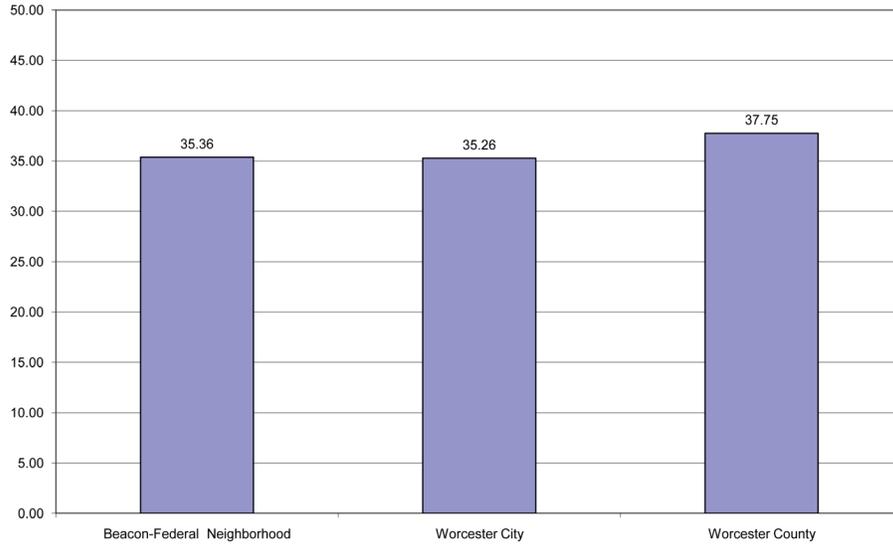
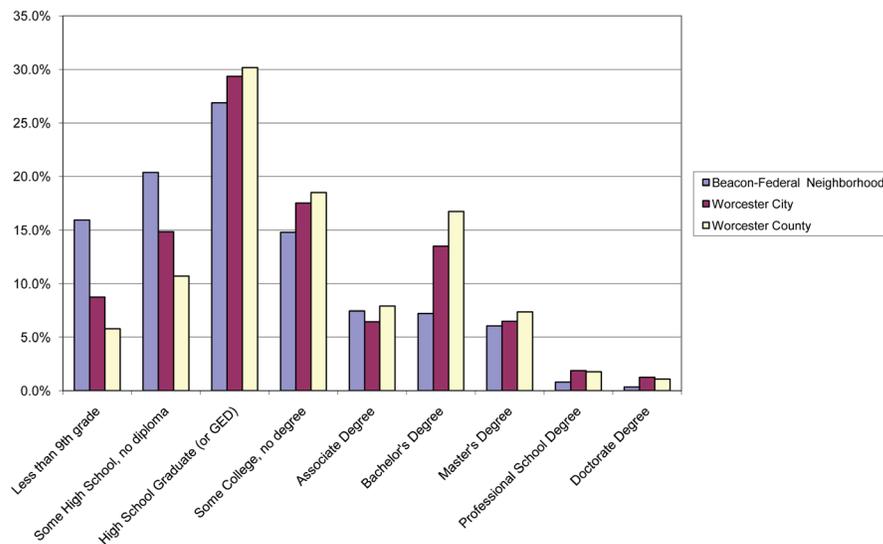


Figure 7. Education Distribution



Partly as a result of these lower levels of formal education Beacon-Federal Neighborhood residents also have substantially lower median household and per capita incomes (2008) than residents of the city overall and Worcester county as shown in Figure 9.

As illustrated in Figure 10, the vast majority of households (65%) in Beacon-Federal Neighborhood are non-family households. Another distinguishing characteristic of the Beacon-Federal Neighborhood is the high proportion of households consisting of either a single male or single female. As shown in Figure 11 less than half (48%) of all households in the neighborhood consist of two or more persons; this proportion is significantly less than other households in the city or county.

Figure 8. Educational Attainment by Category

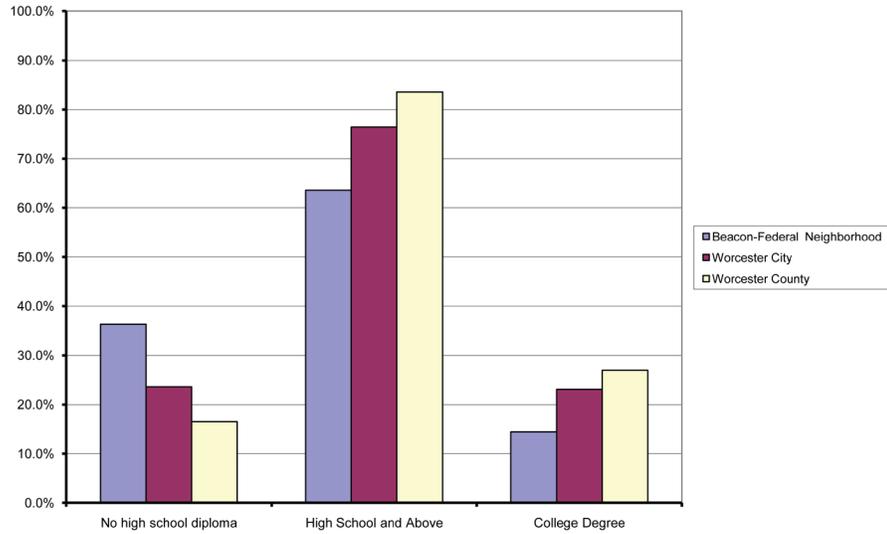


Figure 9. Median Household and Per Capita Incomes

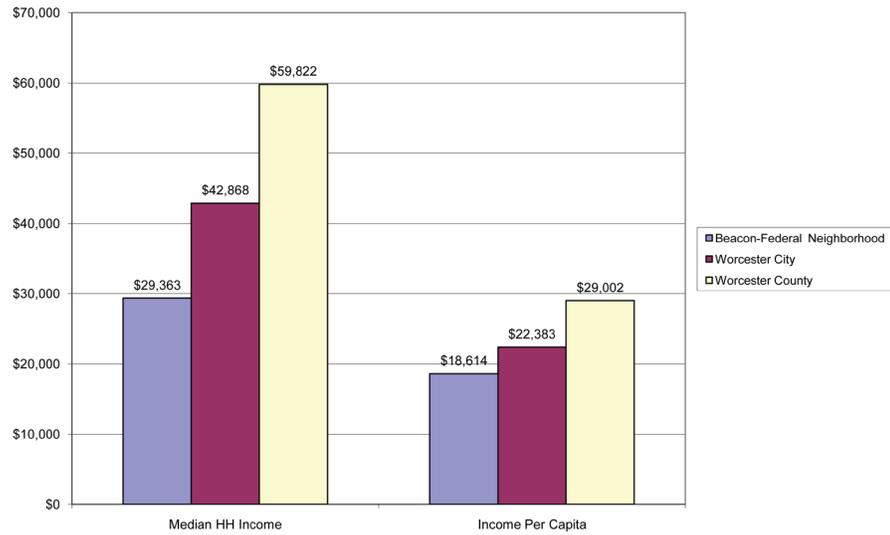


Figure 10. Households by Household Type

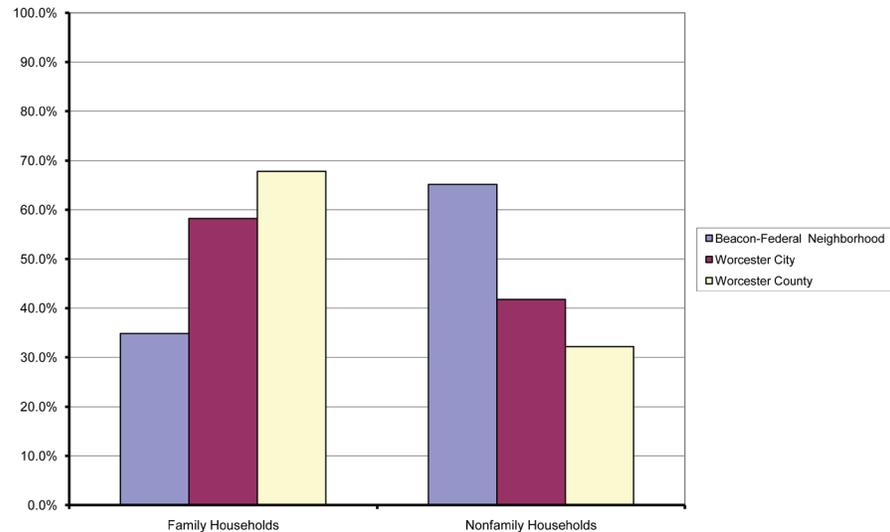


Figure 11. Households by Category

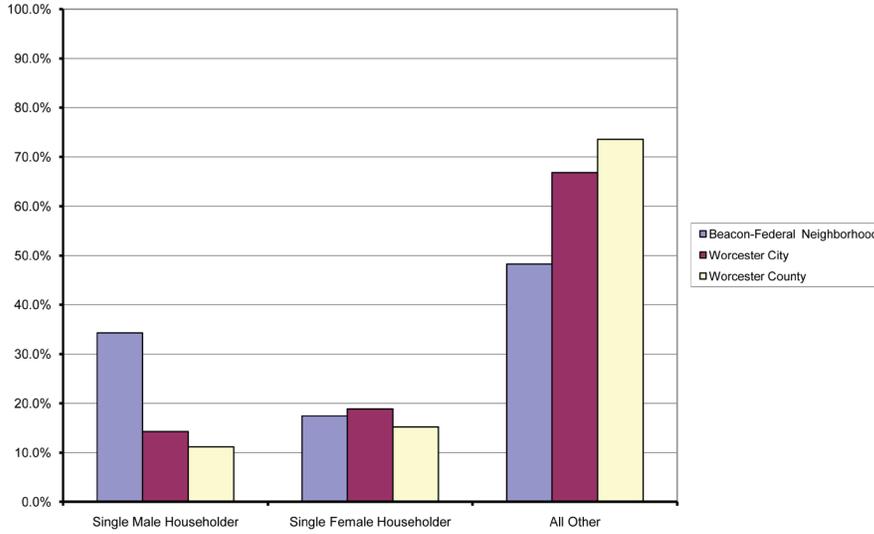
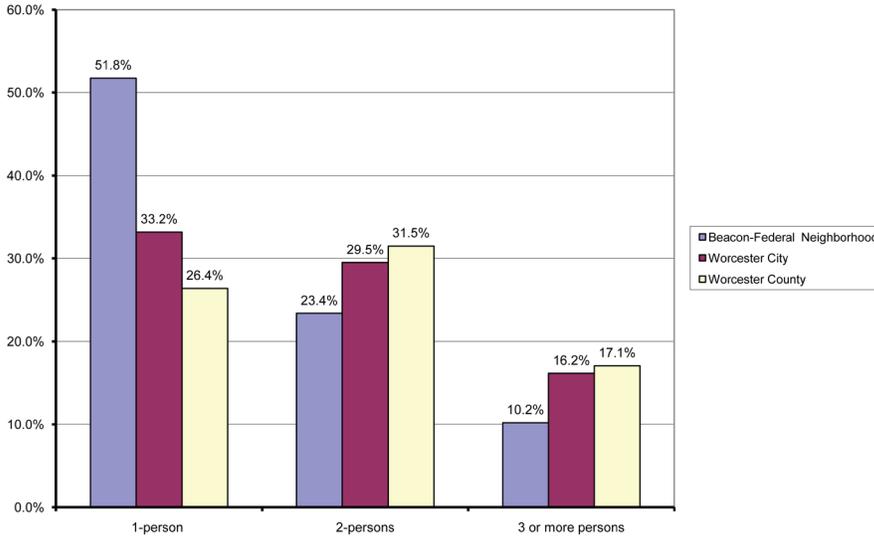


Figure 12. Average Household Size



The predominance of single person households in the Beacon-Federal Neighborhood is highlighted in Figure 12.

Consistent with the low income and one-person households in the Beacon-Federal Neighborhood, Figure 13 shows that 94% of all residents live in rental housing and nearly none own their own home. Figure 14 confirms the rental nature of the neighborhood by showing that nearly half (46%) of households live in structures with 50 or more units which is typical of large apartment buildings.

Housing values (2008 estimates) in the neighborhood are about half or less than those in the city or county as indicated in Figure 15: Even this estimate is somewhat misleading because the Claritas data recorded only 30 households that owned their own home.

Figure 13. Owner versus Renter Occupied Housing

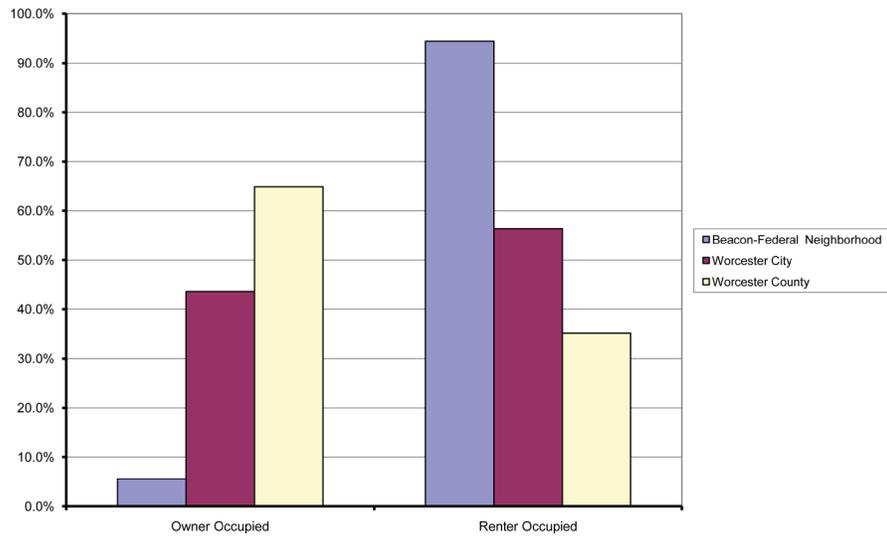


Figure 14. Housing Units by Units in Structure

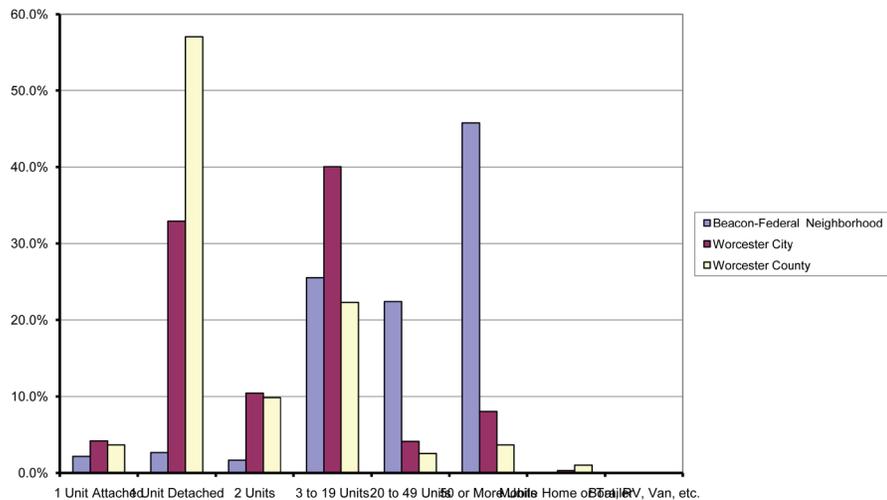


Figure 16 shows the distribution of vehicles per household in the Beacon-Federal Neighborhood compared to the city of Worcester and Worcester County as a whole. Nearly half (47%) of all neighborhood households have no vehicles available for transportation, a proportion more than twice than of the city and nearly five times that in the county. This lack of vehicles results in an average of 0.7 vehicles per household in the Beacon-Federal Neighborhood contrasted with 1.3 vehicles in the city and 1.7 vehicles per household in Worcester County. Not surprisingly, few Beacon-Federal Neighborhood residents drive alone to work compared to residents of the city or county as shown in Figure 18. Residents are much more dependent on public transit or walking to work.

Figure 15. Median Value of Owner-Occupied Housing: 2008

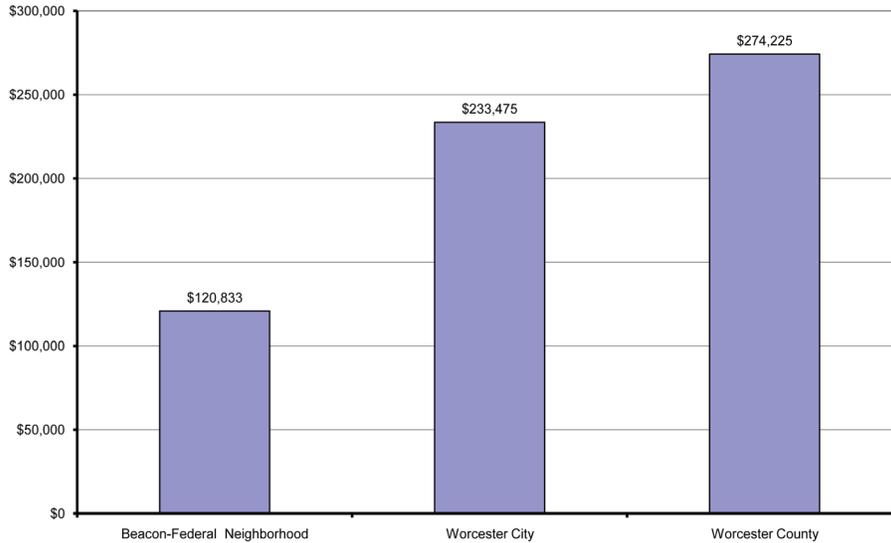
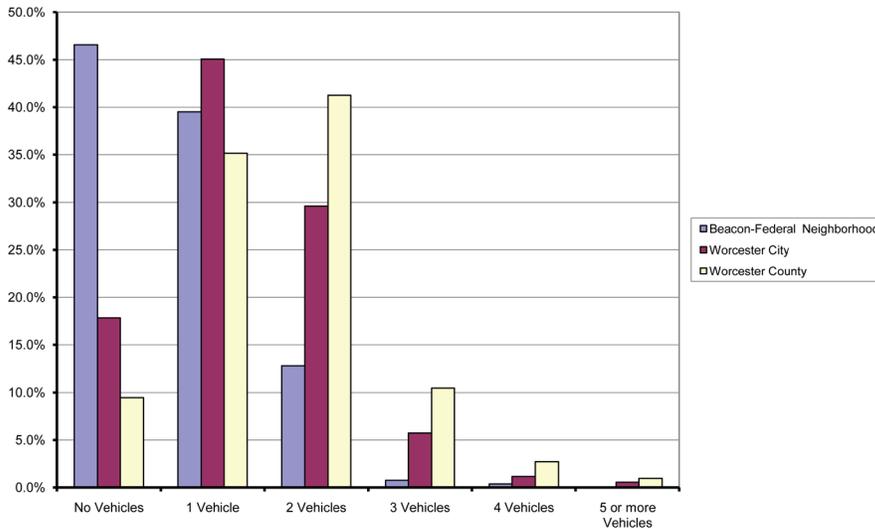


Figure 16. Distribution of Vehicles Per Household



As illustrated in Figure 19, Beacon-Federal Neighborhood residents have to travel farther to work than their counterparts in the city of Worcester and Worcester County as a whole. This implies that few residents work in the Beacon-Federal Neighborhood and have to use time-consuming public transit or even walking to access their jobs.

Figure 20 shows the distribution of occupations held by Beacon-Federal Neighborhood residents compared to those of the city of Worcester and Worcester County overall. As the data in the graph indicate, the proportion of Beacon-Federal Neighborhood residents holding higher paying Management and Professional occupations is substantially below that of all city and county residents. The preponderance of

Figure 17. Average Vehicles Per Household

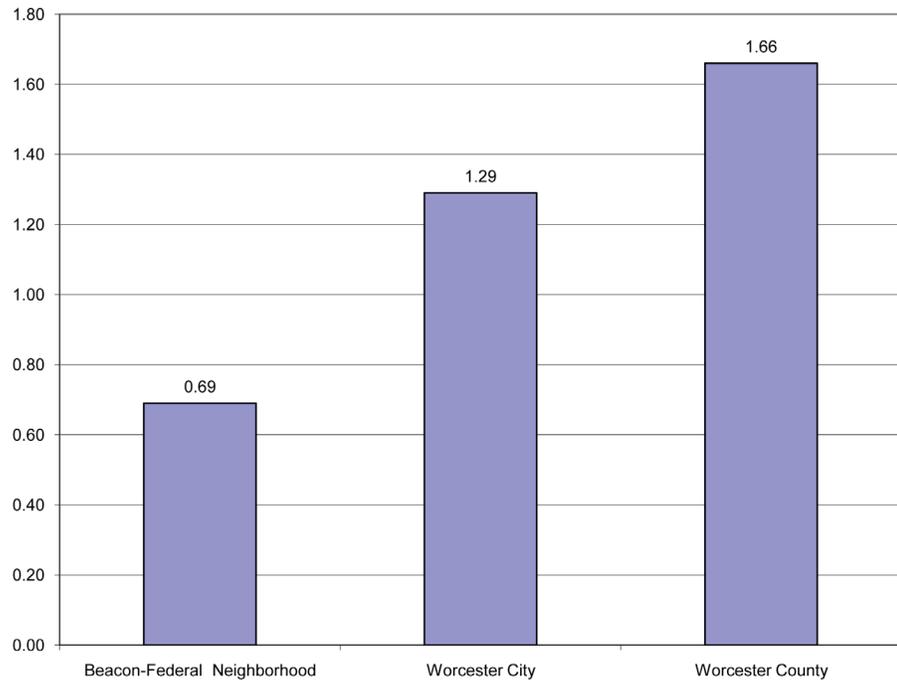
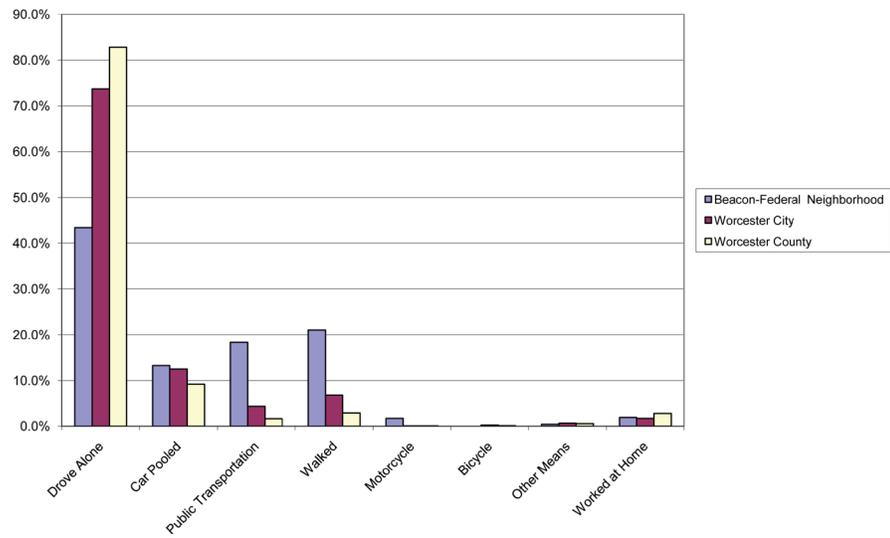


Figure 18. Mode of Transport to Work



neighborhood occupations are in the lower paying sectors of Service (excluding Managerial and Professional occupations), clerical (Sales and Office), and assembly/distribution (Production, Transportation and Material Moving).

Table 2 summarizes the number of establishments, employees, industry sales and sales per employee in the Beacon-Federal Neighborhood. The preceding chart (Figure 20) shows the occupations of neighborhood residents, whether or not their jobs are in the Beacon-Federal Neighborhood. Table 2 deals with the number of businesses and jobs in the neighborhood, the city, and the county. The number of employees within the neighborhood (2,705) is very small compared to those in the city of Worcester (127,228) as a whole.

A more detailed breakdown of the types of jobs within the Beacon-Federal Neighborhood is shown in Figure 21. This shows that nearly half (45%) of neighborhood jobs are in the Manufacturing sector, nearly all of which are in the Printing and Publishing industry. Another 25% of neighborhood jobs are in the Service sector which is dominated by employment at Membership Organizations. There is very little employment in sectors like Retail and Finance that might attract outsiders to do business in the neighborhood.

**Figure 19. Travel Time to Work**

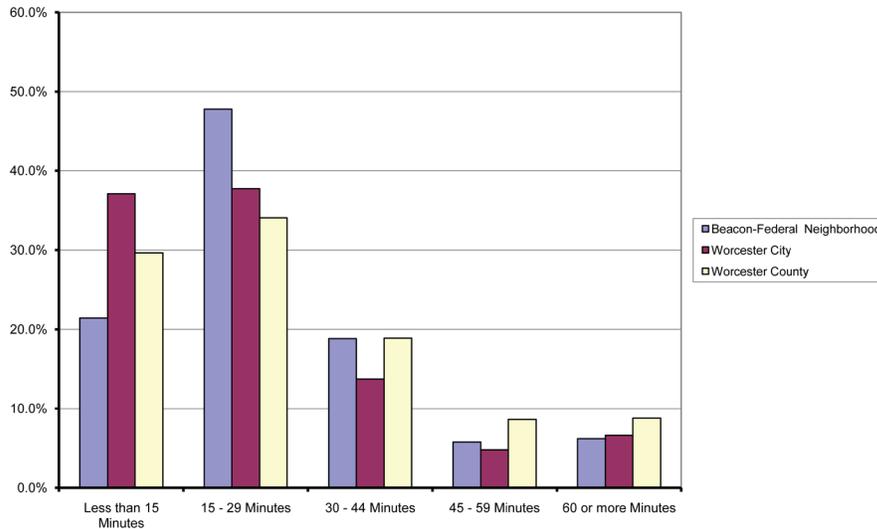


Figure 20. Occupations by Category

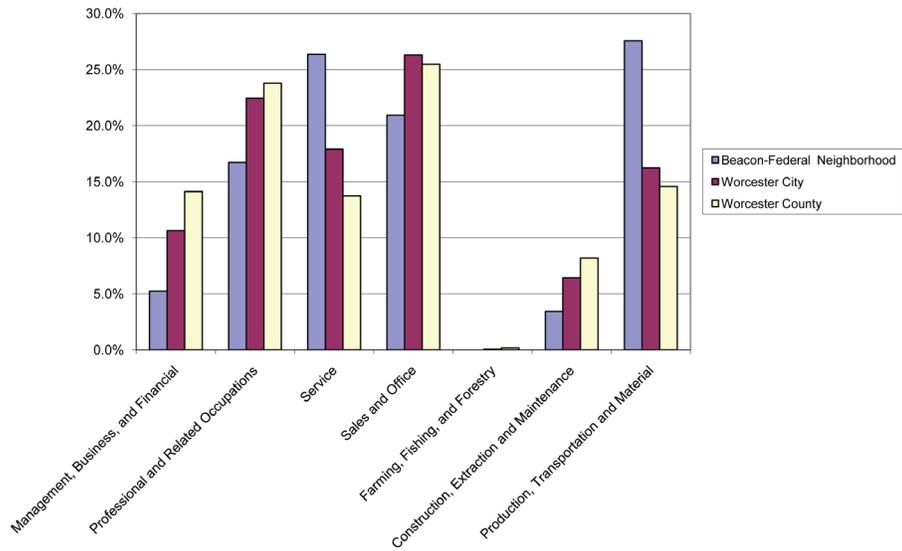


Figure 21. Distribution of Employment by Sector

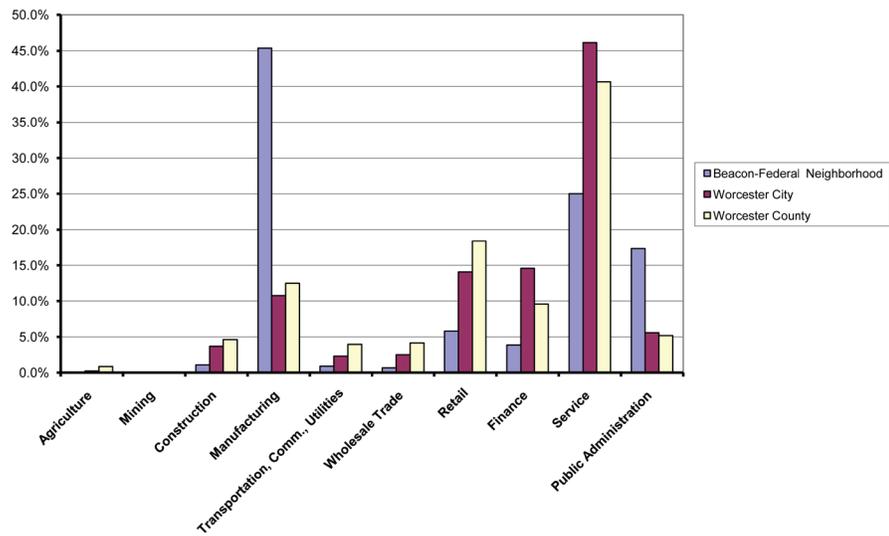


Table 2. Employment Summary

**Beacon-Federal Neighborhood**

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Sales per Employee
TOT	All Industries	167	2,705	247.2	\$91,386
MAN	All Manufacturing (SIC 20-39)	17	1,227	72.2	\$58,843
RET	All Retailing (SIC 52-59)	41	157	17.5	\$111,465
SERV	All Services (SIC 70-89)	56	667	120.4	\$180,510
ADM	Public Administration (SIC 90-97)	24	469	0	\$0

**City of Worcester**

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Sales per Employee
TOT	All Industries	7,924	127,228	13,829.4	\$108,698
MAN	All Manufacturing (SIC 20-39)	376	13,732	1,066.2	\$77,643
RET	All Retailing (SIC 52-59)	1,537	17,912	2,300.4	\$128,428
SERV	All Services (SIC 70-89)	3,793	57,874	4,734.6	\$81,809
ADM	Public Administration (SIC 90-97)	209	7,092	0	\$0

**Worcester County**

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Sales per Employee
TOT	All Industries	32,744	415,845	46,224.4	\$111,158
MAN	All Manufacturing (SIC 20-39)	1,775	52,008	4,075.6	\$78,365
RET	All Retailing (SIC 52-59)	6,483	76,512	9,715.5	\$126,980
SERV	All Services (SIC 70-89)	13,221	166,149	15,671.4	\$94,321
ADM	Public Administration (SIC 90-97)	1,458	21,577	0	\$0

Source: Claritas Site Reports, 2008.



JOB SECTORS  
OUTLOOK

SECTION 2





## B. JOB SECTORS OUTLOOK

### Analysis of Regional Strengths for the Worcester Metropolitan Statistical Area

*This section of the report was prepared by The Institute for a Competitive Inner City.*

In 2006, 294,050 people were employed across 18,508 establishments in the Worcester region, an increase of just 0.1% from 1998. Local Health Services, the region's largest cluster, accounted for approximately 49,000 of those jobs, or 17% of total employment. The rest of the five largest clusters are Local Hospitality Establishments; Local Real Estate, Construction and Development; Local Commercial Services; and Local Food and Beverage Processing and Distribution. Together, these clusters account for almost 78,000 jobs. Though the largest clusters are locally traded – that is, they generally serve firms in consumers within the region – nationally traded clusters have a sizable presence in the Worcester region, as well. For example, the Education and Knowledge Creation cluster employs over 11,500 individuals, and Business Services accounts for 10,435 jobs (see Figure 1 for a list of the largest clusters in the region, along with their 2006 employment).

Figure 1: Largest Clusters in Worcester, 2006

Cluster Name	Regional Employment, 2006
Local Health Services	49,092
Local Hospitality Establishments	24,409
Local Real Estate, Construction, and Development	20,549
Local Commercial Services	19,966
Local Food and Beverage Processing and Distribution	12,661
Education and Knowledge Creation	11,514
Local Motor Vehicle Products and Services	11,061
Local Financial Services	10,917
Business Services	10,435
Local Community and Civic Organizations	10,096
Local Logistical Services	9,806
Local Retail Clothing and Accessories	8,383
Local Education and Training	8,253
Distribution Services	8,046
Local Personal Services (Non-Medical)	6,553
Local Entertainment and Media	5,053
Financial Services	4,983
Metal Manufacturing	4,867
Local Utilities	4,774
Plastics	4,746

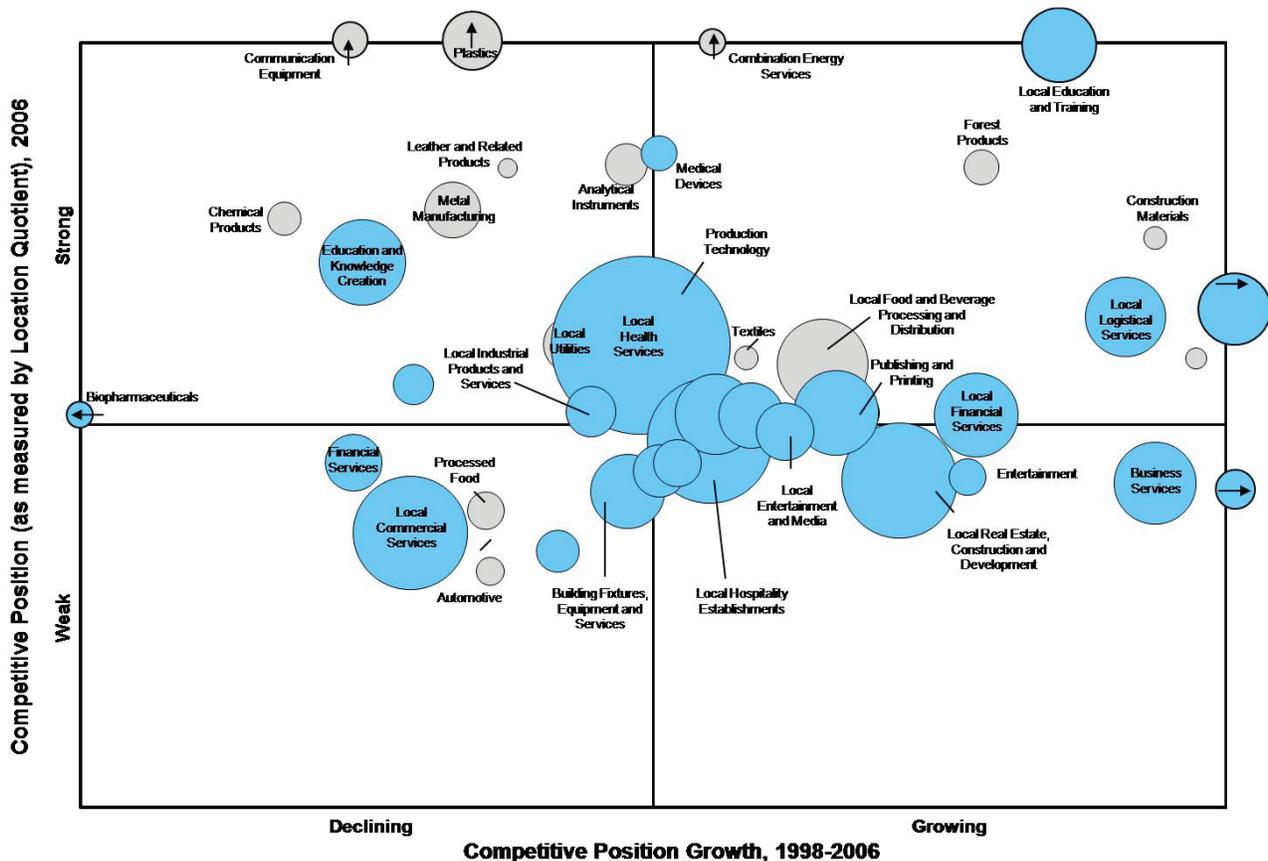
Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

Economic clusters can also be used to assess regional strengths; this was done for Worcester based on each cluster's competitive position as determined by a location quotient, which measures the performance of the Worcester region relative to the rest of the United States. Growth in location quotient was also examined in order to see which clusters are becoming stronger or weaker in the Worcester region relative to the rest of the United States. Figure 2 shows the results, with 2006 competitive position

on the y-axis (i.e., vertical axis) and growth in competitive position from 1998 to 2006 on the x-axis (i.e., horizontal axis). In total, 24 of the 43 clusters with at least 500 employees experienced an increase in their competitive position between 1998 and 2006, of which 16 also showed relative strength in Worcester as compared to the rest of the US in 2006 (located in the first quadrant in Figure 2). These clusters, which account for 30% of total regional employment, include Local Motor Vehicle Products and Services; Local Logistical Services; and Medical Devices. Generally speaking, it is clusters such as these – which fare well in Worcester and tend to be getting stronger – that should be considered as strong economic development targets.

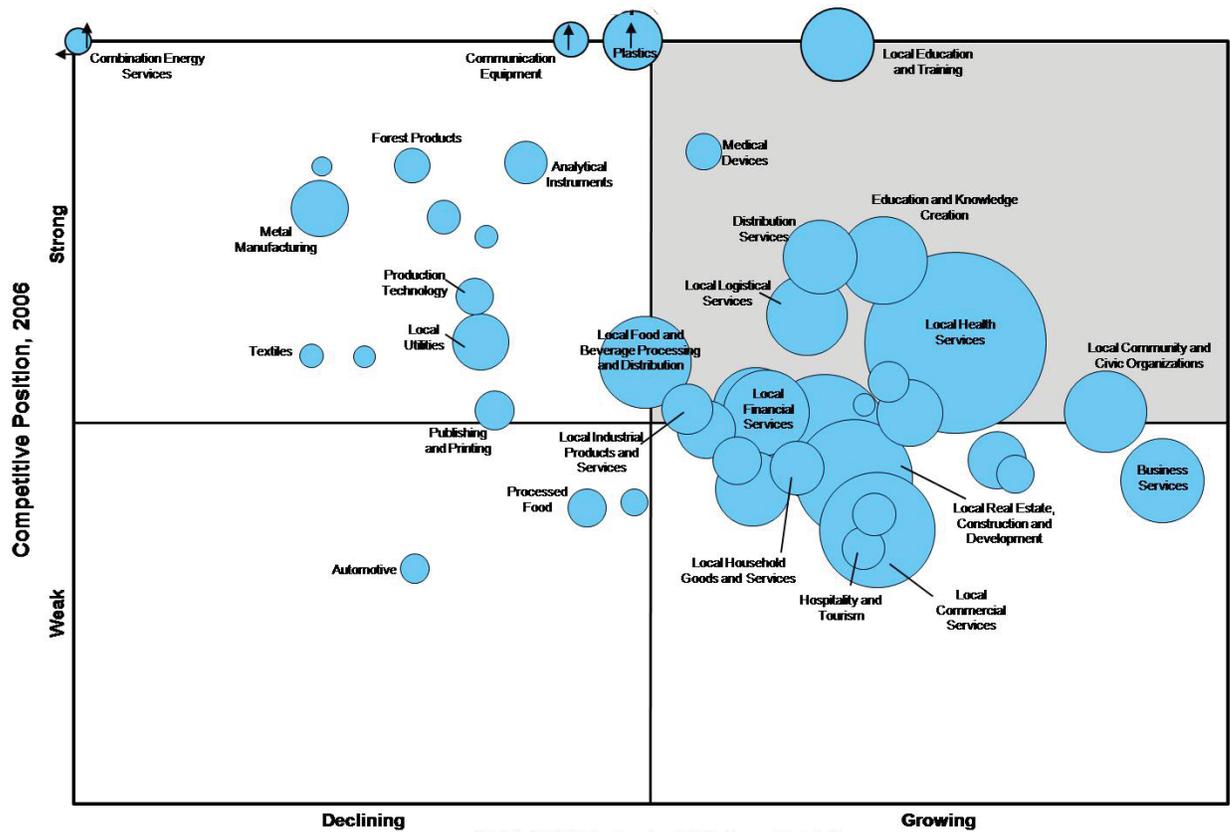
Another useful metric to examine is whether a cluster is growing or declining nationally. While this is not something that should be considered in isolation, a cluster's national performance can help determine whether or not that cluster should be targeted, as well as whether a firm attraction or retention policy is optimal. Growing clusters will typically provide more job opportunities, but they must be accompanied by an underlying strength in the Worcester region in order to truly be considered strong targets. Declining clusters, however, can still be worth targeting in order to prevent future job losses; furthermore, such clusters are often

Figure 2: Competitive Position of Clusters in Worcester



Note: Bubble size = Regional employment in 2006. Only clusters with at least 500 employees shown. Clusters with negative projected US growth (2006-2016) in grey. Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

Figure 3: Competitive Position and Projected Growth of Clusters

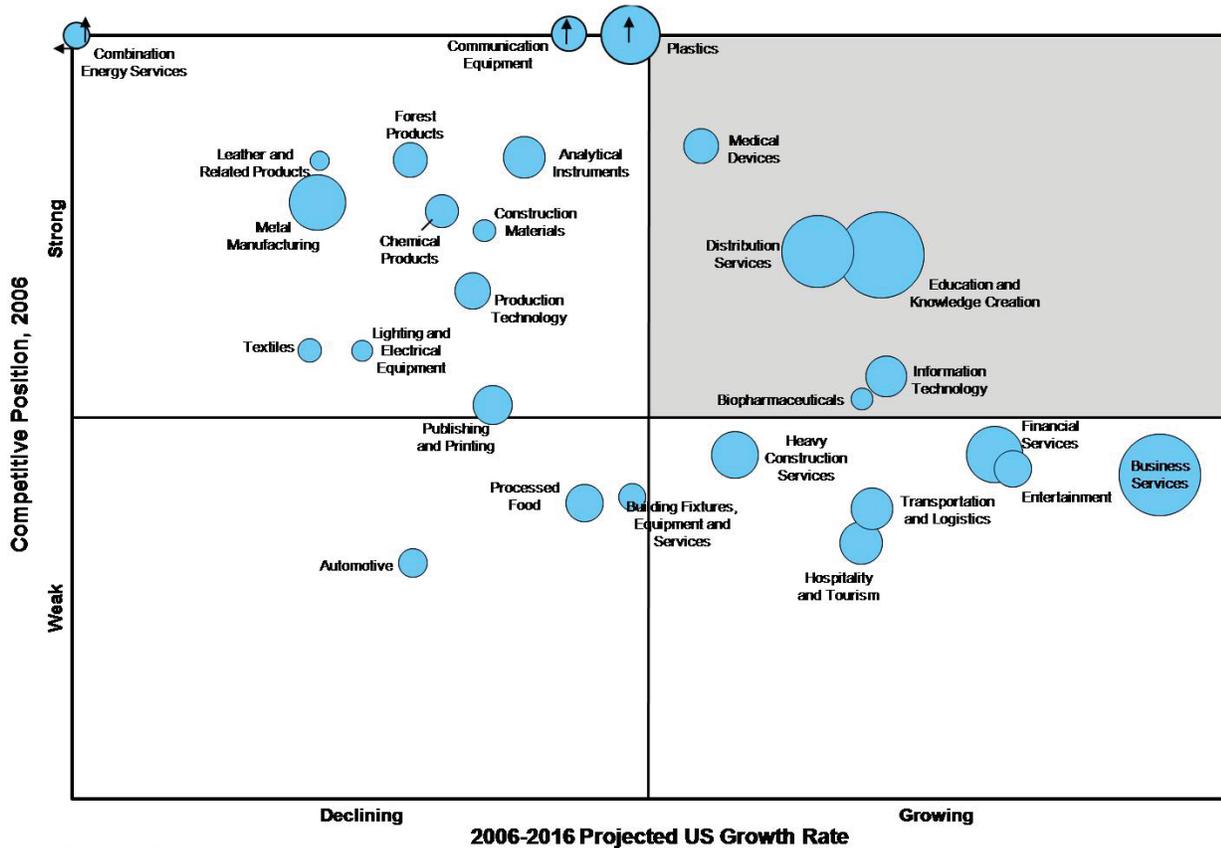


Note: Bubble size = Regional employment in 2006. Only clusters with at least 500 employees shown. Competitive position measured by location quotient.  
 Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

among the more overlooked ones, allowing regions that focus on developing such clusters the opportunity to become regional or even national hubs. As seen in Figure 3, among the clusters that are have a strong and/or rapidly growing presence in Worcester, some of the faster growing ones nationally (indicated by a position on the right-hand side of the graph) include Business Services; Local Community and Civic Organizations; and Local Education and Training.

When considering the performance of clusters in Worcester, it is useful to examine local and traded clusters separately. Doing so shows that while most traded clusters are relatively strong in Worcester, the majority of those clusters are projected to decline nationally over the next decade (see Figure 4). Local clusters, however, tell a different story. Not surprisingly, these clusters – with the exception of Local Education and Training, which is very strong in Worcester – have competitive positions that are more in line with the US, as specialization is rare among local

Figure 4: Competitive Position and Projected Growth Traded Clusters

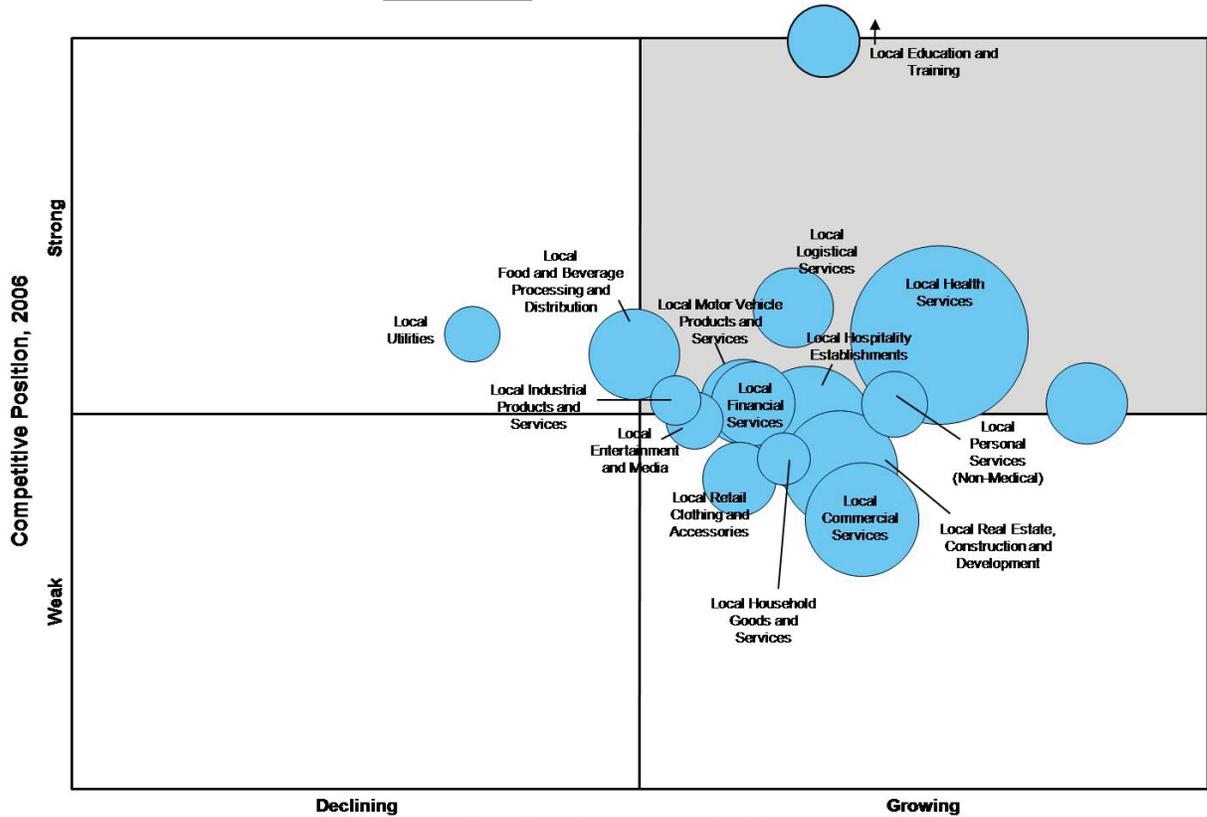


Note: Bubble size = Regional employment in 2006. Only clusters with at least 500 employees shown. Competitive position measured by location quotient.  
 Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

clusters. However, almost all local clusters tend to be growing nationally (as shown in Figure 5), meaning that they should serve as an even more important economic growth engine in the coming years.

Finally, Figure 6 examines the clusters with the greatest potential for future employment growth from 2006 to 2016. This provides one way to measure of which clusters offer the greatest potential in the Worcester region in the near future if they track US projections. A number of clusters that already have high employment in Worcester are slated to grow considerably over the next decade, with the 13 clusters shown in Figure 6 potentially accounting for approximately 21,500 additional jobs in the region. Other key findings include the fact that, despite employing nearly five times as many people in 2006, the Local Health Services cluster is expected to gain only slightly more than twice as many jobs as Local Community and Civic Organizations in the region (9,300 versus 4,200, respectively), reflecting the high national growth rate associated with the latter. Other clusters such as Education and Knowledge Creation and Local Personal Services also have the potential to grow

Figure 5: Competitive Position and Projected Growth  
Local Clusters



Note: Bubble size = Regional employment in 2006. Only clusters with at least 500 employees shown. Competitive position measured by location quotient.  
Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

Figure 6: Projected Employment Growth, 2006-2016  
Regionally Strong Clusters with Positive Projected US Growth

Cluster	Jobs Added to Region, 2006-2016
Local Health Services	9,348
Local Community and Civic Organizations	4,194
Education and Knowledge Creation	1,713
Local Personal Services (Non-Medical)	1,283
Distribution Services	1,130
Local Logistical Services	1,085
Local Education and Training	985
Local Motor Vehicle Products and Services	819
Local Financial Services	675
Biopharmaceuticals	171
Medical Devices	55
Information Technology	42
Local Industrial Products and Services	35

Source: State of the Inner Cities Economies (SICE) Database; ICIC analysis

significantly, each adding over 1,000 jobs to the region. If all clusters in Worcester are aligned with national growth projections, the region can expect to add over 32,000 jobs in the next decade, which far exceeds regional job growth from 1998 to 2006. This projected growth reflects regional strength in clusters such as Local Health Services; Local Community and Civic Organizations; and Education and Knowledge Creation, which are expected to experience significant growth nationally over the coming decade.

REAL ESTATE  
MARKET OUTLOOK





## C. REAL ESTATE MARKET OUTLOOK

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### Part 1: Housing Demand Assessment

This section of the report assesses potential demand for sales and rental housing by age and income cohort within the city of Worcester, focusing on product types and price points potentially achievable within the general Downtown area. While a complete analysis of housing market conditions and trends is beyond the scope of this assignment, FXM applied its proprietary Housing Demand Model to identify the number of households expected to seek rental and sales housing each year at different price points based on turnover (mobility) within the current population as well as projected growth to 2013. FXM's analysis for this study does not consider current conditions or trends in the supply of rental or sales housing, which is a necessary component of a full market study and financial feasibility test for specific development projects. Nevertheless, the data presented in this section should provide City and State officials, as well as private developer interests, an indication of potential demand for market-rate units in the City of Worcester as well as an estimate of the number of households not likely to have sufficient incomes to afford market rate housing. A further breakdown by age of householder is useful to identify market potential for product types targeted to age groups and household types. Finally, the potential demand for sales products is limited to condominiums since new single family detached units are unlikely to be developed in the Downtown area generally, nor in the Beacon-Federal neighborhood.

#### Income Qualifications for Downtown Area Market Rate Rentals and Sales

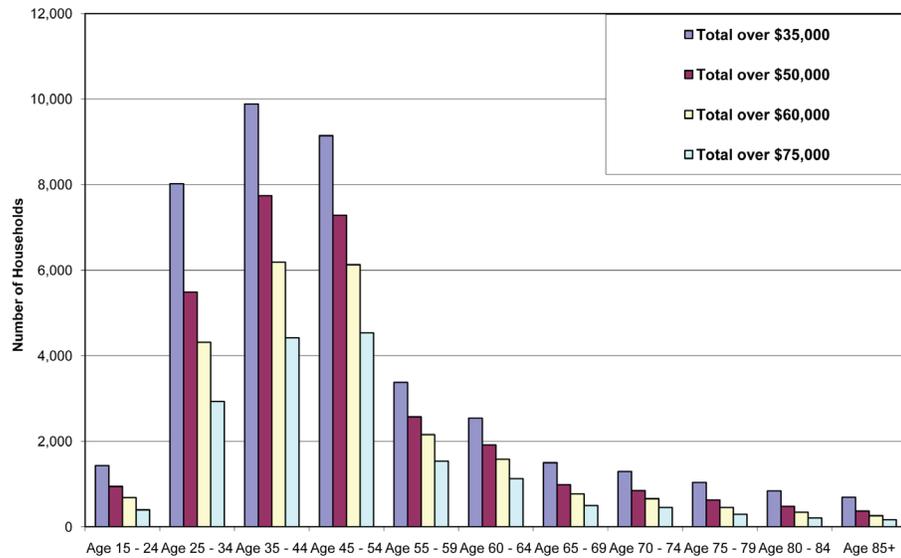
Based on a general assessment of housing products in and around the Downtown area of Worcester, FXM estimated that rental prices of at least \$900 per month for studio or one-bedroom units would be minimally necessary for private developers and current owners to achieve stable financial operations; and that \$1200 per month for two-bedroom units; and about \$1500 per month for three-bedroom units might be achievable over the next five years. Assuming a 30% of gross income expense for rent, households will need a minimum of \$35,000 annual income to afford units costing \$900 per month; about \$50,000 per year income to afford the \$1200 units; and a minimum of \$60,000 annual household income to afford \$1500 per month rent.

For sales of condominiums, FXM estimated average market rates of \$190,000 for one-bedroom units; an average of \$232,000 for two-bedroom units; and an average of \$262,000 for three-bedroom units under current and foreseeable market conditions. Assuming a 20% down-payment and 30% of gross income as the affordable monthly expense, and property taxes at the current \$13.50 rate for residential property in Worcester, households will need annual incomes of at least \$50,000 to afford a \$190,000 unit; about \$60,000 per year household income to afford a \$232,000 unit; and at least \$75,000 per year for units costing over \$262,000.

Potentially Qualified Households by Age Cohort: 2009-2013

The first graph (Figure A) shows number of households in the City of Worcester for 2008 within qualifying income categories by age of householder. Of the 69,000 households within the city, about 40,000 or 58% met the \$35,000 per year minimum annual income qualifications in 2008; 29,000 or 43% had incomes over \$50,000; 24,000 or 34% had incomes over \$60,000; and 17,000 or 25% had incomes over \$75,000 in 2008. As shown by data in the graph, the largest numbers of income qualified households are concentrated in the 35-44 and 45 to 54 year age cohorts.

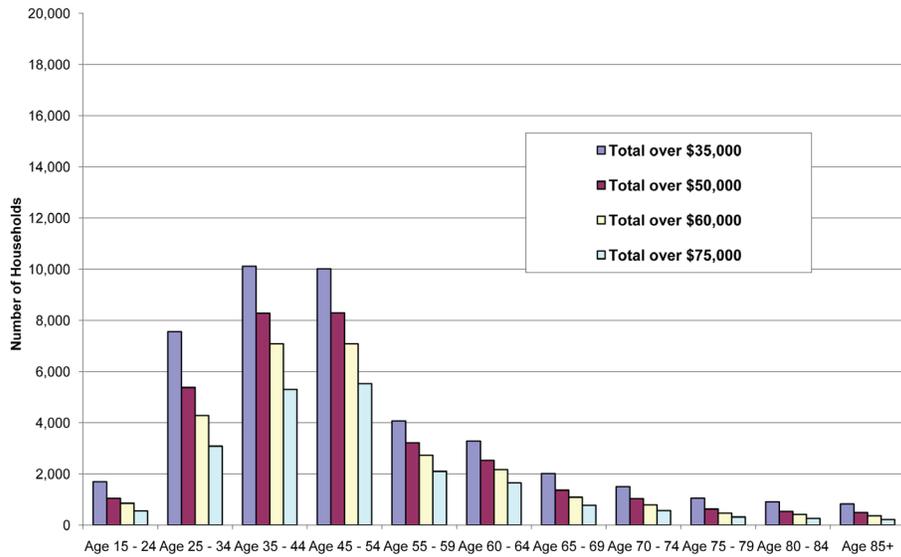
**Figure A. 2008 Income by Age of Households**  
*City of Worcester*



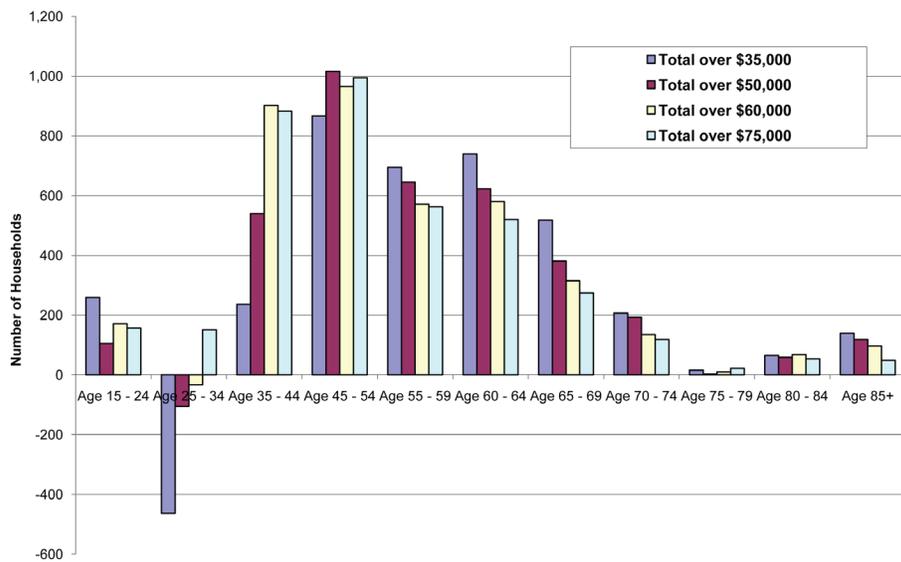
Source: Claritas Site Reports and FXM Associates

Figure B shows projected numbers of income qualified households in 2013, followed by Figure C showing change in each age cohort between 2009 and 2013 based on net in-migration of households to the city, household aging, and projected increases in household incomes. By 2013, approximately 43,000 or 62% of Worcester households are projected to meet the minimum \$35,000 annual income threshold; 33,000 or 47% are projected to have incomes over \$50,000; 27,000 or 40% of households over \$60,000 annual incomes; and 20,000 or 29% of Worcester households are projected to have annual incomes in excess of \$75,000. Over the next five years the number of households in the 25 to 34 and 35 to 44 age cohorts with more than \$35,000 but less than \$50,000 annual incomes is projected to decline in absolute numbers, largely owing to a continuation of historical net out-migrations within this age and income group. All other age and income cohorts (except for those over 75 years old) are projected to increase, with growth in the 55 to 70 age groups (empty nester boomers) most notable compared to their relative numbers in 2008.

**Figure B. 2013 Income by Age of Householder**  
*City of Worcester*



**Figure C. Change in Number of Households by Age and Income Cohorts: 2008-2013**  
*City of Worcester*



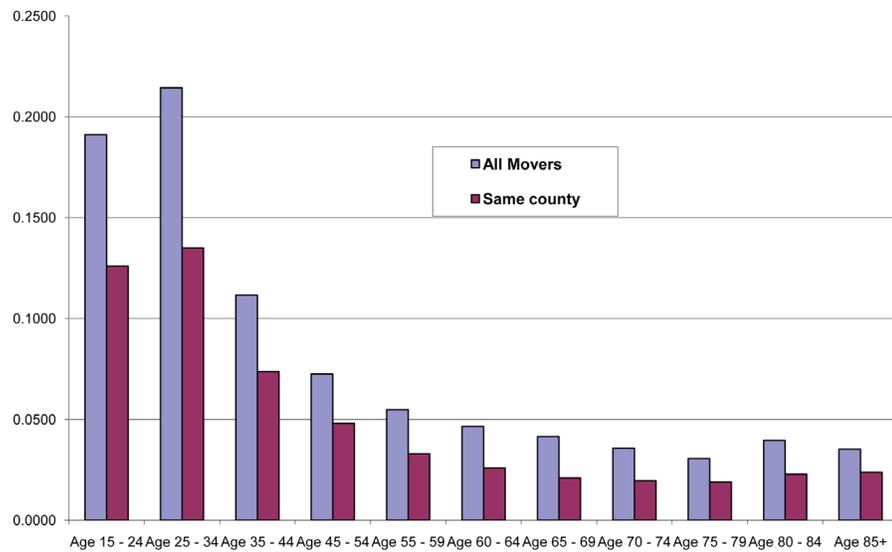
Source: Claritas Site Reports and FXM Associates

Mobility Rates and Propensities to Own or Rent

Data in the Figure D show mobility rates by age of householder based on the latest US Census surveys for the US as a whole. For the purposes of this analysis we applied the average annual moving rates within the same county by age group to estimate potential turnover within the City of Worcester. Turnover by households

already living in the area represents by far the largest component of demand for housing in stable or slow growth areas, which the City of Worcester is projected to be over the next five years. As data in the graph indicate, younger households are much more likely to move than older ones, while older ones show a greater tendency to move within the same region. For example, about 20% of householders under age 35 move each year, while less than 5% of those over age 65 are likely to move in any given year. For movers within the same county, nearly two thirds (64%) do so for housing-related reasons, followed by family-related reasons (25%) and work reasons (7%).

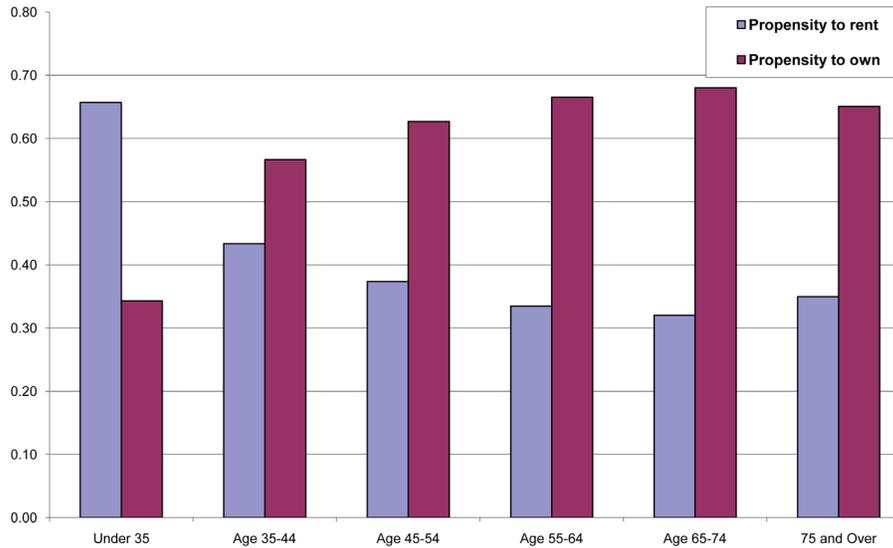
**Figure D. Annual Mobility Rates by Age of Householder**  
*City of Worcester*



*Source: Geographical Mobility: 2007 to 2008, US Census Bureau Current Population Survey, 2008, and FXM Associates*

Figure E shows average propensities to own or rent by age of householder. The rates shown are derived from a national survey adjusted for the local market based on the current distribution of overall owners and renters within the city of Worcester. As data in the graph indicate, about 65% of householders under age 35 rent, while only half that proportion (32%) in the 55-64 age group are renters. Within the city overall 56% of households own their residence and 44% rent.

Figure E. Propensity to Own or Rent by Age of Householder  
City of Worcester



Source: *The State of the Nations Housing 2008, Appendix Table A-5, The Joint Center for Housing Studies of Harvard University, and FXM Associates*

### Estimated Annual Demand by Product, Price, and Market Segment

In the final sequence of graphs data previously presented – covering current and projected numbers of households in the target market area screened by age, income, mobility, and propensity to own or rent -- is combined to derive estimates of annual demand for rentals and sales specifically targeted to the likely housing products offered in the Downtown area of the City of Worcester.

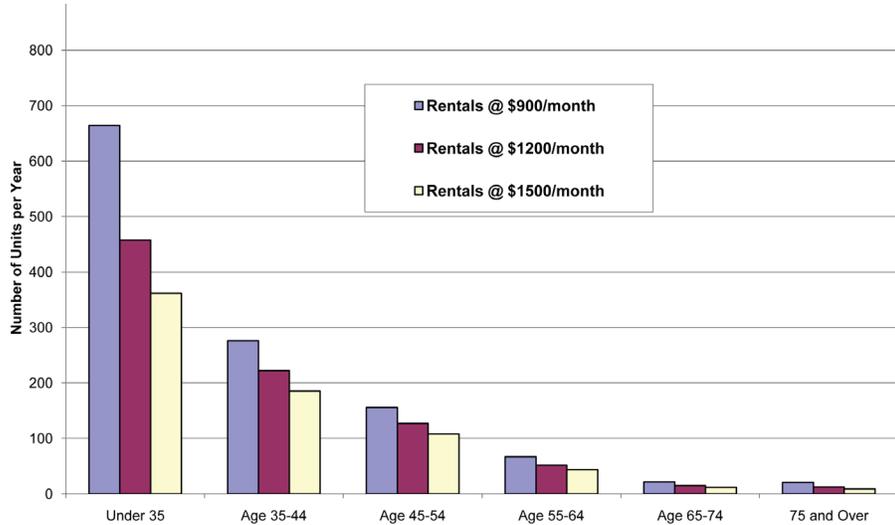
Figure F shows estimated annual demand for rental units by price and age of householder. Not surprisingly, given the higher propensities to rent among younger households, the under-35 market segment is likely to be the strongest market segment for rentals. Somewhat surprising is that even at the higher rent levels the under-35 age market segment is stronger than other age groups.

Figure G shows similar data for condominium demand for the City of Worcester. Since the demand for single family housing in the Downtown area of Worcester is expected to be very low, these numbers are for condos and other multi-family or single-family attached housing units.

The next graph (Figure H) in this section of the report summarizes average annual demand within the city of Worcester for rentals and condo sales among households in all age groups with qualifying incomes. Based on the measures of market demand assessed in this section of the report, absorption potential for rentals is far more promising than for condos over the next three years, notwithstanding

current financial conditions. On an average year between 2009 and 2013, market area demand among income qualified households is projected to total about 1,200 units per year, with about 700 households qualified for the higher priced rentals. Demand for condos in an average year between 2009 and 2013 is projected to total about 200 units.

**Figure F. Estimated Annual Demand for Rental Units by Price and Age of Householder:  
2009-2013  
City of Worcester**



**Figure G Estimated Annual Demand for Sales Units by Price and Age of Householder:  
2009-2013  
City of Worcester**

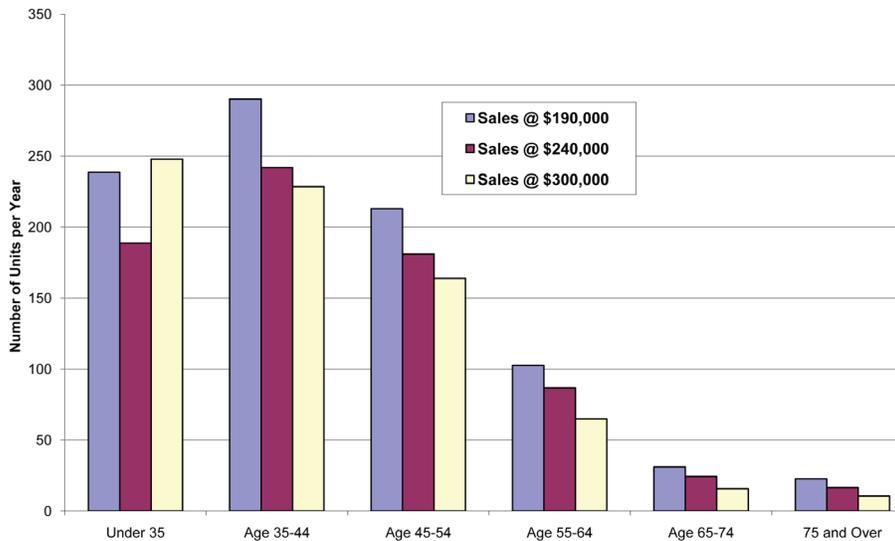
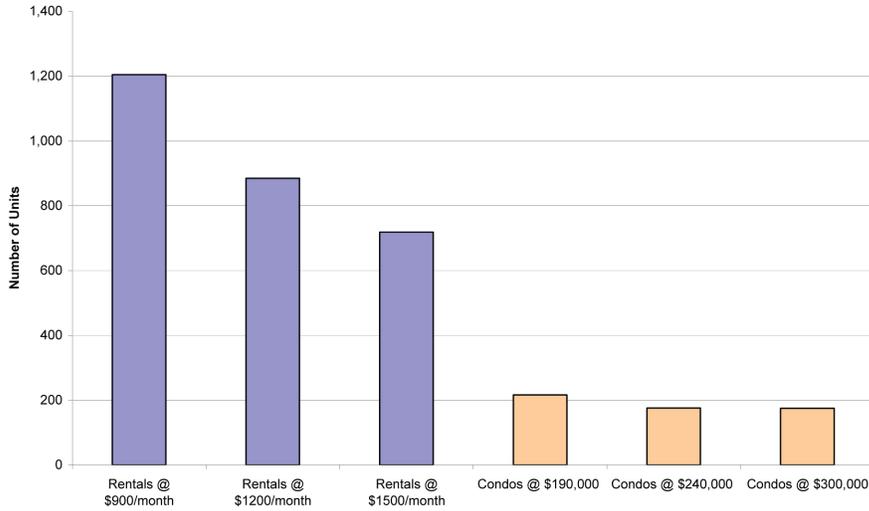


Figure H. Average Annual Demand For Rentals and Condos: 2009-2012  
*City of Worcester*



Households with Incomes Under \$35,000

The following graphs show the distribution of households with incomes under \$35,000 by age cohort in 2008 and projected to 2013. These households cannot afford the minimal market rate of \$900 rent estimated for Downtown area rehabilitated or newly constructed units, nor the minimal estimated \$190,000 condo price for market rate units rehabilitated or newly constructed. The data may be useful to City and State officials in estimating demand for subsidized housing in Worcester.

Figure I. 2008 Breakdown of Incomes under \$35,000  
City of Worcester

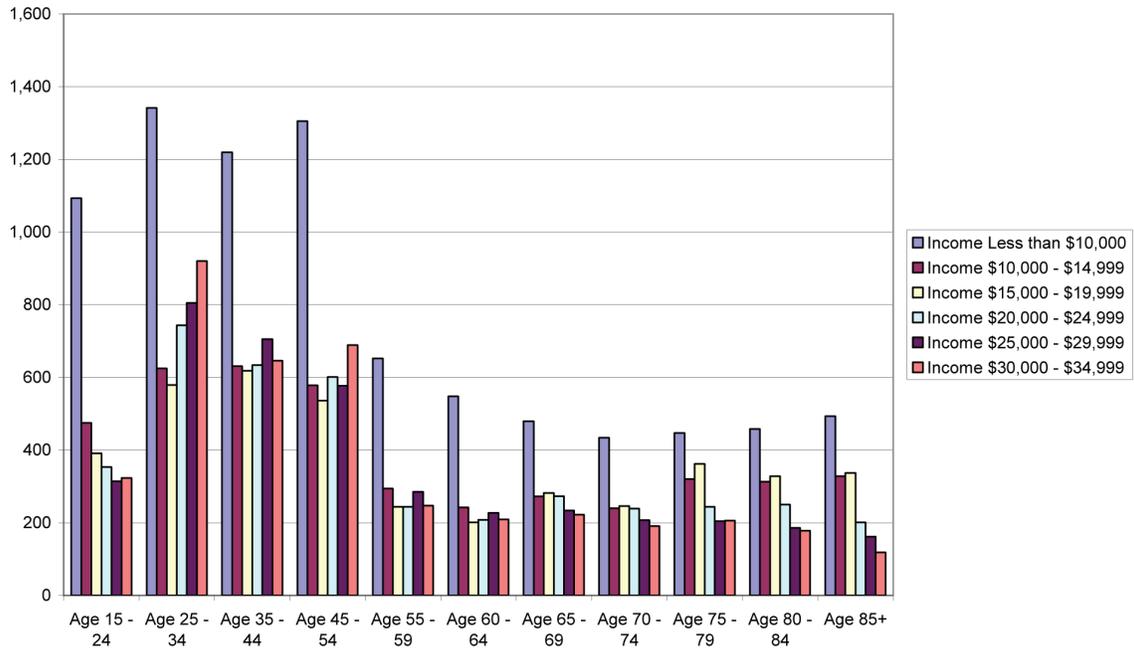


Figure J. 2008 Percent of Incomes under \$35,000  
City of Worcester

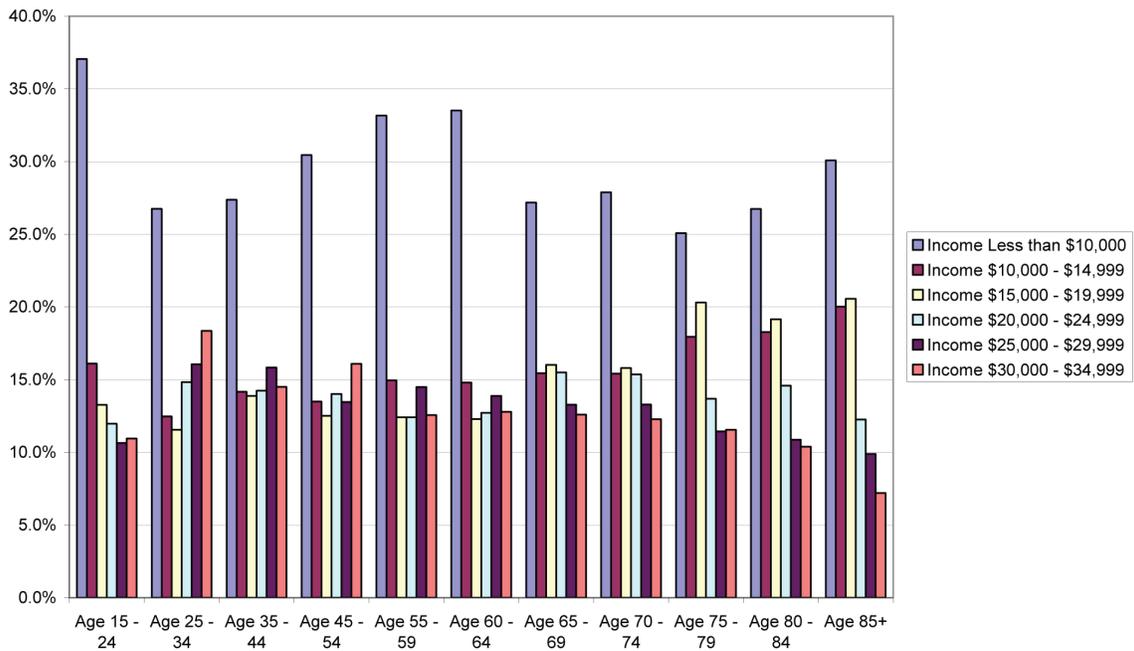


Figure K. Projected 2013 Incomes Under \$35,000  
City of Worcester

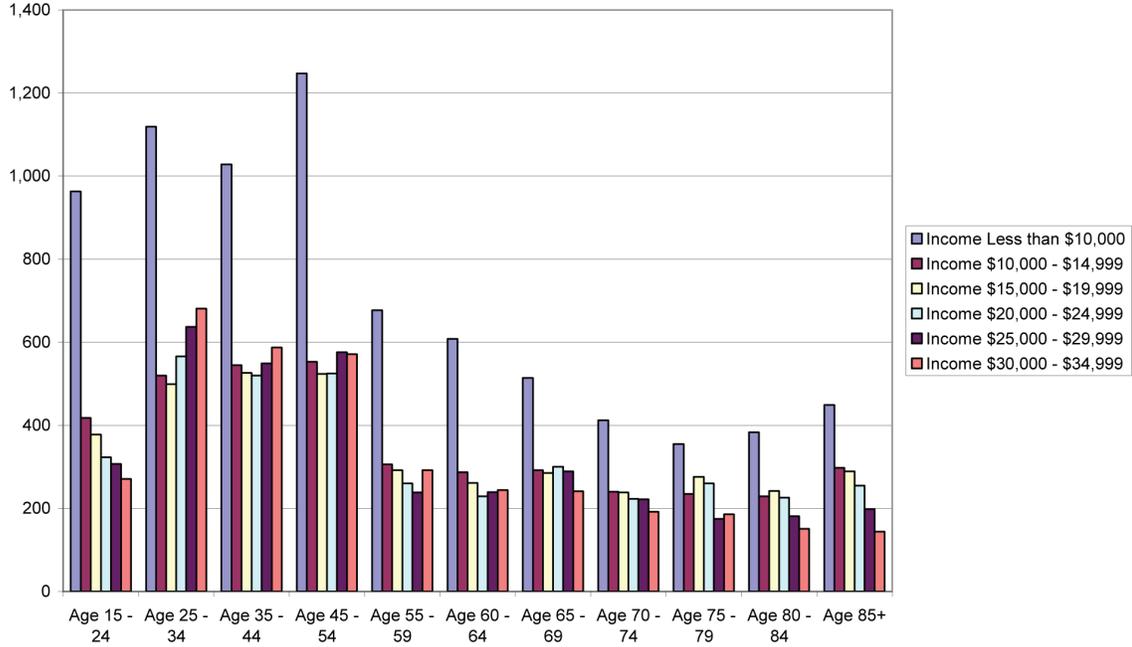


Figure L. Projected 2013 Percent Breakdown  
City of Worcester

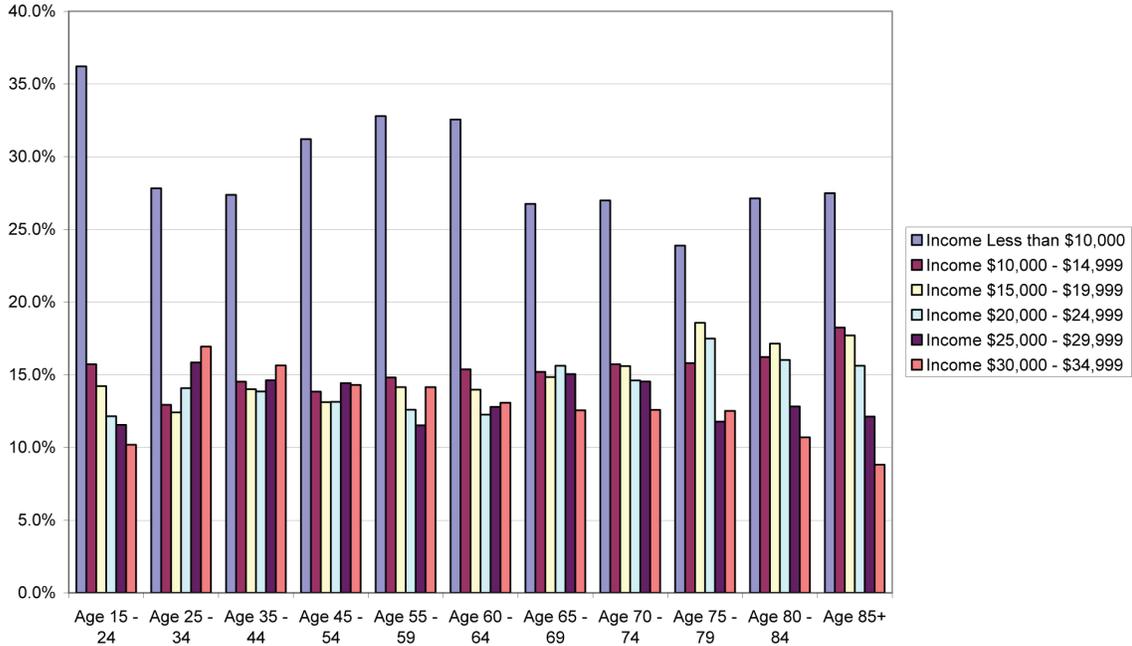
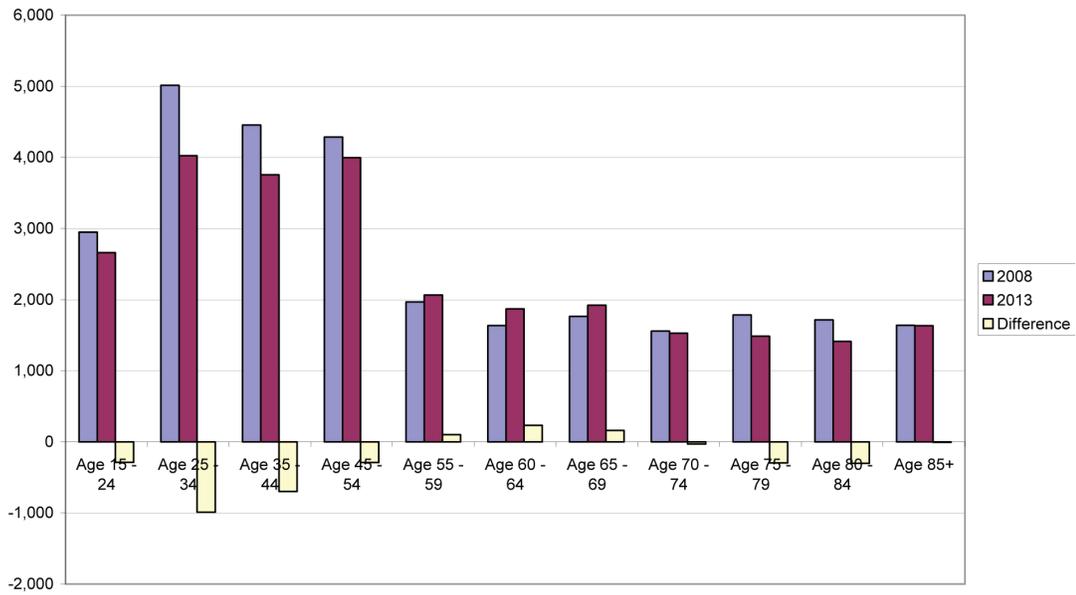


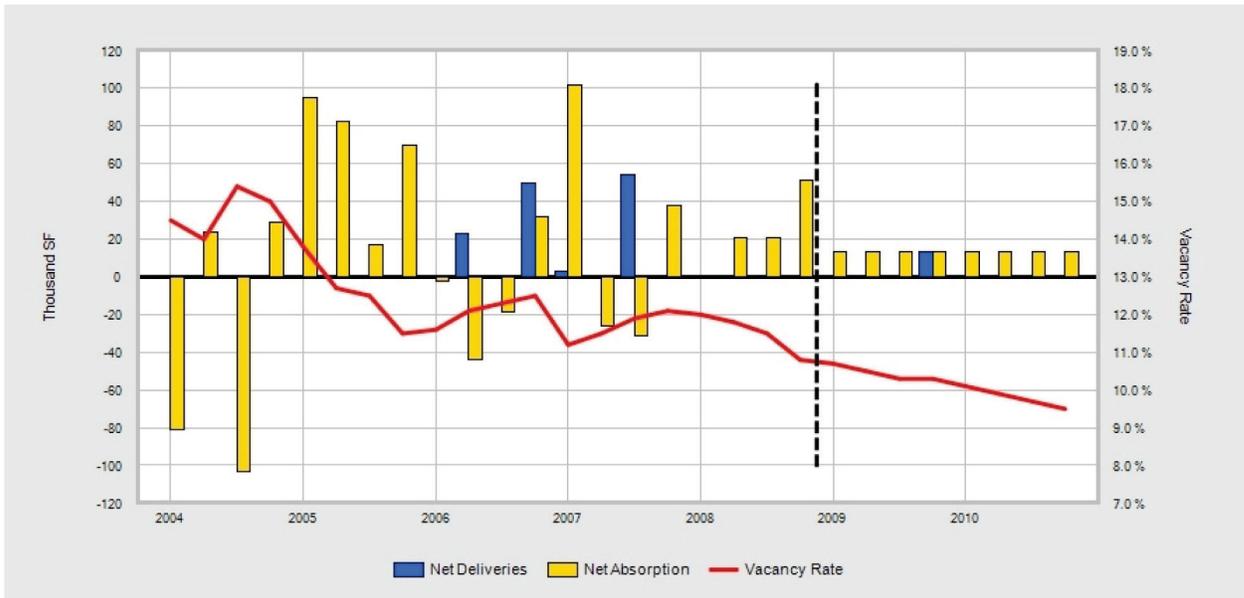
Figure M. Households Under \$35,000 Annual Income: 2008 and 2013  
*City of Worcester*



## Part 2: Office Market Forecast

The graph below shows recent historical and forecast trends in the City of Worcester office market for Class A space overall. The source of the data and graph is CoStar Property Information Services, a proprietary subscription data base used by virtually all commercial property analysts and brokers. As the graph shows, the City of Worcester overall is projected to absorb about 15,000 square feet of net new office space per quarter in 2009 and 2010, with the result that vacancy rates are projected to drop from 10.5% to 9.5% over this period.

Figure N. Office Market Forecasts



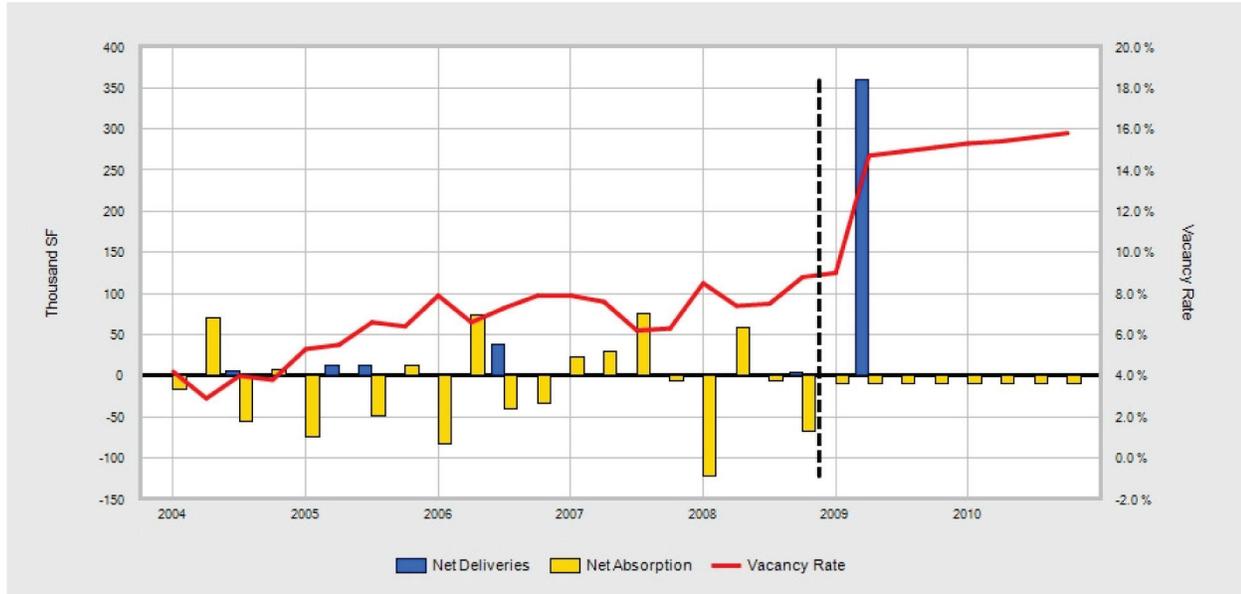
According to The Research Bureau's latest report *Downtown Worcester Office Occupancy: 2008 Survey* there was approximately 147,000 vacant square feet of Class A office space in the Worcester CBD (October 2008) and 283,000 vacant square feet of Class B office space. In all categories of office space (Class A, B, and C) vacancies in Downtown Worcester totaled over 550,000 square feet in 2008. Local brokers report that the slight projected net absorption forecast for Class A space throughout Worcester is likely to be, following historical trends, a consequence of tenants of Class B space moving up and that increased vacancies in Class B and C space are to be expected, especially in the Downtown area.

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Figure O. Retail Market Forecasts



In its October 2008 report, The Research Bureau (op. cit.) attempted for the first time to inventory the amount of vacant retail space downtown. They report almost 300,000 square feet of vacant space that could be used for retail in the Worcester CBD, much of available at the street level. Local brokers confirm the significant inventory and lack of demand for retail space in the downtown area.

Figure K. Projected 2013 Incomes Under \$35,000  
City of Worcester

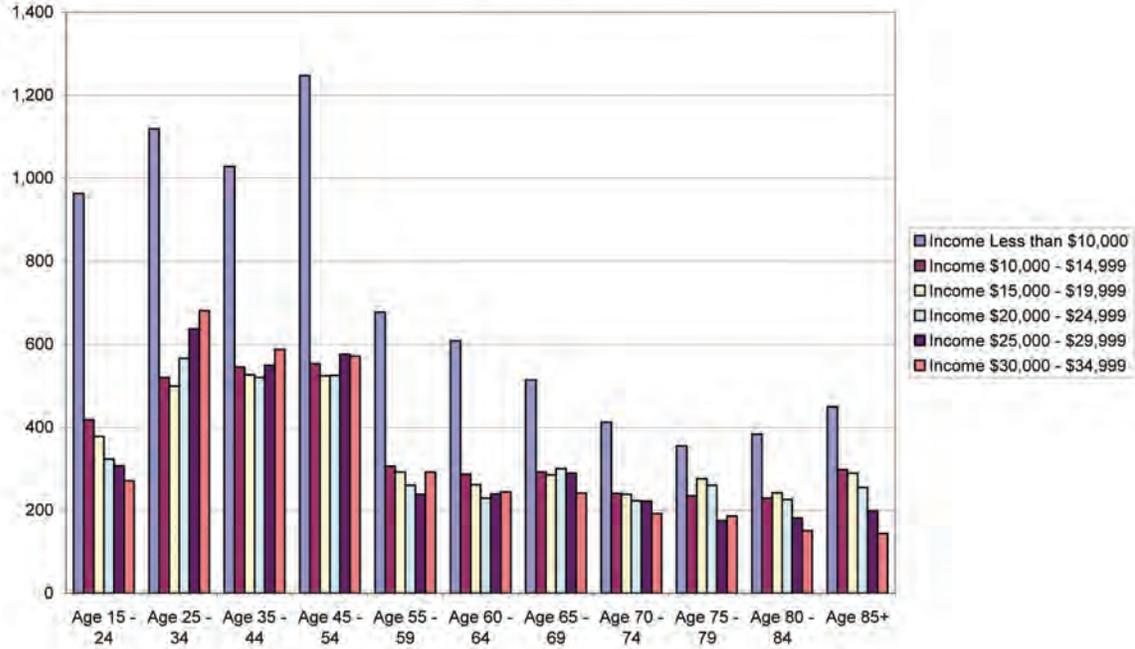


Figure L. Projected 2013 Percent Breakdown  
City of Worcester

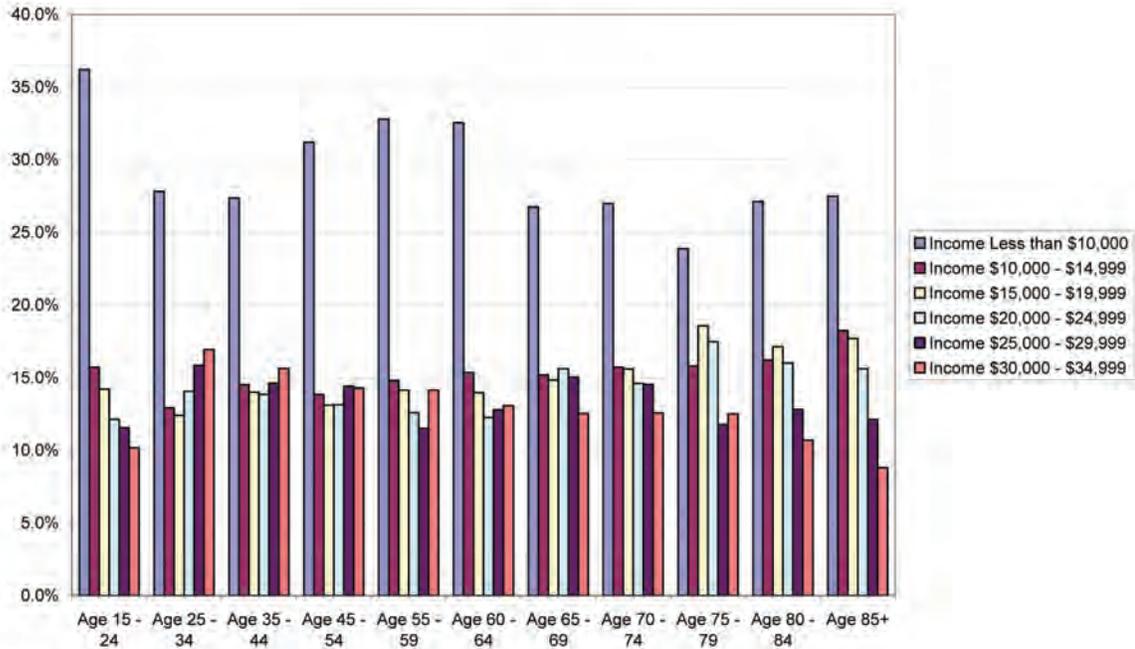
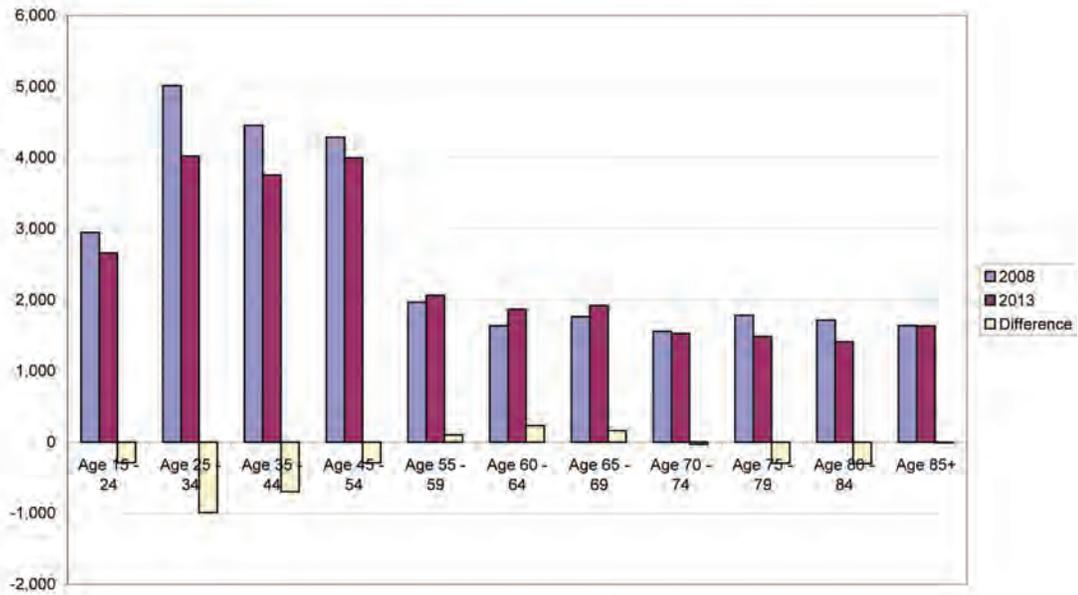


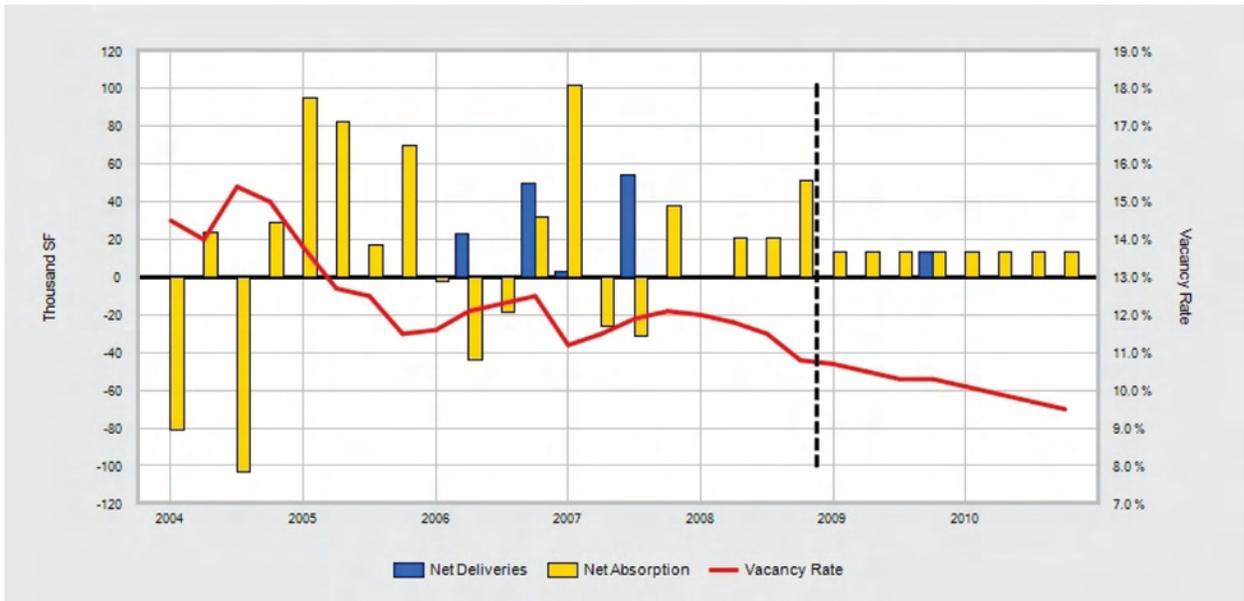
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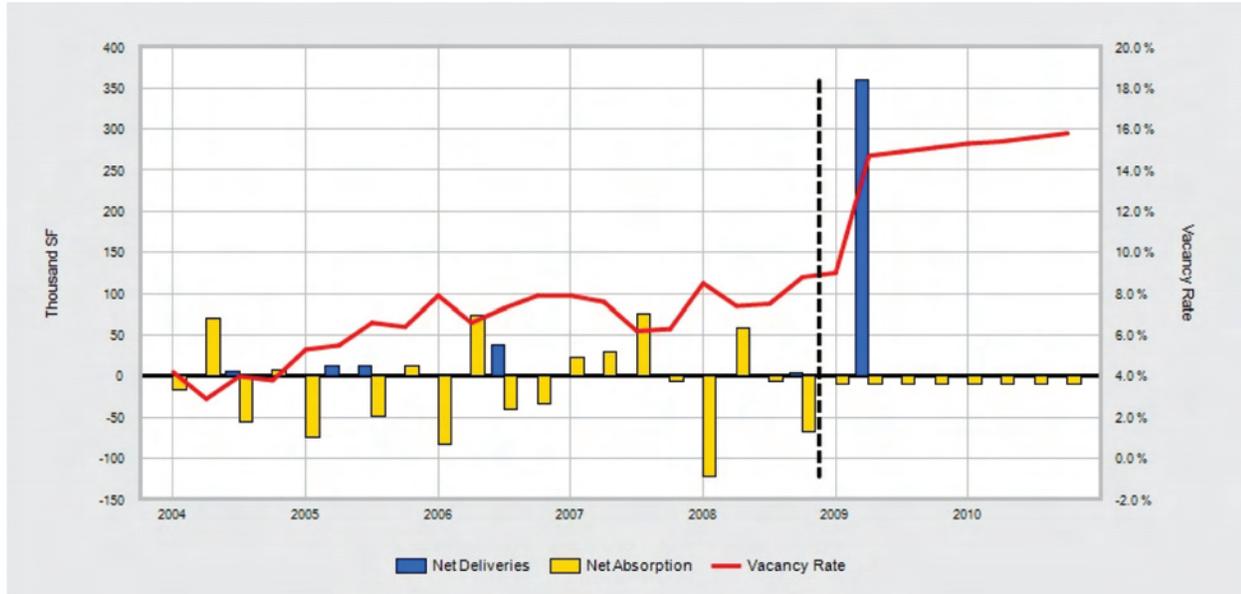
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NEIGHBORHOOD  
MASTER PLAN





## A. NEIGHBORHOOD MASTER PLAN

The existing Beacon/Federal Neighborhood is very diverse with two- and three-story homes, multi-family and mixed-use commercial buildings, and single-story commercial, industrial and vacant mill buildings. A significant portion of the neighborhood is composed of historic buildings, both industrial and residential (Figure 1).

The eastern blocks of the neighborhood; between Madison Street and Franklin Street, are of a scale and use typical of an urban center, with major steps in reinvestment taking place on Franklin Street in the forms of the reuse of buildings, improvement to the Commons, and construction of the City Library. The western blocks; between Madison Street and LaGrange Street, are a more highly mixed collection of building typologies and uses, with ongoing industrial operations, historic home restorations, vacant lots, and historic - but also vacant - mill buildings. In this section, change is being initiated by private investments, such as the Hadley Building renovation and the removal of the PIP shelter.

The existing land use map (Figure 2) indicates the variety of conditions found in the study area where potentially conflicting uses - industrial and residential - are found adjacent to one another. There are a number of other issues regarding the land use patterns and development conditions that warrant identification:

1. There is a clear distinction between the eastern and western portions of the study area as divided by Madison Street, in terms of building forms and land uses.
2. The eastern properties directly contribute to the vitality of the downtown and Worcester Common, while the potential change in ownership of the Telegram & Gazette building and ongoing rehabilitation of other Franklin Street properties suggest new levels of activity.
3. The study area is an extension of downtown and is also adjacent to the Canal district and other similar neighborhoods to the north and east.
4. The amount of vacant land and underutilized properties spread throughout the study area.
5. Potentially conflicting uses - industrial and residential - found adjacent to one another.
6. The location of a gas station and open parking lots primarily define the major intersection and crossing of Madison Street, Beacon Street and Southbridge Street. Input from the public meetings suggested that this area is considered a 'gateway' to the neighborhood, and problematic when crossing by car or on foot.



7. There is a high amount of land committed to surface parking.
8. There are significant topographic variations across the study area, some of which were created by a historic railroad line, which make development and pedestrian access more complex. In addition, the separation of McGrath Blvd., a major connector, from Madison Street by grade, which controls the pattern of circulation and creates a non-flattering perspective of the study area from the south side.
9. The constrictions against east-west pedestrian movement to downtown and adjacent neighborhood destination sites.
10. There are an inordinate amount of chain-link and metal fences impacting the quality of the street views.



When considered alone, one striking condition is the land area devoted to surface parking lots (Figure 3). It is inordinately significant in area for an urban center; covering about half the land of the study area, which is more typical of a suburban center. This is a condition created by lower land values and development potential. To counter this condition requires sufficient incentives to build structured or public parking to reduce the footprint and allow buildings instead of parking lots to occupy the street frontages. This would significantly change the conditions within the central and southern portions of the study area.



Another consideration is the quality of the pedestrian experience and the sense of connectivity to the downtown areas. This varies across the study area and is reviewed and addressed in the Infrastructure Improvement Plan section.

Other concerns were collected during the public review and response meetings and are illustrated in Figure 3A. The public participants described the issues that were used to define the master plan and infrastructure concepts.

### **Beacon / Federal Neighborhood Master Plan**

The Beacon / Federal Neighborhood Master Plan proposes short- and long-term concepts for a revitalized neighborhood that:

- Targets public and privately-owned properties for redevelopment based on their susceptibility to change.
- Includes infrastructure improvements to ensure the public ways support the type and level of desired private investment in the adjacent properties.
- Proposes a future as a sustainable, mixed-use, walkable, safe, and desired destination for businesses and living.

The public properties considered important keys to advance the neighborhood and overall City revitalization (identified as orange properties in Figure 4) are:

1. The parking lot at the rear of the Library; 6 Library Lane – This parcel defines an important edge condition associated with the connection to Union Station. It is also an important property defining the relationship to Salem Street and Myrtle Street and the redevelopment potential that exists in those adjacent private parcels. By defining the frontage of this block as a ‘front yard,’ the city center looks westward and connects to the rest of the neighborhood. This concept of looking outward also applies to the other parcels on the east side of Myrtle Street. The use in this location would be



2. The State and City owned land between Beacon Street and Southbridge Street with frontage on Madison Street - This is actually three parcels, one of which is used by the Registry of Motor Vehicles as an overflow/employee parking lot. It could be repositioned as part of the neighborhood gateway and provide better services for the state with a multi-use office building. Retail use of the Southbridge Street frontage could also provide a better retail environment on Southbridge Street, by creating a “double-loaded” corridor. The particular character of this site is unique because of its location and topography. A study was made of the site to determine the potential of the property to relate to the Beacon Street side as a commercial building balanced with the reuse of the Boys and Girls club (a privately held property with short-term development potential as discussed below), the Southbridge Street shops that lie across the street, and Madison Street at a major intersection and across from the state buildings; DEP regional offices and the RMV. An urban design study (Figure 5) was made of the property to show how it could be developed to allow the maximization of the site, show how structured parking could support the project, and revitalize the street. This program could also be used to free up the state offices for other uses which activate Main Street.



The private properties and buildings that could contribute to the revitalization, or have already contributed (identified as blue and red properties in Figure 4; where the blue properties were earlier identified for MHIC as potential New Market Tax Credit projects, and the red are other key properties, which may also use tax credits) include:

1. The Hadley Building at the corner of Main Street and Madison Street, which has been renovated and is filling the first floor space with commercial uses.
2. The former Boys and Girls Club on the corner of Beacon Street and Ionic Street, which is proposed as office space.
3. The block between Franklin Street, Portland Street, Salem Street, and Myrtle Street, particularly including:

- a. The Davis Publishing building on the corner of Myrtle Street and Portland Street, which has the potential for commercial uses and support with the New Market Tax Credits
  - b. The two adjoining properties on the corner of Franklin Street and Salem Street across from the City Library, which could be mixed used and also supported with the New Market Tax Credits
4. The Junction Shops mill building complex on Beacon Street between Jackson Street and Herman Street. This site is currently approved by variance in the MG district for 181 residential units with parking across the street from the main mill building complex.
5. Several properties on LaGrange Street, which while small will contribute to the restoration of the residential nature of the street.
6. The plumbing supply warehouse between Beacon Street and Southbridge Street, which creates a clearly uninviting feel on Beacon Street with the blank wall and fencing. While the City must support a viable business the potential to move the business and support the other mixed use projects identified here should be considered.
7. The shopping center between Madison Street and Myrtle Street, which also houses the Social Security Administration offices. As a shopping center it is experiencing a number of retail vacancies. Repositioning the space to better accommodate the office rents may be a strategy to reclaim a connection to the neighborhood.

Other privately-held properties that will contribute to change in the long-term as the key properties are revitalized and redeveloped.

Figure 1: Historic and Modern Worcester

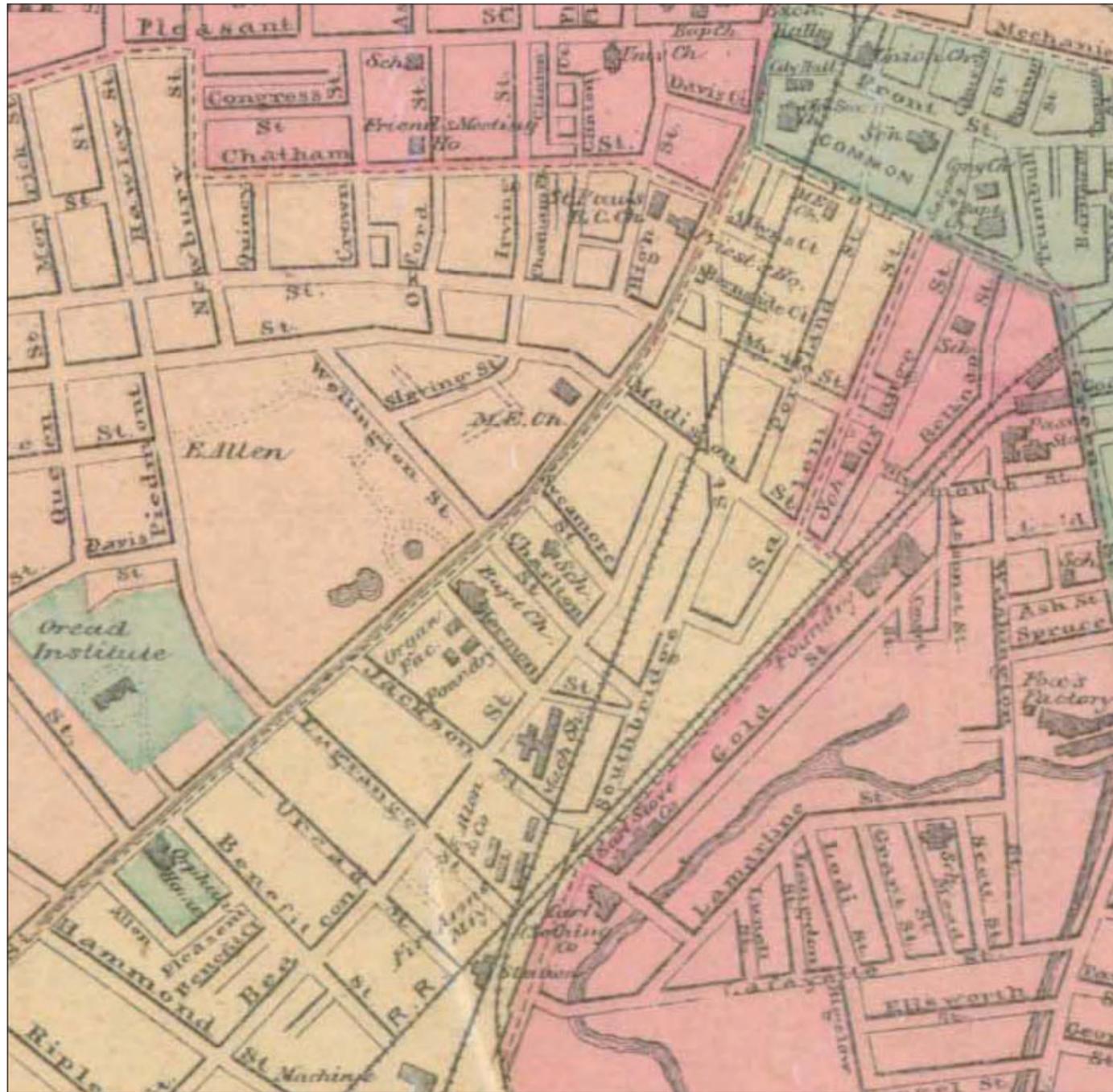


Figure 2: Land Use

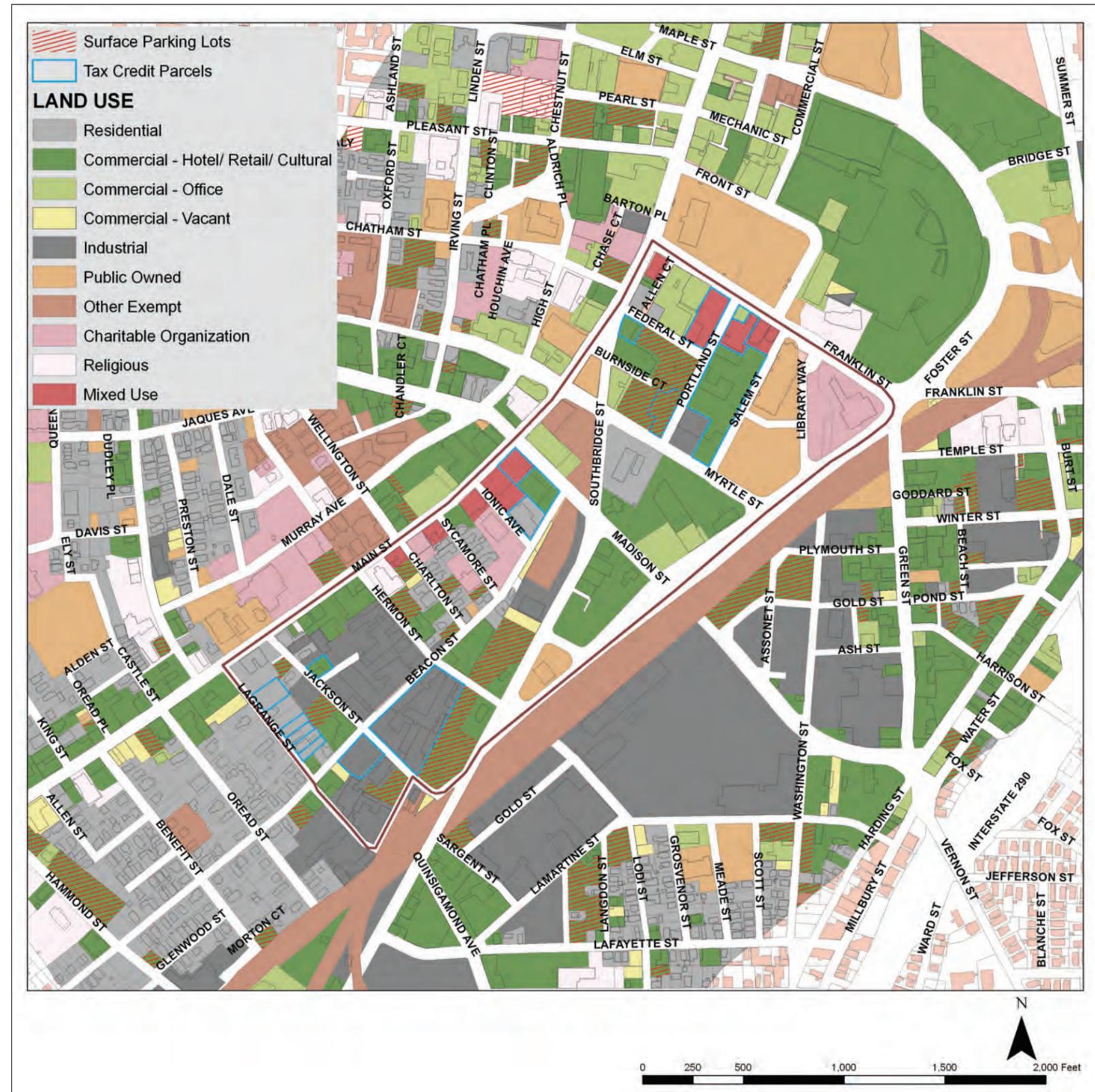


Figure 3: Parking and Other Constraints



Figure 3A: Issues and Concerns



Figure 4: Development

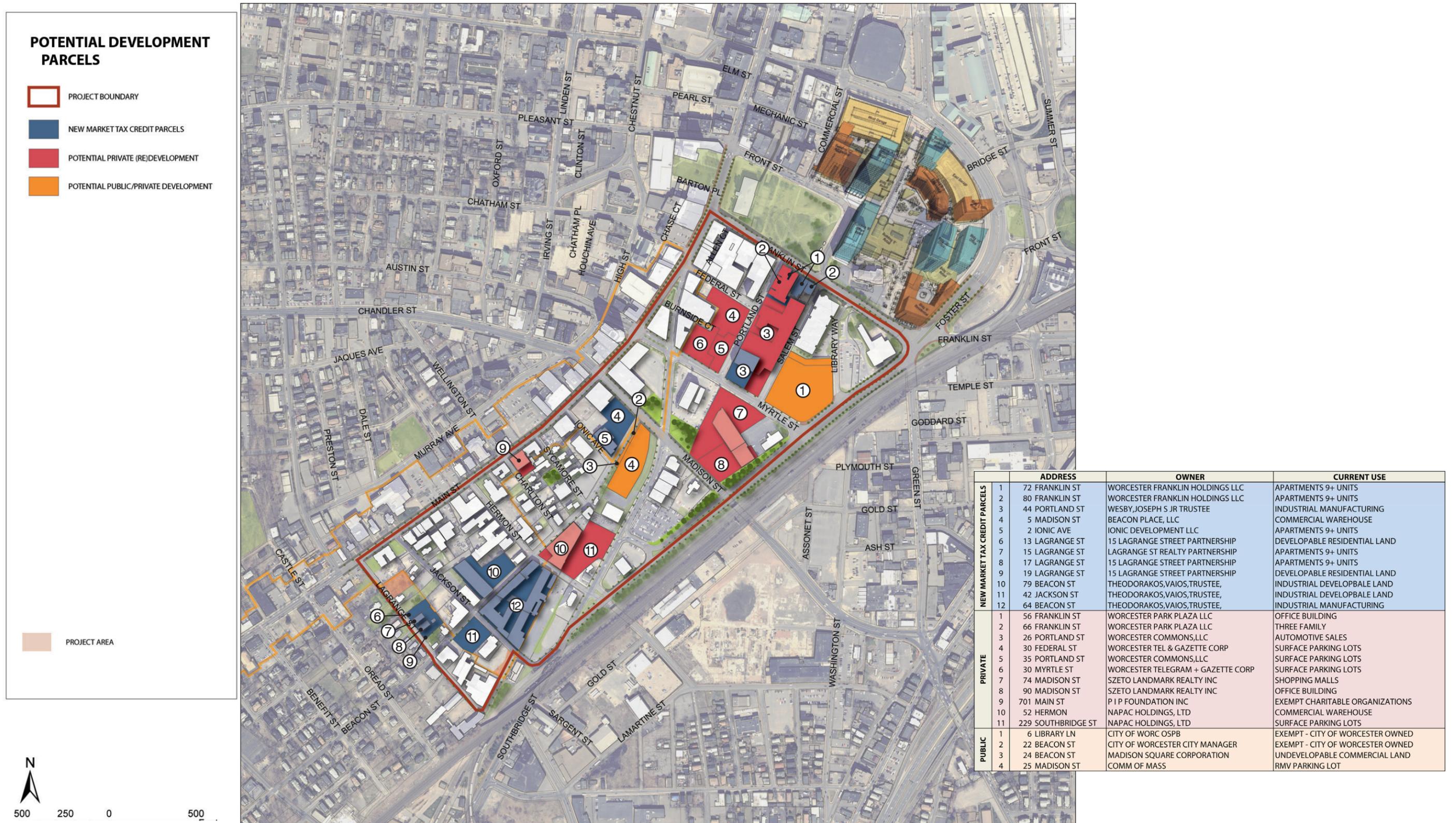


Figure 5: RMV Development Section

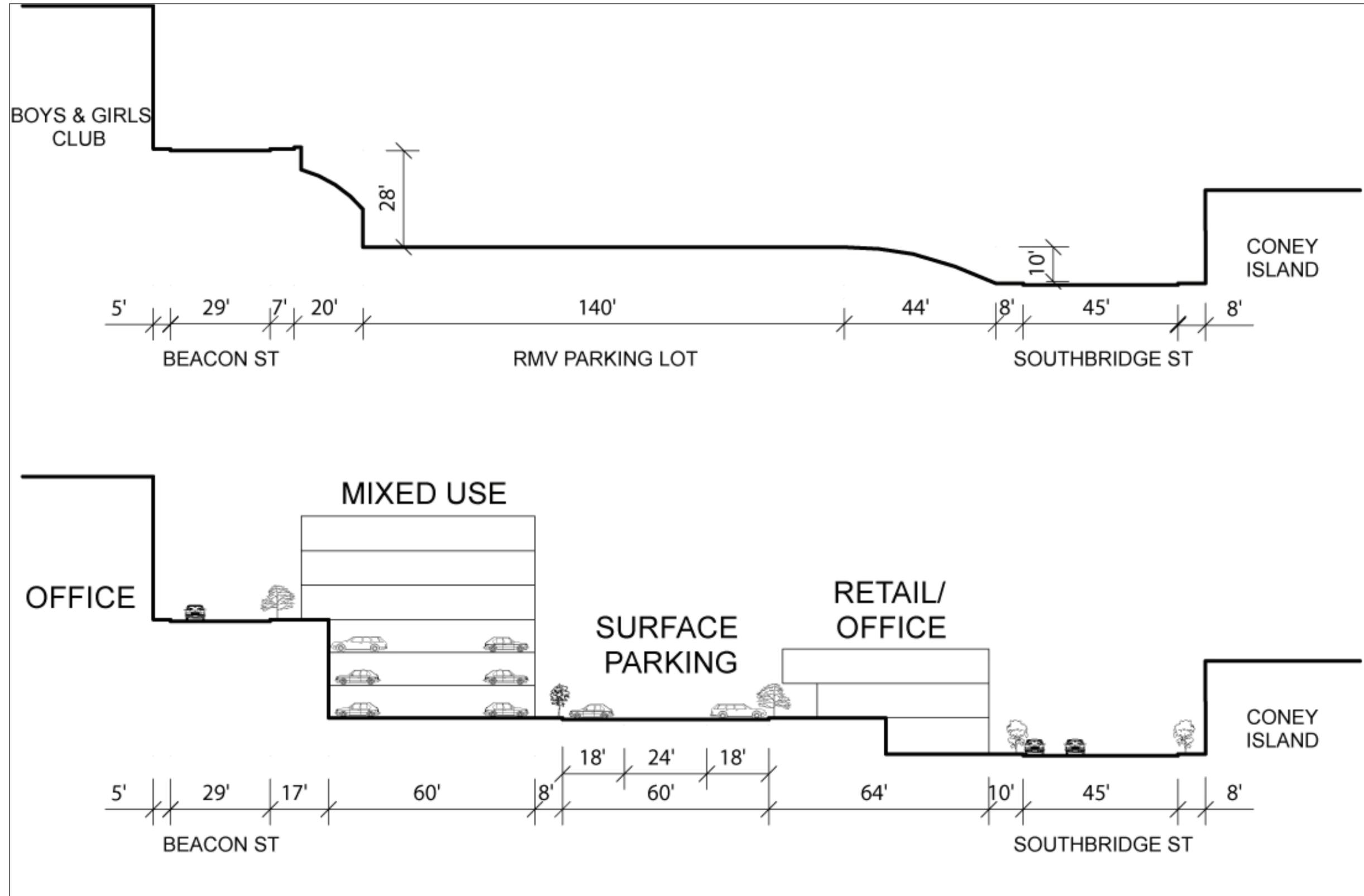
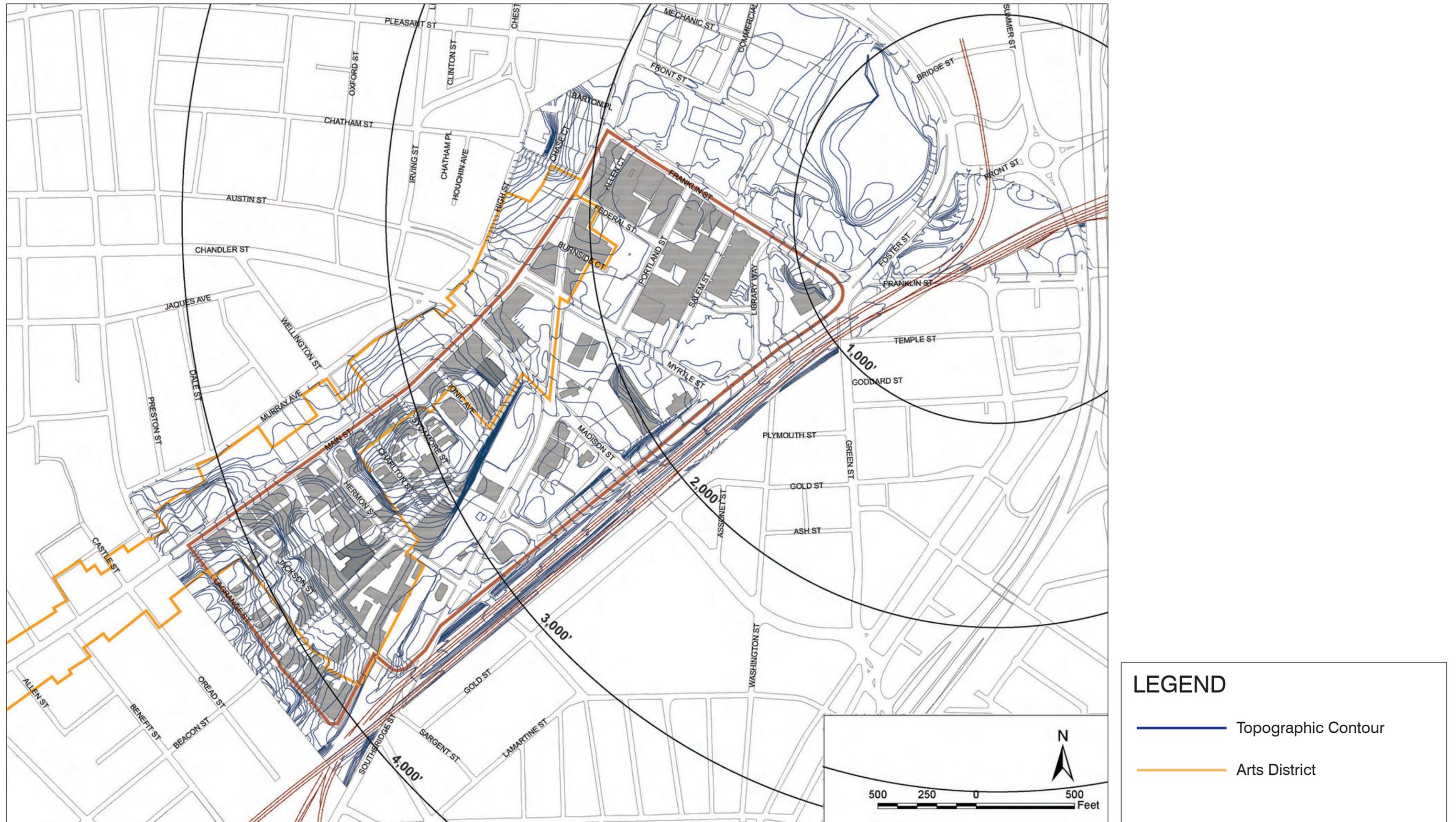


Figure 6: Existing Conditions and Walking Distance to Union Station





COMMUNITY  
POLICING PLAN

SECTION 3

B



## B. COMMUNITY POLICING PLAN

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This report strongly recommends that the City assist neighborhood businesses and residents in forming a community organization or group that will be dedicated to improving the quality of life in the Beacon/Federal Neighborhood.

Further, it is recommended that a long-term source of funding (at least five years) be arranged to pay for a person to work half time (at a minimum) to assist the community group in identifying problems and opportunities, and in working to solve these problems and pursue the opportunities. Close cooperation with the Community Policing Initiative of the Worcester Police Department is an essential component for the success of this effort.

As noted in the introduction to this report, the Beacon/Federal neighborhood is an example of a neighborhood that suffers from the behavioral patterns described in the “Broken Windows” theory. Under this theory, once a neighborhood begins to suffer from neglect, once there are “broken windows” those windows signal that people don’t care, that they have given up on the neighborhood. More stones that break windows are attracted from those passing by, conditions worsen, and a self-reinforcing social pathology results.

The Beacon/Federal neighborhood has many boarded up buildings, particularly in the southwestern portion, and particularly the commercial structures, some of which have operations going on behind semi-transparent covers over the windows. In these areas the streets, curbs and sidewalks are broken up, and sometimes the sidewalks are simply not there. Many of the private residences are in tough shape, and many are set back behind uncut lawns and weeds. There is a sense of disinvestment in the area.

The physical condition of the neighborhood is exacerbated by certain institutional uses, the primary one of which is the PIP Shelter. PIP stands for “People in Peril”. The mission of the PIP Shelter is:

*The organization is dedicated to the mobilization and utilization of resources, both public and private, in order that an array of comprehensive services including training, rehabilitation, education, care treatment, housing, food and shelter, be provided for the homeless, the working poor, indigent alcoholics, drug addicts and the deinstitutionalized mentally ill, regardless of race, color, or creed.*

Every day at 8:00 a.m. the PIP Shelter is emptied of its clients and closes its doors. The doors are not reopened until 4:00 pm. In the meantime, the people who use the shelter are in the neighborhood, on the streets, many without jobs or meaningful activity.

The Salvation Army operates a Center on South Main Street a short distance from the PIP Shelter. It serves an important function for the people on the street, particularly those in need with no other place to go during the day. Next door is a liquor store which sometimes attracts those who have a negative influence on the neighborhood. The area has its share of drugs and prostitution. The net result is that some find walking on the streets to be a not entirely pleasant experience.

This having been stated, there have been substantial changes in recent years for the better. The Hadley, Standish, and Aurora buildings have all been renovated into high quality housing. The Compare grocery store offers a complete and modern shopping experience, with plenty of parking. The YMCA has expanded and built new facilities. The Hanover Theater recently opened after a \$32,000,000 renovation. The public housing on Murray Avenue has been dramatically improved. There is a significant amount of commercial vitality up and down South Main Street.

Further, the City is committed to making changes. It has adopted a program to end homelessness. It plans to close the PIP Shelter in the next twelve to eighteen months, and to relocate its functions in new and smaller shelters in other locations – not the Beacon/Federal neighborhood – and these new shelters will operate with a different philosophy to inform the care provided to this population. When the PIP shelter is gone there will undoubtedly be improvements for the better in terms of civility on the sidewalks and in the neighborhood.

However, the neighborhood also has many low-rent boarding houses, offering rooms to single individuals at inexpensive prices. The Salvation Army Center will remain, as will the Liquor Store. While the PIP Shelter currently contributes substantially to the problems in the neighborhood, it is only one of a number of factors. When it is gone, the problems won't simply disappear without further effort.

In order to make meaningful change in the Beacon/Federal Neighborhood, it will be necessary to address this issue of civility on the streets. If the streets are not safe, if people don't feel comfortable walking on the sidewalks, it is highly unlikely that significant private investment will take place in the neighborhood. Housing represents one of the most feasible uses for the empty buildings in the neighborhood – but new housing in the current context requires heavy doses of subsidy dollars to be feasible, as at the recently renovated Hadley and Standish Buildings. These subsidies are in short supply, take years to acquire and organize, and can never be sufficient to carry the revitalization of the neighborhood. Furthermore, most of the occupants of heavily subsidized housing are required to have lower incomes, and for the neighborhood to be revitalized it is important to bring market rate housing into the new developments. Market rate tenants with disposable income can only be induced to live in these areas if the quality of life on the streets and sidewalks is improved.

This being said, it is important to note that the most important single element of being in a position to effectively address such problems has already been developed in the City – and that is a commitment to the concepts of Community Policing. Under the leadership of Chief Gary Gemme, the Worcester Police Department has adopted a Community Policing Model for the organization of its activities. The document describing the organizational structure of the Department is titled “Community Policing Initiative.” Its first paragraph states:

*Community policing as a department wide philosophy and the split force model as an implementation strategy is the new direction for the Worcester Police Department.*

The Community Policing Initiative explicitly acknowledges the validity of the “Broken Windows” theory of neighborhood crime and adopts many of the techniques and organizational structures that have proven successful in other communities. Two Community Policing officers are assigned to the area that includes the Beacon Federal Neighborhood. These officers are well acquainted with the people and the problems in the neighborhood.

However, the Police can't solve problems of such scale and pervasiveness on their own. It is essential that the local neighborhood also be organized to set standards for acceptable behavior, to work with the police to deal with identified problems, and to help coordinate the various City organizations that are available to help solve individual issues.

Chief of Police Gary Gemme, at a lengthy and productive meeting to discuss these issues on June 22nd, informed the Study team, Barbara Haller (City Councilor), and City officials that the Police Department is organized to and will respond quickly and forcefully to requests from the neighborhood to address specific issues and problems.

Progress is underway in moving forward with this idea. At a meeting facilitated by Councilor Haller, representatives from the police department met with a number of business owners in the area to discuss common problems and to begin the process of making improvements. It was clear that there was a good deal of commonality in interest. This was a good first step, and offers a nucleus for an expanded effort to develop a community organization that can be effective in working with the police to change the environment on the streets and sidewalks throughout the neighborhood.

Good community organizing will be necessary to bring people together in an organized and consistent way. All interest groups in the neighborhood, and these would include building owners, business owners, residents, and potential developers, should be encouraged to attend meetings and contribute to the identification of problems – and to identify opportunities. How this group is organized, and the extent to which it is affiliated with existing organizations, particularly the Main South CDC, is a matter for all the parties to decide as the overall plans move forward.

To be effective, such a group should have a half time worker to organize meetings, provide coordination with city agencies and institutions, to help identify problems, and to carry out the implementation of the decisions of the group. Close cooperation with the Community Policing Officers will be a crucial part of the job description.

With such help, with access to City services, with coordination with the Community Policing Officers, the group will have the tools necessary to participate in the transformation of the neighborhood. The transformation will also require heavy amounts of private investment, and to attract the investment, potential investors

and lenders must have confidence that long-lasting improvements will take place in the quality of life.

Therefore, of critical importance is confidence in the longevity and viability of the neighborhood organization. Such groups have a history of initial enthusiasm, multiple meetings, many plans, and then a withering of attention as the amount of time required becomes apparent. It is difficult to do with just volunteer help. That is why having a half-time person dedicated to doing this work is so important. However, that person must be paid, and it would be easy to imagine finding funding for a year or so, and then with a budget crunch, a decision being made to reduce or eliminate the position.

That is exactly what potential investors and lenders will be thinking. To address their concerns, and to assure continuity and longevity, it is strongly recommended that a source of funds guaranteed for five years be found for this purpose.

The goal is to inspire confidence that there is a plan in place that can successfully address the problems of safety and civility on the streets and sidewalks of the neighborhood, and to have that confidence extend to a belief that it will be ongoing for at least five years – long enough to really make a difference, and long enough so that the multi-year process of financing and renovating buildings – and building new buildings – will be consistently supported by appropriate neighborhood efforts.

An issue for which this report has no recommendations, but that should be acknowledged is as follows. As described above, the neighborhood is characterized by many indigent individuals who have little or no money and multiple other problems which can include addictions and/or mental illness. They are on the street because they have nowhere else to go. In many respects, the Beacon/Federal neighborhood is the place in Worcester for people with such problems to be. The question the Police ask when they are requested to have people causing difficulties in a particular location moved to another location is, “where should they go?”

This is a good question. It is not rhetorical. In fairness to the police, and to enable them to be effective, it is a question that should be answered.

INFRASTRUCTURE  
IMPROVEMENT PLAN





## C. INFRASTRUCTURE IMPROVEMENT PLAN

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A critical element for the revitalization of the Beacon/Federal Neighborhood is targeted public infrastructure improvement. A significant portion of this improvement is planned for improving the condition of the existing streets and pedestrian amenities in the study area. In the Beacon/Federal Neighborhood broken-up and non-existent streets, sidewalks and curbs contribute to a lack of private investment in the area. This study builds upon policies and strategies for infrastructure already in effect in the City of Worcester. The infrastructure improvements set the stage for other private investments and development to occur and are critical to their success.

### Streetscape Policies

In January of 2009, the City of Worcester adopted a Streetscape Policy. Streetscaping is a series of improvements to the physical elements of the street (curbs, paving, line painting, signage) and the pedestrian amenities of the street (sidewalk improvements, planting of street trees, benches, lighting) resulting in a vastly improved public realm. In the introduction to the 2009 Streetscape Policy Report, the streetscape improvements are stated as a commitment “to providing a high quality, safe pedestrian environment and public experience of the street”. The Policy Report describes streetscape design as “a well thought-out approach ensures that there is a sense of continuity on key linear corridors and within certain districts and a rational strategy for how to transition from one area to another”.

The Streetscape Policy report delineates the streetscape district as the center of downtown Worcester and the Canal District. The streetscape district is roughly bounded by High, Chestnut and Harvard Streets to the north, Lincoln Square to the east, I-290 to the South and Madison Street to the west. The policy divides this district into two areas, the Historic District and the Innovation District. In these two areas, differences in streetscape standards and designs reflect the unique character and direction of development for each area respectively.

An important element of the Streetscape Policy is the definition and development of a street hierarchy within the districts. Within this hierarchy there are four levels of streets: primary, gateway, connector and internal streets. According to the policy, the streetscape hierarchy “informs wayfinding and orientation and the level of future investment in streetscape enhancement”. This hierarchy is primarily determined by dimensional criteria for the roadways.

Approximately one half of the Beacon/Federal Neighborhood study area is located within the Streetscape Policy Historic District. Within the study area, primary streets include Main Street (from Franklin to Madison) and McGrath Boulevard (from Franklin to Madison). Gateway Streets include Franklin Street (from Main to McGrath) and Madison Street (from Main to McGrath). Connector Streets include Southbridge (from Main to Madison) and Myrtle Street (from Main to McGrath). Internal Streets include Federal Street (from Main to Portland), Portland Street (Myrtle to Franklin), and Salem Street (Myrtle to Franklin).

## Streetscape Plan for the Beacon /Federal Neighborhood

Because of the deteriorating condition of the existing streets and sidewalks in the Beacon/Federal Neighborhood and the fact that the existing Streetscape Policy District covers about half of this neighborhood, this report recommends expansion of the streetscape district to include the entirety of the Beacon/Federal Neighborhood study area, in conjunction with the redevelopment plans. This expansion would enhance the neighborhood substantially, connect it to its historic past and to significant civic adjacencies and provide the infrastructure and amenity support needed for private investment.

This study proposes that the following streets in the neighborhood be included in the Streetscape Policy District, in accordance with the concepts of the Streetscape Policy:

- New ‘gateway’ streets would include Main Street (from Madison to Lagrange), McGrath Boulevard (from Madison to Southbridge), and Jackson Street (from Main to McGrath). Figure 1 shows the City’s Streetscape Policy design concept for ‘gateway’ streets and Figure 2 show the streets proposed to be so designated.
- New ‘connector’ streets would include Lagrange Street (from Main to Jackson), Hermon Street (from Main to McGrath), Beacon Street (from Lagrange to Madison), and Southbridge Street (from McGrath to Madison). Figure 3 shows the City’s Streetscape Policy design concept for ‘connector’ streets and Figure 4 show the streets proposed to be so designated.
- New ‘internal’ streets would include Charlton Street (from Main to Beacon), Sycamore Street (from Main to Beacon) and Ionic Street (from Main to Beacon). Figure 5 shows the City’s Streetscape Policy design concept for ‘internal’ streets and Figure 6 show the streets proposed to be so designated.

In addition to streetscaping along McGrath Boulevard, there are several embankments and larger areas within the right-of-way that form the southern edge of the neighborhood. These could be more heavily planted with trees and landscape to create a very interesting edge, and provide a buffer between the neighborhood and the elevated road and railway.

All of these improvements in the infrastructure and public realm of the neighborhood would integrate the study area with downtown, but allow a transition and unique approach to develop the sense of a neighborhood, and be a catalyst for future development.

## Open Spaces and Gateways

In addition to streetscape improvements for enhanced and pedestrian oriented public ways this study also proposes several new open spaces and parks in the neighborhood. Public comments from the neighborhood meetings suggested this should be a priority.

The primary new open space is proposed at the center of Madison Street on two adjacent parcels, the existing RMV parking lot and the Gas Station bisected by Southbridge Street. In surveying important pedestrian connections and routes within the neighborhood, this location is critical for the development of a walkable neighborhood district. Additionally, the location will provide an open space and visual gateway to an approach into the center of downtown from Madison Street. This action will distinguish the east-west transition of the neighborhood and provide a better link across this major dividing element.

Additional parking for the RMV can be provided in adjacent development parcels (see master plan proposal) with potential structured parking. In the context of the city, the park fills a void between Common Park and other existing open spaces to the west beyond the Beacon/Federal neighborhood. Parks and open space can also be utilized strategically as a placeholder. This strategy is used to enhance the existing homes in the residential area of the neighborhood primarily along LaGrange Street and Sycamore Street. Eventually, existing vacant lots will be infilled with new residential projects enhancing the character of these streets. However, an interim strategy is to utilize these vacant lots, many already wooded green spaces, as smaller neighborhood parks. These temporary public amenities would build upon assets that already exist in the neighborhood until the parcels become fully utilized.

### **Project Scope and Phasing**

The streets in the Beacon/Federal Neighborhood are all proposed to be improved, which would be a serious and potentially costly undertaking, until considering the potential private reinvestment that could be made as a result of the public investment in this highly visible element of the urban infrastructure.

The length of streets within the Beacon/Federal Neighborhood is 21,436 lineal feet (LF) as determined from the City's GIS. This is equivalent to over four miles of roadway. While not all the roads would be treated the same, for planning purposes the average cost for streetscape improvements determined from City estimates and other projects undertaken by The Cecil Group, is about \$650 per LF. Consequently the total cost for improving all of the streets in the study area would be about \$14,000,000.

The Shell Oil gas station identified in this report as a potential open space/gateway acquisition is assessed by the City as a total value (land and building) of \$501,900, for a property listed as 21,029 square feet (City Assessors). For planning purposes, the average assessed value of other improved land in the neighborhood could be about \$50 per square foot. Newer improved properties will be significantly higher but are not considered candidates for open space acquisition.

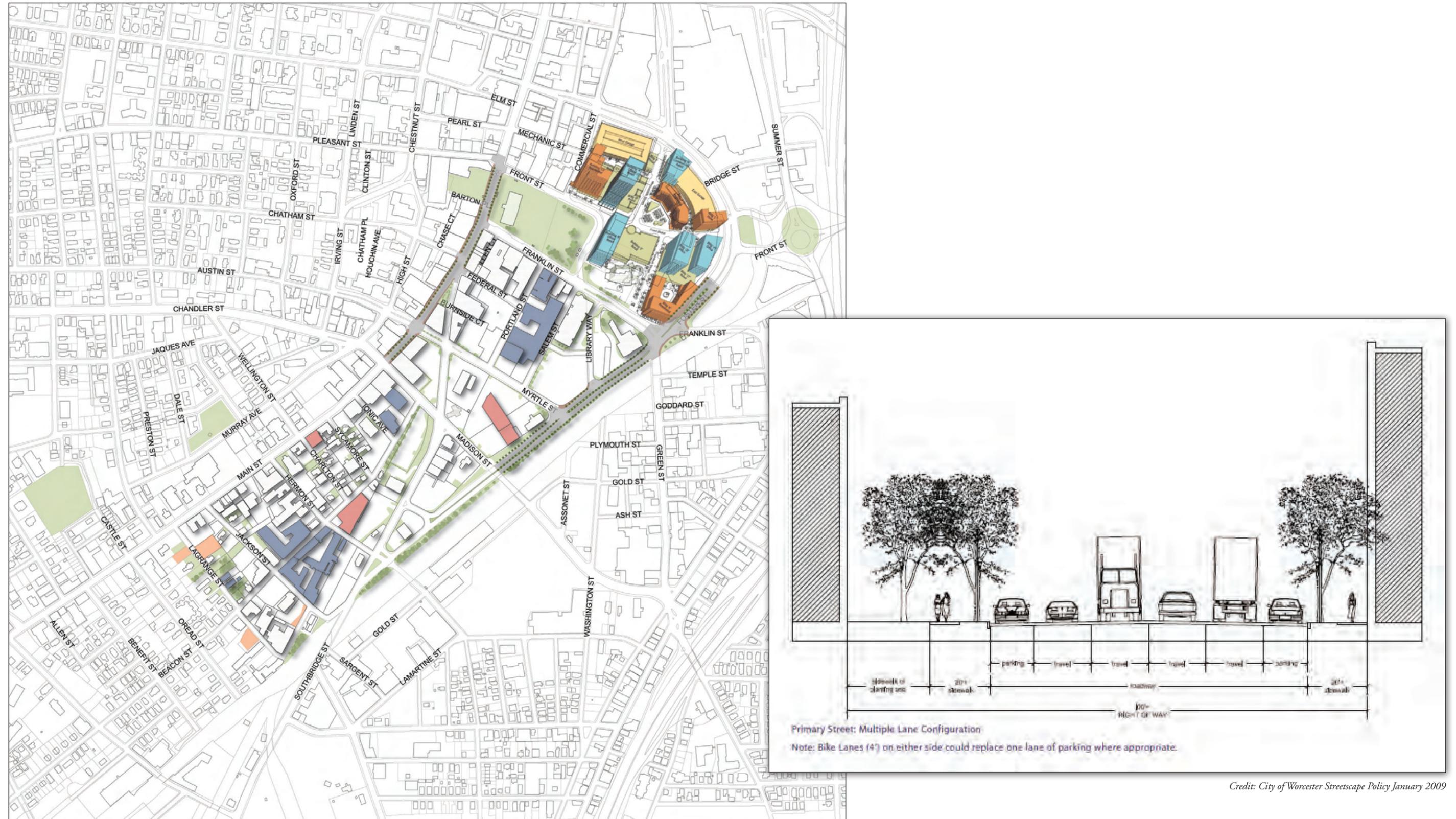
Phasing the streetscape improvements should be approached as a strategy to improve the climate for private investment, based on the potential for project development and the overall master plan. The following phasing strategy is recommended:

- Because the Junction Shops mill property has obtained a local entitlement for development of 181 units, is located in the Arts District, and has been identified in this plan as a potential short-term development project with support from federal and state tax credits available; Beacon Street, Herman Street and Jackson Street should be considered for a first phase improvement project. Herman Street and Jackson Street are the connecting internal streets and Beacon Street makes the link from the mill site to the downtown. Additional internal and adjacent streets could be added to further encourage the latent development potential discovered in this study.
- The second area to consider for a first phase improvement is around the first blocks west of Franklin Street along Portland Street, Salem Street and Myrtle Street. This would implement the approved City Streetscape Policy and support the revitalization of several properties, public and private, identified in the Master Plan as highly susceptible to change, under redevelopment, and also property identified as available for tax credits other financial support.
- The third combination of elements to consider for first phase streetscape projects are the improvements to McGrath Blvd. and the creation of a gateway concept at the intersection of Madison Street and Southbridge Street. This would define the neighborhood and its connections to other neighborhoods and the downtown.

Choices for these actions and other major elements, such as the continuation of streetscape improvements along South Main Street, would be determined by the susceptibility to change with:

- Short-term improvements made for the near-term projects potentially using bonding capacity or stimulus funds, and
- Long-term changes made using grant sources, listed in this report.

Figure 1: Primary Plan and Section



Credit: City of Worcester Streetscape Policy January 2009

Figure 2: Gateway Plan and Section

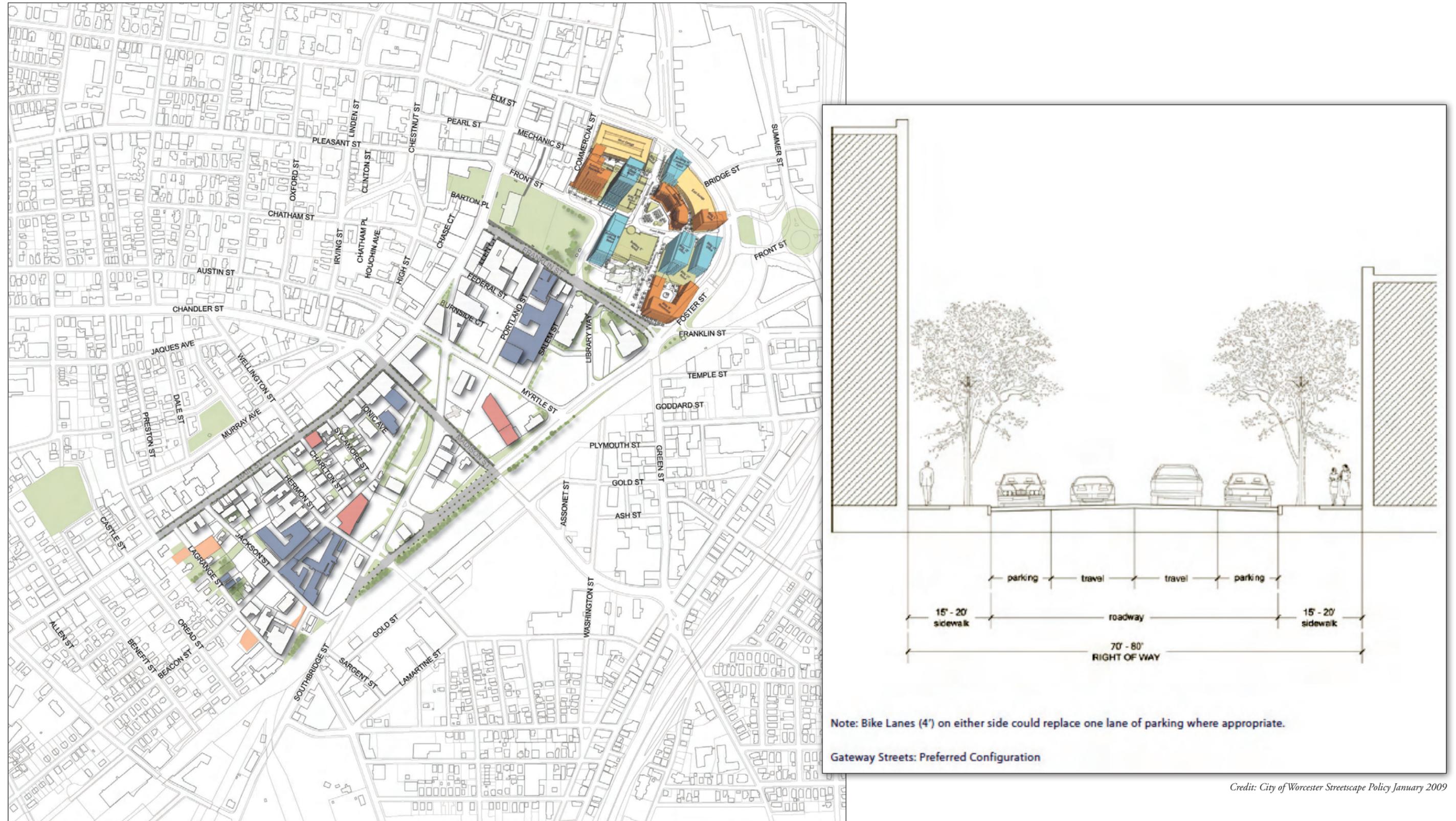
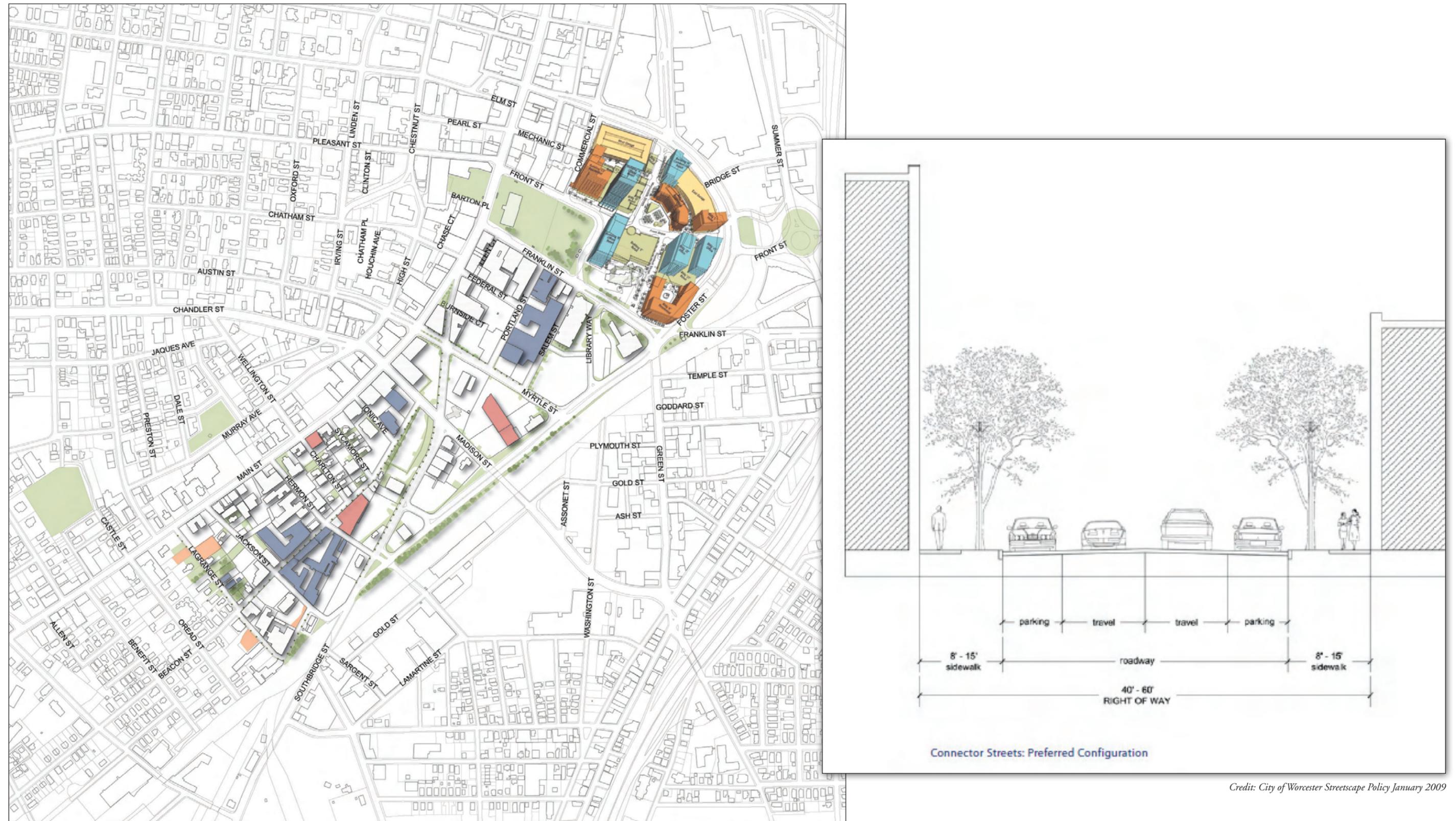


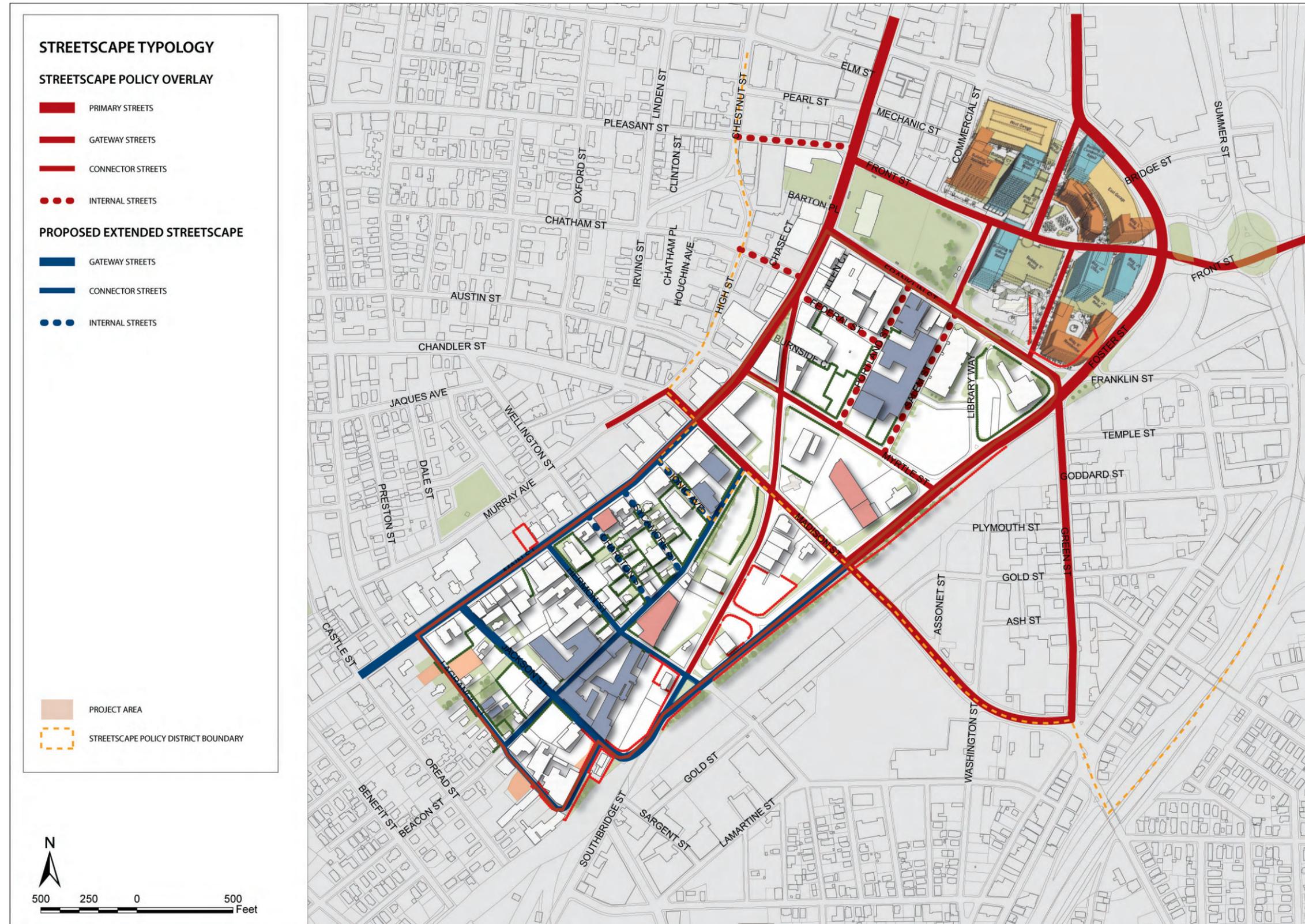
Figure 3: Connector Plan and Section



Credit: City of Worcester Streetscape Policy January 2009



Figure 5: Overall Diagram





FUNDING SOURCES FOR  
PRIVATE DEVELOPMENT





## A. FUNDING SOURCES FOR PRIVATE DEVELOPMENT

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This information was prepared by Concord Square Planning & Development to give participating building owners background information on potential funding sources and financing options for the proposed Beacon/Federal Neighborhood Master Plan.

### **The Problem:**

The fundamental economic problem with regard to the renovation of buildings in the Beacon/Federal Neighborhood space is that market rents (or condo sale prices) are not high enough to support the cost of renovation. Consequently, there has been little success over the years in attracting investment into the neighborhood. Many buildings are vacant and boarded up.

Similarly, the neighborhood has received little public investment in recent decades. Curbs and sidewalks are in disrepair. This substantially reduces the appeal of the neighborhood to potential new residents and businesses.

In addition, the neighborhood suffers from spillover impacts from the PIP Shelter, and from a large number of low rent boarding houses. There is a perception of a lack of safety on the streets. This perception is buttressed by a good deal of reality; it is in fact an area with significant crime and anti-social behavior on the streets and sidewalks.

### **The Response:**

In order to attract private investment into the neighborhood, and in order to make it a place where people would like to live and work, it will be necessary to address all three of the problem elements described above.

This memo is primarily focused on the financing aspects of the response. But it is predicated on the City finding ways to effectively address both the infrastructure and the safety/civility issues. The report being prepared for the City will outline the steps that are recommended.

Significant amounts of private investment is unlikely to come to the neighborhood without better infrastructure, and without out improvements to the quality of life that is experienced when walking on the sidewalks. Consequently it is essential that improvements to and work on all three of the elements proceed simultaneously, so that by the time the private investment is ready to be committed, the public investments have been committed and the private investors can be assured that the environment will be different.

### **A Plan for Addressing the Financing Problem:**

The underlying problem is that rent levels in the neighborhood are not high enough to provide reasonable returns to investors or lenders. Therefore it is necessary to find other sources of capital to cover the necessary costs of renovation.

There are three potential sources of tax credits that can help cover development costs, as follows:

- The Federal Historic Tax Credit,
- The State Historic Tax Credit, and
- The Federal New Markets Tax Credits.

The Federal Historic Tax Credit is equal in amount to 20% times the eligible costs of renovation (which include soft costs such as interest during construction and architect fees, but do not include acquisition costs). These credits are available in buildings with historic significance provided the renovations are done in accordance with the requirements of the National Park Service. There is no limitation on the amount of these credits, which are automatically available if the program requirements are met. The properties must be rented (not sold as condominiums) for a period of at least five years after the renovation. These credits are subject to the IRS Passive Loss Rules, and therefore typically cannot be utilized by high earning private individuals, unless the individuals are in the trade or business of real estate development. The credits can be used, however, dollar for dollar, by “C” Corporations with earnings that can be offset by the tax credits.

The State Historic Tax Credits are also equal to 20% of eligible costs, and typically are piggybacked on the Federal Credits. However, the amount of these credits that are available each year is limited to amounts authorized in the Massachusetts annual state budget, currently \$50,000,000, and they are allocated to specific projects through an application and review process with the Secretary of State. These credits are evidenced by a Certificate, which can be sold to an appropriate investor, who then becomes eligible to take the State Tax Credit on the investor’s state tax return.

The buildings must be deemed eligible for the Historic Credits. This is not an automatic process, and requires immediate exploration. Two buildings in the neighborhood have recently been certified as eligible, The Hanover Theater and the Hadley Building, and it is therefore anticipated that other buildings of comparable architectural distinction will be found to be eligible.

The New Market Tax Credits are structured differently from the State and Federal Historic Credits. New Market Credits for a particular development equal 39% of the total equity investment made into a specific development. Thus, to maximize the value of these credits, the overall cost of the development needs to be financed with a substantial amount of other money, such as loans, equity, and funds from the sale of Historic Credits. New Market Credits must stimulate new employment, so must have at least 20% of the total income from retail, office, or other commercial use resulting from the mix of activities being financed.

One of the key issues for the Tax Credits is getting them into the hands of C Corporations that have sufficient earnings to use the credits. This sometimes means that for tax purposes an LLC in which the C Corporations are allocated 99% of

the profits, losses and tax credits must effectively own the property. Alternatively, the credits can be passed through a Master Tenant lease.

The Federal Tax Credit requires that properties be held for five years. The New Market Credits require that the property be held for at least seven years. In addition, those entities investing for the credits typically require a meaningful guarantee that the properties will not be foreclosed during the five or seven year period (a foreclosure is treated as a sale, and the credits previously taken are recaptured and future credits that may have been paid for would be lost).

The total of the tax credits listed above, which can be used together, equals 79% of most of the costs of a transaction. The Federal and State Historic Credits are available in the year in which the property is placed in service. The New Market Credits are received over a seven year period. As a result, one dollar of tax credit cannot be sold for one dollar, but is purchased or placed with a discount of 15% to 30% to take into account the time value of money, and to make the transaction worthwhile to the entity receiving the credit. Because the transactions are complex, there are also substantial organizational costs. In such transactions a financing structure can be organized that will result in the three credits listed above being able to cover 45% to 55% of the total cost of the proposed transaction.

The historic Tax Credits do not have income restrictions on the ultimate renters of the property. The New Market Tax Credits require that 20% of any residential units be rented to persons with incomes at or below 80% of the median income. Residential market rents generally available in Worcester are close to or within the guidelines for rents that are deemed “affordable” by families or individuals earning at 80% of the median income (without spending more than one third of their income).

Neither the Federal Historic, State Historic nor the New Market Credits require the payment of prevailing wages (such as those required under the Davis Bacon Act). However, other considerations or financing sources may require the payment of prevailing wages.

An additional option for financing is to string together a range of other subsidy programs to provide for deeper subsidies and the ability to serve families and individuals with lower incomes. The addition of these programs adds substantially to the time and expense of organizing the transactions. They also impose substantial ongoing administrative costs in order to ensure compliance with the provisions of the programs under which the funds were received. As a result, the use of these sources is not part of this proposed financing plan.

The Massachusetts Housing Investment Corporation (“MHIC”) has substantial experience in financing transactions incorporating all three of these tax credit programs. In addition, they have a nation-wide stable of investor banks that provide investment funds, and to whom the resultant tax credits can be allocated. They

also are a source of the New Market Credits. Because MHIC acts as the investment intermediary, generally has New Market Credits available, and can tap into existing pools of funds, it is able to substantially reduce the time and expense of arranging the financing. MHIC believes that it is typically not feasible to have developments of less than \$5,000,000 in size. However, for a project in Greenfield MHIC agreed to work with five owners of eight separate properties under such a program, and was able to achieve some economies of scale so that smaller projects could be considered.

MHIC is aware of this opportunity in Worcester, and included the Beacon/Federal Neighborhood as a potential recipient of New Market Tax Credit funds in its most recent request for funds from the U.S. Department of the Treasury. In October, 2008, MHIC was allocated just over \$100,000,000 of New Market Tax Credit authorization. It is anticipated that an additional allocation will be received by MHIC in October, 2009.

#### **Potential Financing Structure:**

There is an opportunity in Worcester to have the owners of multiple properties work together in cooperation with the City to arrange financing for their individual buildings. It appears that there are five or six owners who might find it in their interest to participate.

It should be noted that there would be no cross-ownership. Each owner would continue to own and manage their own building. However, to the extent feasible and practical, they would all use the same development consultant, the same consultant for the obtaining the historic preservation approvals, for making applications for the allocation of State Historic Tax Credits, the same lawyer for closing the transactions, and potentially the same bank or set of participating banks for the conventional financing.

The plan under consideration is to organize four to six buildings into one package to be financed through MHIC using the Federal Credits, the State Credits, and the New Market Credits. In addition to the credits, two other sources of funds would be sought. First, an equity investment from investors and from current building owners. Second, a commercial loan that would be underwritten on the basis of the market rate rents that can be reasonably projected and underwritten.

The overall financing would include:

- Federal Historic Tax Credits
- State Historic Tax Credits
- New Market Credits
- Investor Equity
- Commercial Loan

It is anticipated that two upper tier LLCs will be formed (by MHIC) through which the financing would flow. The lower tier LLC would enter into separate

development and financing agreements with each of the building owners. The owners would be responsible for providing equity to their individual transaction, designing and carrying out the renovations, and then operating the finished development. It is anticipated that a major portion of the equity may be the current value of the property.

Ideally a consortium of Worcester banks would make loans for each specific building and owner through the upper tier LLC. There would be substantial economies of scale by negotiating, processing, closing and then monitoring all of the property renovations through loans administered by one lead bank – with the other banks assuming a more passive role.

The plan would be to carry out the renovations and then rent the apartments and commercial space for a period of 7 years. After 7 years, the restrictions imposed by the tax credits will be gone. The financing will put in place a set of mechanisms through which the owner will be able to extricate the ownership of the property from the upper tier LLCs, at modest cost. At that time, the owner will be subject only to the outstanding balance on the conventional loan that was issued, and would be free to continue to operate the housing or commercial space as rental units, or could sell off the residential units as condominiums.

Initial rents would have to cover operating expenses, plus cover the debt service on loans representing 30% to 40% of the total costs. Initial feasibility analysis indicates that residential rents of \$1.10 per s.f. (per month) or higher may be available in the neighborhood, and that this rent level may be sufficient to cover the debt service on a 35% to 40% conventional loan. A critical element in overall feasibility is the cost of construction.

There are a number of key issues to be highlighted.

1. The level of the construction costs that are actually required to renovate the buildings will drive all the rest of the figures. Until reasonable estimates of these costs can be confirmed, and until these costs can be analyzed in light of the potential to charge rent for commercial space and apartments, it will not be known whether the transaction is feasible. On the analysis, construction costs of \$100 to \$120 per s.f. have been used in conjunction with rents of \$1.10 per s.f., and the transactions appear feasible. A key additional factor, of course, is the acquisition cost of or existing debt on each property.
2. In addition, at the initial construction loan closing, the completion of construction, the receipt of an occupancy permit, the certification of the Historic Renovation work will need to be guaranteed by a credible guarantor. The conventional loan will also need to be personally guaranteed. The overall structure of the transaction must keep this in mind.
3. The State Historic Credit is a wild card, because it must be allocated by action of the Secretary of State in periodic competitions. There are three dates for submission; generally in January, April, and August. Typically there are

more requests for funds than there are funds available. Often, the allocations have not been for the full amount requested, or no credits are allocated, and consideration is postponed until the next round. Consequently, there is risk that the overall transaction may be put together and ready to close, with the balance of the financing in place (Federal Credits, New Market Credits, Equity, and Commercial Loan) but without the State Credits, and a six month wait until the next allocation round – and during the six months the transaction, or a portion of the transaction, could collapse. As a result, it may be advisable (if possible) to have a back-up financing plan that works without the State Credits or works with only a portion of the State Credits.

4. The details of how the buildings relate to the upper-tier or umbrella LLC remains to be worked out. Current transactions with MHIC have title to the buildings retained by the individual building owners, and the desired tax results are achieved through a master lease or other mechanism to the upper tier entity. Ownership and control would stay with the property owner, who would also assume responsibility for directing the renovations, complying with the requirements of the National Park Service, managing the rental of the apartments and paying for the pro-rata share of the commercial loan. This means that the owner would have the benefit of tax losses arising from depreciation.
5. To the extent that the commercial loan can be somewhat below market rate (CRA Funds?) and carry terms that would eliminate the risk of foreclosure during the seven year tax credit period, the overall feasibility will be dramatically improved. In return for such favorable terms, it may be appropriate for the commercial lender to participate in the eventual profits on resale. It also might be possible to set up a sinking fund that would be used to cover shortfalls in debt service during the seven year period.
6. A key element in overall feasibility is the level of rents that can be obtained. Attached to this memorandum is information about a number of properties in the area that give an idea of comparable rents for both apartments and commercial space.

#### **Reuse Plan:**

Because of the New Market Credits, it will be necessary to have 20% of the rental revenue arise from commercial leases. The balance can be from residential uses. There is no limit on the overall amount of commercial revenue – the buildings can be 100% commercial. In addition, New Market Credits require that 20% of any residential units be rented to individuals or families at or below 80% of the median income.

The requirements of the National Park Service for the Historic Renovations will require that the windows be restored/replaced to duplicate the originals. This is likely to be an expensive element in the renovation program. They will also expect the exterior and doorways to be restored, bricks to be repaired and re-pointed, and for important architectural elements in the interiors to be respected. In some cases, pre-existing improvements that have been made are allowed to remain in place.

By keeping construction costs low, overall costs will be reduced, and the rents necessary to cover operations, the required debt service and debt service coverage can be kept as low as possible.

To the extent the housing/work space can be produced with modest rents, it will be able to attract a wide range of tenants into downtown Worcester. Artists, writers, artisans, technical types could all find more space for the money than is available elsewhere.

The need for soundproofing can't be over-emphasized. Without quiet apartments, people are less likely to come, they won't stay as long, and they will be far less likely to make improvements with their own money.

#### **Availability of New Market Tax Credits:**

MHIC submitted an application for New Market Authorization for the current fiscal year. In this application it included buildings in the Beacon/Federal neighborhood as a potential development to be funded with the credits. MHIC participated in the \$30,000,000 financing of the Hanover Theater, and therefore has knowledge of and an interest in the neighborhood.

#### **Non Profit Participant:**

There are substantial advantages to having a 501(c)(3) tax exempt non-profit entity with a chartered purpose of neighborhood improvement participate in the transaction. This avoids having to pay income taxes on the sale of the State Historic Tax Credits. It does, however, add a level of complexity to the transaction.

Such an entity should be identified in the early stages of the process.

#### **Rental Market Comparisons**

The following pages contain information about real estate properties in the area, showing apartment rent levels. In addition, two modern suburban apartment properties were included for comparison with neighborhood rents. This information was compiled by Jacquelyn Hallsmith of FXM Associates.

The most interesting finding is that the rents at the Sky Mark Apartments, located on the corner of South Main Street and Austin – Myrtle, are lower, but not as much lower as one might expect, compared to the rents at Applebriar Apartments in Marlboro, and the Avalon Shrewsbury Apartments in Shrewsbury. This would particularly be the case if adjustments were made for location and overall quality. This suggests the opportunity that would accompany carrying out the program outlined in this report.

Chart 1. Typical Building Financial Analysis

Beacon Federal Neighborhood		Generic Pro Forma MHIC Financing		Financial Analysis	
Number of Stories		4	Residential	Commercial	
Sq. Feet - Basement	Basement	5,000		2,000	
	1st	6,000		6,000	
	2nd	6,000	6,000		
	3rd	6,000	6,000		
Total Square Feet		23,000	12,000	8,000	
<b>Estimated Renovation Construction Costs</b>					
	Basement	\$50.00	250,000		
	1st	\$75.00	450,000		
	2nd	\$120.00	720,000		
	3rd	\$120.00	720,000		
			<u>2,140,000</u>		
<b>Total Development Costs</b>					
			% of Total	Costs	Historic Basis
					as % Costs
Acquisition			10.8%	400,000	0
Soft Costs @ % of Const:	20.0%		11.5%	428,000	406,600
Construction Costs			57.7%	2,140,000	2,033,000
Construction Contingency @	10.0%		5.8%	214,000	203,300
Developer Fee @ % of Historic:	20.0%		14.2%	528,580	502,151
			<u>80.0%</u>	<u>3,710,580</u>	<u>3,145,051</u>
Amount of Historic Credits @:	20.0%				629,010
<b>Qualified Equity Investment</b>					
Conventional Loan			1,066,095		
New Market Credits			747,009		For the Chart
Federal Historic Credits			503,208		
State Historic Credits			503,208		50,000
Less Costs @	1.0%		<u>(28,195)</u>		453,208
	QEI		<u>2,791,325</u>		
New Market Credits	\$0.39		1,088,617		1,250,217
					1,150,217
Sale Price for Credits @	\$0.73		794,690		
Less Costs @	6.0%		<u>(47,681)</u>		
Net New Market Credits to Project			<u>747,009</u>		

Chart 1. Typical Building Financial Analysis (continued)

Beacon Federal Neighborhood	Generic Pro Forma MHIC Financing	Financial Analysis	
			0.0%
<b>Sources of Funds</b>			
		% of Total	
Conventional Debt		28.4%	1,066,095
Federal Historic Tax Credit @	80.0%	13.4%	503,208
State Historic Tax Credit	80.0%	13.4%	503,208
New Market Credits		19.9%	747,009
Owner Equity		10.7%	400,000 (value of the building)
Deferred Developer Fee		14.1%	528,580
	<b>Total Sources</b>		<b>3,748,100</b>
Excess of Sources over Uses:		(Reserves)	37,520
 <b>Building Size and Rent Analysis</b>			
Gross S.F. on 2nd and 3rd Floors		12,000	
Reduction for stairs, hall, elevator:		15.0%	
Rentable Area:		10,200	(for offices or residential)
Number of Apts		10	
Average Size of Apartment		1,020	
Total number of apartments		10	
Rent / s.f. / mo. including Heat & H.W.		\$1.10	
Rent per month		1,122	
Total Monthly Rent		11,220	
Annual Rent for apartments			134,640
 <b>Commercial Space</b>			
		Gross	Net
First Floor Gross - Net @	85.0%	6,000	5,100
Basement Gross - Net @	40.0%	5,000	2,000
Rent for First Floor / s.f.	\$12.00	61,200	
Rent for Basement / s.f.	\$5.00	10,000	Triple Net
Commercial Rent			71,200
		Per Month:	5,933
Annual Residential / Office Rent			134,640
Annual Commercial Rent:			71,200
Total Projected Gross Annual Rent:			205,840
Less Vacancy @		6.0%	(12,350)
Annual Collections			193,490
 <b>Annual Estimated Operating Costs</b>			
Apartment Operating Costs / unit / year		4,500	45,000
First Floor Operating Costs @ \$ / s.f.		\$3.50	24,850
Estimated Operating Costs			69,850

Chart 1. Typical Building Financial Analysis (continued)

<b>Beacon Federal Neighborhood</b>	Generic Pro Forma MHIC Financing	Financial Analysis	
Annual Collections		193,490	
Operating Costs		<u>(69,850)</u>	
<b>Net Operating Income</b>		<b>123,640</b>	
Debt Service Coverage	1.50		
Available for Debt Service		82,426	
Amount of Loan at Debt Service Constant of :		1,066,095	25 yr amortization
Excess of Sources over Uses		37,520	
Amortization Period	25		
Loan Interest Rate	6.0%		
First year interest	63,966		
First year principal	18,461		
Debt Service	7.73%		
<b>Annual Operations</b>			
Annual Collections		193,490	
Operating Costs		<u>(69,850)</u>	
Net Operating Income		123,640	
Annual Debt Service		<u>(82,426)</u>	
Cash Flow, year 1		41,213	
Amount of Owner Equity		400,000	
Initial Annual Return on Equity		10.3%	

## Bancroft Commons

50 Franklin Street, Worcester

**Manager:** Mayo Group Ed O'Donnell, V. P. Development (617) 423-0800

**Contact:** Kim, Leasing Manager (508) 753-1612 (8/20/09)

**Total Units:** 256 Unit Mix: 98 = studio; 134 = 1 bd.; 18 = 2 bd.; 12 = 3 bd.

**Occupancy:** N/A

**Subsidized Units:** None

UNIT TYPE	RENT RANGE	SIZES	UTILITIES
Studio	\$579+	300 – 500 sf	(*)
1 bd.	\$725+	450 – 750 sf	(*)
2 bd.	\$950+	950 sf	(*)
3 bd.	\$1,175	1,000 sf	(*)

(\*) 4th to 10th floor – rent without utilities; 2nd & 3rd floor – rent includes heat and hot water

**Commercial Space:** 18,000 sf; \$10-\$12.50 sf – no occupants yet

### Amenities& Features

- Complimentary internet access
- Brand new apartments with designer kitchens
- Unique spacious floor plans
- Gorgeous views of the city & Worcester Commons Park
- Professional on-site management and Concierge
- State of the art fitness center, entertainment and recreation room
- Business Center
- Garage parking available
- 24-hour maintenance hotline
- Sleek lounge with fireplace
- Spacious laundry room with new washers/dryers
- Keyless entry system, state of the art video surveillance
- Storage available
- Individually controlled heating
- Elevators in building

**Notes:** Renovated former hotel; demographic profile: students (College of Pharmacy, WPI, Holy Cross, Clark), downtown & Boston professionals, few families

### Advertised as “Coming Soon”

- **Cityside** – 85 Portland Street (recently completed)  
30 units -- 27 studios (\$750), 3 one bd. (\$950); rent includes heat & hot water

- **Parkside** – 60 Franklin Street (under construction)  
15 units – 5 studios (\$935 - \$950), 4 one bd. (\$1,045), 3 two bd. (\$1,250)  
rent includes heat, hot water, internet, parking

### Hadley Apartments

657 Main Street, Worcester

**Manager:** Carol Williams, Property Manager, Winn Management

**Contact:** Carol Holey, Assistant Manager (508) 791-1337 (8/18/09)

**Total Units:** 44                      **Unit Mix:** 27 = 1 bd.  
13 = 2 bd.  
4 = 3 bd.

**Occupancy:** 90% (will be 100% occupied by end of August)

**Subsidized Units:** 95% (3 market rate units)

UNIT TYPE	RENT RANGE	SIZES	UTILITIES
1 bd.	\$950	680 to 1,063 sf	Heat, hot water, A/C
2 bd.	\$1,225	1,042 to 1,283 sf	Heat, hot water, A/C
3 bd.	\$1,350	1,300 to 1,375 sf	Heat, hot water, A/C

**Commercial Space:** Amount & rents unknown;  
Real Estate Broker – Glickman and Kovago (508) 753-9100

### Amenities & Features

- Renovated historic Burwick building (\$20+ million renovation)
- New Whirlpool kitchen appliances
- New paint, kitchen and bathroom cabinets
- High ceilings, huge multi-paned windows
- Electric range, above range microwave, dishwasher
- Exposed brick walls
- Laundry available on-site
- Security monitoring
- Off-site parking available
- Optional Direct TV hookup

## Sky Mark Towers

600 Main Street, Worcester

**Manager:** Diane Garland, VIT Management

**Contact:** Mr. Harvest, Leasing Agent (508) 795-7651 (8/18/09)

**Total Units:** 196      Unit Mix: 94 = 1 bd.  
102 = 2 bd.

**Occupancy:** 94%

**Subsidized Units:** None

UNIT TYPE	RENT RANGE	SIZES	UTILITIES
1 bd.	\$1,040 to \$1,150	686 sf	Heat, hot water, parking
2 bd.	\$1,175 to \$1,350	924 sf	Heat, hot water, parking

**Commercial Space:** (2) Commercial spaces occupied by community outreach organization and college placement firm rents unknown

### Amenities & Features

- 24-story high rise, unique floor plans, spectacular views
- renovated units with hardwood floors
- customized gourmet style kitchens
- concierge service, 24-hour surveillance
- 24-hour staffed covered parking garage
- recreation community lounge
- keyless entry and intercom
- Wi-Fi internet and business center
- laundry facilities on every floor
- fully-furnished corporate units
- 24-hour maintenance

**Notes:** Building opened in 1992; units being renovated as vacated

## Avalon Shrewsbury

One Avalon Way, Shrewsbury

### Manager:

Contact: Ryan (866) 639-1894 (8/20/09)

Total Units: 251 Unit Mix: 100 = 1 bd.  
100 = 2 bd  
51 = 3 bd.

Occupancy: 98% leased; 93% occupied

Subsidized Units: 20% (50 units)

UNIT TYPE	RENT RANGE	SIZES	UTILITIES
1 bd.	\$1,065+	700 to 850 sf	Not included
2 bd.	\$1,430+	900 to 1,837 sf	Not included
3 bd.	\$1,650+	1,251 sf	Not included

Commercial Space: None

### Amenities & Features

- Gourmet kitchens
- Wall-to-Wall carpeting
- Spacious walk-in closets
- Private patio or balcony
- Washer/dryer available in every apartment
- High-speed internet access
- Central Air Conditioning
- Wireless Internet Lounge
- Concierge services including dry cleaning drop off and package acceptance
- Basketball court and Tot Lot
- Business Center with fax machine and copier
- State of the art Fitness Center
- Sparkling, heated, outdoor swimming pool
- Beautifully landscaped courtyard with picnic area
- Clubhouse with resident only lounge
- Garage parking available
- 5 minutes to Commuter Rail

Notes: New luxury garden style and town house (2+ bd.) residences; website advertises “Newly Reduced Rents”

## Apple Briar

20 Applebriar Road, Marlborough

### Manager:

Contact: Oliver, Leasing Agent (508) 481-9133 (8/21/09)

Total Units: 164 Unit Mix: ~75 = 1 bd.  
~35 = 2 bd.

Occupancy: 97.5%

Subsidized Units: None

UNIT TYPE	RENT RANGE	SIZES	UTILITIES
1 bd.	\$1,360	818 sf	Water, sewer, trash
1 bd. w/ study	\$1,475	900 sf	Water, sewer, trash
2 bd.	\$1,750	1,096 sf	Water, sewer, trash
2 bd. Twn/hse	\$2,050	1,446 sf	Water, sewer, trash

(\*) 4th to 10th floor – rent without utilities; 2nd & 3rd floor – rent includes heat and hot water

### Amenities& Features

- Attractive split-level design
- Private patios and balconies
- Spacious walk-in closets
- Crown molding; wood-burning fireplaces
- Washer/dryer in each apartment
- Fully applianced kitchen
- Programmable thermostat
- High speed internet ready
- Heated swimming pool
- 24-hour maintenance
- Business center with wireless internet access
- fully equipped clubhouse
- outstanding wooded views
- 2 –mile walking, cycling trail
- Pet friendly

Notes: Luxury, 26-acre landscaped site



FUNDING SOURCES FOR  
PUBLIC INFRASTRUCTURE

SECTION 4





## B. FUNDING SOURCES FOR PUBLIC INFRASTRUCTURE

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Concord Square has undertaken an analysis of various infrastructure financing options that may be available to pay for recommended infrastructure improvements. This analysis takes into account a wide range of infrastructure financing options including State grants and, to a lesser extent, Federal grants, State infrastructure financing mechanisms, and local options to generate and manage dedicated revenues for infrastructure improvements.

The steps necessary to implement the recommended improvements will include, generally:

- 1) Securing funding to advance concept design
- 2) Advancing concept recommendations to specific project design
- 3) Securing funding for construction of specific improvements
- 4) Construction of improvements

This document is intended to assist the City in advancing these steps.

### 1: Infrastructure Financing Options: General

Our research suggests five basic methods of municipal infrastructure financing:

- Public grants
- Allocation of Local Funding
- Spending supported by fees/contributions from users/beneficiaries
- Debt supported by future incremental revenues in identified district(s)
- General Obligation Bonds

This introductory section frames the consideration of which types of programs may be most applicable in the Beacon/Federal neighborhood. Subsection 2 of this document includes detailed information about specific programs of greatest relevance.

A brief discussion of each of the financing methods above follows:

#### Public grants

A range of State and Federal grants exist to support infrastructure improvements. Some are available for project design, although more typically such grants are only available for construction. Often, grants require a local match which may be financial or in-kind services depending on the grant requirements. Subsection 2 includes a detailed listing of grants that may be applicable in Worcester including current information, as available, regarding funding amounts available, maximum grant award, matching requirements, application deadlines, contact information for program administrators, and additional notes.

#### Allocation of Local Funding

Within any given fiscal year, the City of Worcester has a limited amount of discretionary funding for which infrastructure improvements may be eligible, includ-

ing funding provided through Community Development Block Grant (CDBG) program and Ch. 90 allotments from the Massachusetts Highway Department (MHD). The availability of funding varies from year to year and its use is subject to local policy priorities and applicable program requirements.

#### Spending supported by fees/contributions from users/beneficiaries

The Commonwealth has created, by statute, several mechanisms for infrastructure financing to be funded through fees or contributions from end users/beneficiaries of public improvements. These mechanisms range from Business Improvement Districts (BIDs) that are adopted upon consent of those landowners who would bear the cost (and benefit) of such a policy, to betterments which are special assessments that may be imposed upon order of the local government. Both approaches have their benefits and drawbacks, and this memo will explore in some detail which strategy may be beneficial in Worcester.

#### Debt supported by future incremental revenues in identified district(s)

Since 2003 the Commonwealth has authorized, by statute, two mechanisms for municipal infrastructure financing based on the issuance of public debt to be paid down with future incremental revenues generated within one or more designated districts. District Improvement Financing (DIF) authorizes the allocation of future local revenues (property tax, excise tax) in a district to pay debt service on public borrowing for improvements that allow growth to take place that would not occur in the absence of such improvements.<sup>1</sup> The Infrastructure Investment Incentive program (I-Cubed), which is limited by statute to a total of five districts statewide, and which includes a minimum borrowing amount of \$10M, has a similar structure to DIF except that the borrowing it authorizes would be paid down with incremental – or “net new” – State revenues (sales tax, income tax).<sup>2</sup>

#### General Obligation Bonds

The City of Worcester has the option to issue new public bonds to pay for capital improvements for the Beacon/Federal neighborhood. It is recommended that this option be carefully considered by the City as the first phase in moving forward with the overall plan.

## **2: Specific Infrastructure Financing Resources**

This section provides additional details regarding each of the five municipal infrastructure financing mechanisms.

<sup>1</sup> *Mass. Gen. Laws Ch. 40Q; and 402 CMR 3.00.*

<sup>2</sup> *St. 2006, c.293 §§ 5-12, as amended by St. 2008, c.129; and 801 CMR 51.00.*

## Public Grants

### *State Grants*

Applying for and receiving State or Federal grants to support local infrastructure investments is a primary strategy for municipalities pursuing public improvements. This section provides a brief overview of the anticipated climate for such public financing resources in Massachusetts, followed by a breakdown of specific grant opportunities presently available and potentially applicable in the Beacon/Federal neighborhood.

The Commonwealth's capital budget for the period FY04-08 shows declining allocations to transportation spending, the most likely source for funds relevant to Worcester's Beacon/Federal neighborhood, in each of the five fiscal years (from \$1.458B in FY04 to \$1.109B in FY08).<sup>3</sup> Further, reduced access to capital and increased borrowing costs have been a consequence of the ongoing changes in the capital markets and contraction of the world-wide credit markets. However, despite this challenging economic climate the Executive Office for Administration & Finance in early 2009 projected increased transportation funding from FY10 (est. at \$1.259B) through FY13 (\$2.107B).<sup>4</sup> These increases are projected to include increases in the State bond cap over the next four years, although this will be a smaller increase than had been previously planned.<sup>5</sup>

This additional spending statewide can be expected to provide new funding opportunities that may be applicable in Worcester. Naturally, given the nature of this funding climate and its impact on every municipality in the Commonwealth, it can also be anticipated that the competition for limited grant monies will be increasingly fierce in the coming years.

The enclosed matrix provides a detailed listing of grants that may be applicable in the Beacon/Federal neighborhood including current information, as available, regarding funding amounts available, maximum grant award, matching requirements, application deadlines, contact information for program administrators etc.

In the course of preparing this matrix, Concord Square compiled information as available from various public agencies, and conducted follow-up interviews with a number of grant administrators with the intent to provide the most up-to-date information available. The enclosed matrix includes only those grants for which the recommended infrastructure improvements in the Beacon/Federal neighborhood (sidewalks, curbs, etc) are eligible uses of grant funding.

To ensure that grant awards are consistent with a broad framework for sustainable development, the Commonwealth has instituted a system of funding priority affecting certain grant funding included within the *Commonwealth Capital* program. Worcester has consistently filed the substantial paperwork needed to obtain a *Com-*

<sup>3</sup> *Commonwealth of Massachusetts FY2009-2013 Five-Year Capital Investment Plan, December 2008. Pg. 18.*

<sup>4</sup> *Ibid. Pg. 24.*

<sup>5</sup> *Ibid. 22.*

*monwealth Capital* rating and in FY09, Worcester received a score of 101 - well above the statewide median score of 72.<sup>6</sup> For each of the past five years (dating back to 2005, the first year of the program), the City of Worcester's score has been above the statewide median score for the same fiscal year.<sup>7</sup>

Of the grants listed on the attached matrix of programs potentially applicable to the Beacon/Federal neighborhood, those for which *Commonwealth Capital* scores are taken into account are the CDAG, PWED and PARC programs. In FY09, Worcester was awarded four grants included in the *Commonwealth Capital* program: three LAND grants and one Drinking Water Supply Protection Grant.<sup>8</sup>

The City of Worcester is a designated "Growth District" and a portion of the Beacon/Federal neighborhood is located inside the district. Worcester is also designation as a Gateway City and this will make Worcester eligible for additional funding for plan implementation that is expected to be made available to Gateway Cities on a competitive basis.

#### *Federal Loans and Grants*

A comprehensive evaluation of potential Federal funding opportunities was beyond the scope of this report. However, a couple of funding opportunities were identified and are summarized below:

#### **HUD Sec. 108 Loan Guarantee Program<sup>9</sup>**

- Loan guarantee provision of the CDBG program.
- Provides a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects.
- A small portion of local CDBG funds may be leveraged to obtain federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods.
- Local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.
- Eligible activities include (but are not limited to) construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements) provided that they either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet urgent needs of the community.
- Entitlement communities may apply for up to five times the latest approved CDBG entitlement amount (minus any outstanding Sec. 108 commitments and/or principal balances).

<sup>6</sup> [http://www.mass.gov/?pageID=gov3terminal&L=5&L0=Home&L1=Key+Priorities&L2=Job+Creation+%26+Economic+Growth&L3=Clean+Energy+%26+Smart+Growth-Smart+Energy&L4=Commonwealth+Capital&sid=Agov3&b=terminalcontent&f=smart\\_growth\\_commonwealth\\_capital\\_scores\\_all&csid=Agov3](http://www.mass.gov/?pageID=gov3terminal&L=5&L0=Home&L1=Key+Priorities&L2=Job+Creation+%26+Economic+Growth&L3=Clean+Energy+%26+Smart+Growth-Smart+Energy&L4=Commonwealth+Capital&sid=Agov3&b=terminalcontent&f=smart_growth_commonwealth_capital_scores_all&csid=Agov3)

<sup>7</sup> [http://www.mass.gov/Agov3/docs/smart\\_growth/cc09\\_slides.pdf](http://www.mass.gov/Agov3/docs/smart_growth/cc09_slides.pdf)

<sup>8</sup> [http://www.mass.gov/Agov3/docs/smart\\_growth/cc09\\_grants.pdf](http://www.mass.gov/Agov3/docs/smart_growth/cc09_grants.pdf)

<sup>9</sup> <http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/#eligibleapplicants>

### **Economic Development Administration (EDA) Grants**

- Initial announcement of funding opportunity dated June 22, 2009.
- Funds in the amount of \$240,000,000 have been appropriated for FY 2009 and will remain available until expended. Generally, local match of at least 50% of project cost required, which may include in-kind contributions (although cash contributions are preferred).
- Grants include:
  - (i) Public Works and Economic Development Facilities Program;
  - (ii) Planning Program;
  - (iii) Local Technical Assistance Program; and
  - (iv) Economic Adjustment Assistance Program
- Applications will be accepted on a continuing basis and processed as they are received.
- Grant-based investments under the Public Works, Planning, Local Technical Assistance, and Economic Adjustment Assistance Programs that will promote comprehensive, entrepreneurial and innovation-based economic development efforts to enhance the competitiveness of regions, resulting in increased private investment and higher-skill, higher-wage jobs in areas experiencing substantial and persistent economic distress.
- Grant funding is prioritized for activities that will stimulate job growth and/or private investment which would appear to be applicable to Beacon/Federal plans. Additional research is needed to determine the degree to which this program may offer potential benefit to the Beacon/Federal neighborhood.

Program Contact (MA):           Suchodolski, Matt  
Philadelphia Regional Office  
The Curtis Center-Suite 140 South  
601 Walnut Street  
Philadelphia, PA 19106  
Telephone: (215) 597-1242  
MSuchodolski@eda.doc.gov

### **Federal Stimulus Funding**

Federal stimulus funds resulting from the 2009 American Recovery and Reinvestment Act (ARRA) are available to support projects in Worcester. In order to be eligible for stimulus funds, projects must be determined to be “shovel ready.”

Funds can be used to support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness. This includes investments that expand and upgrade infrastructure to attract new industry, support technology-led and other new business developments, and enhance the ability of regions to capitalize on opportunities presented by free trade.

The **first round** of stimulus funds does not create opportunities for improvements that have not been previously identified due in part to the ineligibility of stimulus funding for “local road and sidewalk projects that are not on the State Transportation Improvement Program (STIP).”<sup>10</sup>

This provision of the Federal legislation has caused some frustration among local leaders in Massachusetts due in part to the time and effort required to advance a project to the stage where it is eligible for listing on the STIP.<sup>11</sup> To mitigate this concern, the Massachusetts Municipal Task Force report relative to the ARRA recommends in part that “MPOs work closely with the EOT to institute an expedited process for TIP amendments, including both member and public review. The process should allow for TIP amendments to become effective immediately after bill passage and for the STIP to be amended immediately thereafter.”<sup>12</sup>

A **second round** of stimulus funding may offer an opportunity for as-yet-unidentified projects in the Beacon/Federal neighborhood although the logistics of meeting the STIP requirement would be challenging. In order to be eligible for the second round of funding, projects must be ready for advertising by March 2, 2010.<sup>13</sup>

Each of the grant programs above warrants investigation regarding its potential to help finance infrastructure improvements in Worcester.

### 3: Allocation of Local Funding

The availability of funding for infrastructure improvements within the Worcester budget process is limited due in part to the increasing financial challenges facing municipalities. It is known that spending on public works by cities and towns in Massachusetts declined steadily from 1987-2004.<sup>14</sup>

Two sources of dedicated funding from the State and Federal government are available for potential use for public infrastructure improvements: Ch. 90 funds from MassHighway and CDBG funds from the U.S. Department of Housing & Urban Development.

Ch. 90 funds are reimbursement funds awarded to a municipality to defray expenses resulting from repairs to local roads, based on a formula taking into account the total mileage of public roadways in a municipality. According to MHD, Worcester maintains 418.59 total miles of public roads.

For this fiscal year, the City of Worcester has proposed a \$15 million capital improve-

<sup>10</sup> [http://www.mass.gov/?pageID=stimerminal&L=3&L0=Home&L1=Funding+and+Contracts&L2=Opportunities+for+Communities&sid=Fstim&b=terminalcontent&f=municipality\\_info&csid=Fstim](http://www.mass.gov/?pageID=stimerminal&L=3&L0=Home&L1=Funding+and+Contracts&L2=Opportunities+for+Communities&sid=Fstim&b=terminalcontent&f=municipality_info&csid=Fstim)

<sup>11</sup> *Commonwealth of Massachusetts Mobilization for Federal Economic Recovery Infrastructure Investments – Task Force Reports. February 2009.*

<sup>12</sup> *Commonwealth of Massachusetts Mobilization for Federal Economic Recovery Infrastructure Investments – Task Force Reports. February 2009. Pg. 103.*

<sup>13</sup> [http://www.mapc.org/economic\\_development/Federal%20Stimulus/2009%20Stimulus%20and%20TIP%20letter.pdf](http://www.mapc.org/economic_development/Federal%20Stimulus/2009%20Stimulus%20and%20TIP%20letter.pdf)

<sup>14</sup> MMA/CURP. “Revenue sharing and the Future of the Massachusetts economy,” January 2006.

ment spending plan, which includes \$6.75 million for the repair and resurfacing of sidewalks. The funding will leverage an additional \$3.05 million in Chapter 90 funds from the state as well as \$9.45 million in state and federal Transportation Improvement Funds. This year's funding level reflects an increase from the early 2000s during which Ch. 90 funding levels statewide were well less than those approved in the 1990s.<sup>15</sup> The allocation of future Ch. 90 allocations will take place based on availability of funds and prioritization of local needs.

Activities eligible for funding pursuant to CDBG include but are not limited to the construction, reconstruction, rehabilitation (including removal of architectural barriers to accessibility) or installation of public facilities and improvements, including street, sidewalks, curbs, parks etc. provided that such public improvements advance a national objective for use of CDBG.<sup>16</sup> Due to the high proportion of low- or moderate-income households in the Beacon/Federal neighborhood, CDBG would be an eligible funding source. However, it is important to note that any such expenditures on public improvements are subject to compliance with applicable regulation including the Davis-Bacon Wage Rate Act.

It is notable that CDBG funds may also be used to pay special assessments on behalf of low- and moderate-income property owners in the event that such owners are subject to an assessment or betterment fee to finance new public improvements. This could be used to mitigate the impact of such an assessment for those property owners least able to afford such a surcharge.

As a result of the Federal Stimulus package approved by the U.S. Congress earlier this year, Worcester was awarded \$1.245 million in supplemental funding ("CDBG-R" funding) to be used for: public facility improvements, housing rehabilitation, economic development, infrastructure improvements, neighborhood youth and family summer programs, neighborhood stabilization area comprehensive sweeps, and planning and administration.

Some municipalities have looked to the sale of surplus municipal land as a potential revenue source to fund infrastructure improvements, and this strategy can also have the effect of stimulating new private investment on the former public land. A review of the public land in the Beacon/Federal neighborhood may suggest an opportunity for this approach in Worcester.

#### **4: Spending Supported by Fees/Contributions from Users/Beneficiaries**

Given the limitations on existing funding to finance public improvements in the Beacon/Federal neighborhood, it is reasonable to examine whether one or more new sources of funding may be appropriate. This section examines three potential

<sup>15</sup> *Massachusetts Infrastructure Investment Coalition. "Infrastructure Status Report: Massachusetts Roadways." April 2006.*

<sup>16</sup> *<http://www.hud.gov/offices/cpd/communitydevelopment/library/statguide/ch2.pdf> and <http://www.hud.gov/offices/cpd/communitydevelopment/library/statguide/appd.pdf>*

sources of funding supported by fees or contributions from the users or beneficiaries of the resulting funds that are authorized in Massachusetts.

#### Betterments and Special Assessments

Mass. Gen. Laws Ch. 83 Sec. 25. provides the City Council with the authority to establish sidewalks in public ways or order the reconstruction of existing sidewalks “if in their judgment the public convenience so requires.”<sup>17</sup> The Council may impose an assessment on abutting property owners for an amount not to exceed one-half the total cost of such improvements, and may by ordinance limit the amount of such assessment to one percent of the total assessed value of the property.

The existence of specific enabling legislation for the purpose of using betterments for new or improved sidewalks suggests that its use should be considered among other financing options. Such an assessment would require City Council adoption of a formal order describing the proposed improvements, the area benefited by such improvements and a statement of the betterments or special assessments to be levied to pay for the improvements.

As noted in the prior section, CDBG funds may also be used to pay special assessments on behalf of low- and moderate-income property owners in the event that such owners are subject to an assessment or betterment fee to finance new public improvements. This approach could be used to mitigate the impact of such an assessment for those property owners least able to afford such a surcharge.

#### Business Improvement Districts

Mass. Gen. Laws Ch. 40O authorizes establishment of a Business Improvement District (BID) in order to plan and carry out a wide range of services and/or capital improvements including, but limited to, designing, engineering, constructing, maintaining, or operating urban streetscapes or infrastructures to further economic development and public purposes.<sup>18</sup> A BID is a special district that is financed by a supplemental property tax of 0.5% of the assessed valuation of property within the BID, subject to an owners’ option to exclude their property from the BID (and surcharge) upon its adoption. A BID must include an area which is at least three-fourths zoned or used for commercial, industrial, retail or mixed uses. In order to create a BID, a petition must be endorsed by at least 51% of the assessed valuation of all real property within the District and 60% of the property owners.

The Beacon/Federal neighborhood as a whole is primarily commercial in nature and therefore eligible for creation of a BID. As a practical matter, it is not clear that BIDs provide a sound strategy for infrastructure financing. BIDs have no detailed financing mechanism to issue bonds or secure them, and no bonds have ever been issued by a BID. BIDs are typically used for economic development

<sup>17</sup> <http://www.mass.gov/legis/laws/mgl/83-25.htm>

<sup>18</sup> <http://www.mass.gov/legis/laws/mgl/40o-2.htm>

activities such as marketing and provision of supplemental public services such as public safety and sanitation. Only two BIDs are operational in Massachusetts, in Hyannis and Springfield.

#### District Improvement Financing and Infrastructure Improvement Incentives:

Debt supported by future incremental revenues in district, such as DIF and I-Cubed, are not recommended in the Beacon/Federal Neighborhood. Both programs require substantial filings to comply with program requirements. These filings include exhaustive analysis of the economic impacts of anticipated developments and associated revenue projections. Experience with both programs suggests that, in order to be effective and to justify the substantial effort necessary to enact them, either program must be driven by one or more major programmed developments to which one or more developers will commit, and that can be expected to produce significant new public revenues. The process is highly time-consuming. In the absence of any such proposal in the Beacon/Federal Neighborhood, or available land to support a proposal of adequate scale to meet these thresholds, neither program is likely to be a productive course for the City.

#### Gift Accounts

Mass. Gen. Laws Ch. 44 Sec. 53A authorizes the creation of Gift Accounts for the purpose of receiving grants or gifts of funds from various sources, and authorizes the use of such funds for the stated purpose accompanying the gift without further appropriation. Once established, such an account can provide a transparent financing mechanism for needed public improvements such as sidewalks and walking paths.

Establishing a gift account and securing funds to deposit into the account are two separate challenges. However, establishing an account in order to provide a mechanism to hold and manage contributions may be a worthwhile step to take in order to provide a foundation for future fundraising efforts. Potential sources of contributions to such an account include solicitation of private donations from landowners, businesses, and developers interested in volunteering public improvements as a way to strengthen the neighborhood.

### **5: General Obligation Bonds**

The City's bonding capacity was not closely examined. However, our analysis suggests, as described in Section I of this memorandum, that the City would benefit in the form of increased property valuations and tax yield to justify a bond issuance to pay for needed infrastructure. In the event that the City elects to pursue additional borrowing, we anticipate that the Beacon/Federal recommendations would be considered in the context of other potential capital improvements in Worcester, and would be evaluated and prioritized based on the City's resources and policy priorities.

## 6: Financing Strategies for Worcester

It is understood that recommendations for public infrastructure improvements in the Beacon/Federal neighborhood must be considered in the context of the City's other capital improvement needs, and that the sum total of such needs is likely to outstrip available resources. However, such improvements represent a long-term investment in the City, and will need to be implemented over the course of many years. Despite the challenging economic climate, several actions are recommended as positive steps to capitalize on the strengths and proactively resolve the challenges in Beacon/Federal neighborhood.

### Recommended Actions:

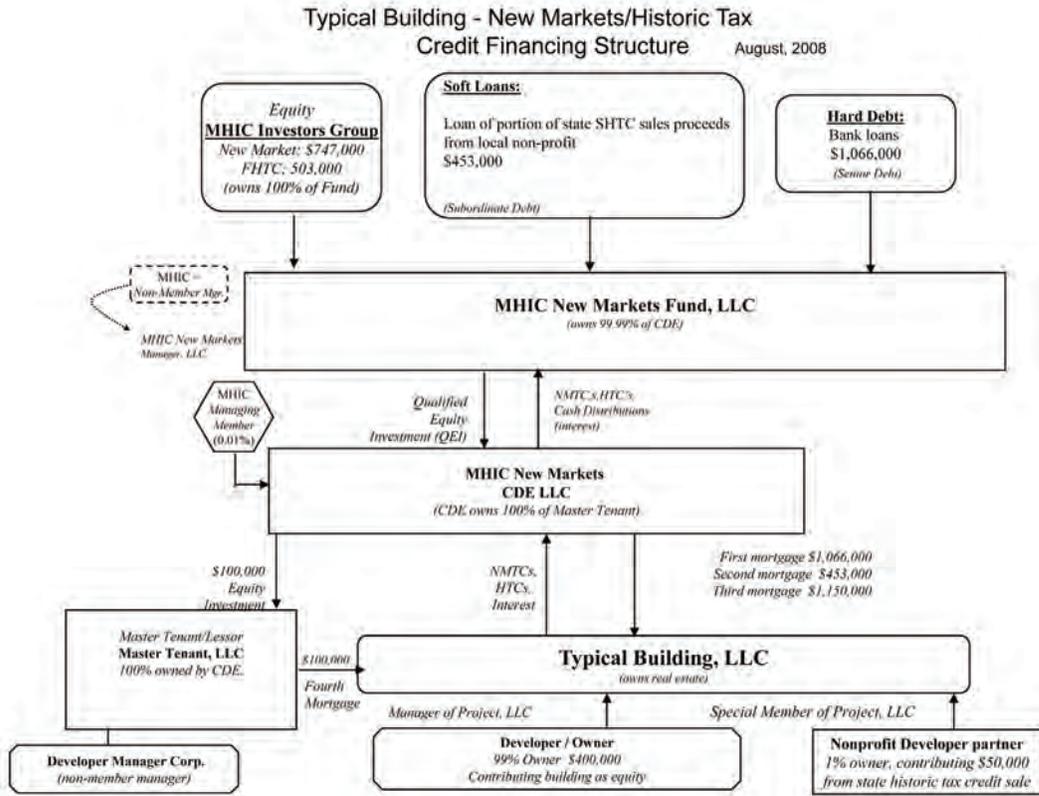
The following actions are recommended to advance the planning work done to date toward project implementation.

- **Public Bonding for Infrastructure:** Investigate the feasibility of raising approximately funds from City bonding to improve street, curb and sidewalk infrastructure in support of first phase plans for building renovation in the neighborhood.
- **Pursue Gateway Cities implementation funds.** A limited number of implementation grants are expected to be awarded on a competitive basis to Gateway Cities to support implementation of plans resulting from the Gateway Plus Action Grants. The City of Worcester should make every effort to receive one of the implementation grants to advance the recommendations in this report. In addition to pursuing the grant through the competitive selection process, likely to be managed by DHCD, we recommend widely circulating this report and its recommendations to interested parties including residents, merchants, institutional partners and local and state elected officials. Broad advocacy for the award of such implementation funds, building on the comprehensive planning approach underlying this report, can be expected to positively affect the likelihood of a funding award.
- **Prioritize the Beacon/Federal Neighborhood within the City-wide Capital Improvement Plan.** It is recommended that the City prioritize the Beacon/Federal neighborhood in the CIP. This is essential in order to provide assurance to potential private developers and investors considering improvements to the neighborhood.
- **Consideration of betterments for sidewalk/streetscape improvements.** If the imposition of betterments as a financing approach receives public support, it is recommended as an innovative way to generate new revenues for public improvements in which those landowners financing the improvements would receive a direct benefit from the funding they contribute.
- **Seek Regional Prioritization of the Beacon/Federal Neighborhood Improvements.** Federal and State funding sources will rely heavily on the recommendations in State and Regional planning documents relative to transportation planning and infrastructure spending. In order to be competitive for limited

available funding, Worcester must continue to advocate for its priorities within the STIP planning process, as well as the Massachusetts EOT Long-Range Transportation Plan.

- **Continue to file annual paperwork for Commonwealth Capital program.** As more and more municipalities aggressively pursue public grants to support infrastructure improvements, it is recommended that the City of Worcester continue its work to date to maintain a strong Commonwealth Capital score to differentiate itself in an increasingly competitive funding environment.
- **Maintain Grants Acquisition Division.** In order to maximize the City of Worcester's prospects of receiving grant funding in what will continue to be a competitive environment, it is recommended that the City maintain its Grants Acquisition Division to monitor grant deadlines and lead or coordinate the preparation of grant applications. Each of the grant programs listed in Appendix A may potentially be funding sources for projects in the Beacon/Federal neighborhood, and several programs have announced application deadlines for the next grant round. The ability to be responsive to such time-sensitive funding opportunities is critical to maximizing the City's prospects for funding. The City is urged to pursue initial funding to advance the conceptual recommendations to engineered design, at which point the resulting projects would be eligible for more significant construction funding.

Chart 2. Typical Transaction Chart - Master Tenant



RECOMMENDED  
ZONING

SECTION 5





## A. RECOMMENDED ZONING

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The proposed Neighborhood Master Plan was developed without consideration of the framework of existing City land use regulations that apply to the area. This was purposeful.

The existing zoning (Figure 1) suggests application of an earlier land use master plan to define the district boundaries and allowable uses. The current planning process was undertaken with the idea that the market and demographic conditions, and the input of the neighborhood community, would help define a current land use master plan. This new master plan would then be analyzed to determine the need for revisions to the zoning regulations for implementation of the plan. Now that the analysis has been completed and study area master plan has been drafted, consideration is given to the existing zoning and how it supports or impedes implementation of the plan.

### Existing Zoning

The existing zoning districts for the Beacon Federal study area (Figure X) are:

- RG-5, General Residence; minimum 5,000 sq.ft. lot. This covers a small section of properties fronting the west side of LaGrange Street.
- MG-2.0, General Manufacturing; maximum FAR of 2.0 for business and manufacturing uses; no minimum lot size or frontage required; residential uses not permitted.
- BG-3.0, General Business Uses; maximum FAR of 3.0 for residential and non-residential uses; minimum 5,000 sq.ft. lot for residential.
- BG-4.0, General Business Uses; maximum FAR of 4.0 for residential and non-residential uses; minimum 5,000 sq.ft. lot for residential.
- BG-6.0, General Business Uses; maximum FAR of 6.0 for residential and non-residential uses; minimum 5,000 sq.ft. lot for residential.

The frontage requirements for the BG districts are 40' per dwelling unit, with a maximum requirement of 200' for multi-family residential. While this does not impact many properties in the study area, there are small lots in the interiors of the blocks that would be restricted. Review of those properties finds that the likelihood of a high number of units per existing building is low therefore these frontage requirements are not considered a deterring factor.

Also applied to portions of the study area are the Arts Overlay District (Article XIV) and, to a lesser geographic extent, one of the Parking Overlay Districts (Article XIII). The Arts Overlay district generally allows live/work space and the commercial use of property for the sale of arts and crafts. The Parking Overlay District allows reductions and sharing of parking for new uses. Current surface parking lots in the study area appear more than sufficient to accommodate short-term parking demands

## Zoning Proposals

What has been determined during the course of this study is that while the market is not strong for many short-term projects, the long-term goal is a mixed use neighborhood that allows a wide range of uses. The key regulatory restrictions, as so far determined, in accomplishing this plan are:

- Prohibition on residential uses in the manufacturing district;
- Dimensional requirements impacting the reuse of industrial buildings.

Options to address these issues are:

1. Amending existing zoning boundaries to extend less restrictive
2. Applying one or more of the existing overlay districts
3. Applying a new overlay district

## Revising Existing Zoning Boundaries

The existing zoning districts are fairly liberal in potential development along South Main Street and east of Charlton and Southbridge streets. West of Charlton, along LaGrange, Jackson and Hernon streets, the zoning is more restrictive for use; not allowing residential, and is on the lower scale of density at a maximum FAR of 2.0.

Where the Art Overlay District has been overlaid on the MG-2.0 district to allow artists' live/work spaces in the industrial buildings on Beacon Street and could be expanded, another option would be to extend the BG zoning district further west towards LaGrange Street to allow mixed use development options within the industrial buildings and still allow some manufacturing. The BG district restrictions on manufacturing would apply to the most intensive industrial operations and outdoor storage. However, those most intensive uses may remain as pre-existing non-conforming uses.

## Optional Overlay Districts

There are two existing overlay districts within the City ordinances that might apply to the mixed use plans for the study area. These districts are the Mixed Use Development Overlay Zone (Article IX) and the Adaptive Reuse Overlay District (Article XV).

The Mixed Use Development Overlay Zone requires multiple uses with restrictions on the maximum space given to any one use, but allows a 20% increase in density over the underlying FAR requirements. However, the current market opportunities (Section II of this Workbook) do not identify any significant short-term expansion project that could benefit from the use of this option.

The Adaptive Reuse Overlay District relaxes dimensional and parking requirements in consideration of existing structures, such as the industrial mill buildings found

within the study area. This latter overlay district could be applied to the industrial buildings in the area. However, the Arts Overlay District provides almost the same flexibility and is already established (or proposed) for the critical properties.

### **Applying a Smart Growth Overlay District**

The State of Massachusetts has established a chapter in the land use laws entitled Chapter 40R, Smart Growth Zoning (regulations at 760 CMR 59.00 et seq.). Chap. 40R allows that if the City adopts an overlay zoning district that promotes housing production following smart growth policies, there are financial incentives to the City through a one-time cash payment for approval of the district and additional funds for each new housing unit receiving a building permit. The City of Boston has applied for several Chap. 40R districts while the City of Worcester has not yet made an application under this program, (phone conv. DHCD).

The Smart Growth district must be applied as an overlay district and all new residential and mixed-used development must be as-of-right. The City is permitted a design review so long as the design standards are clear and not too costly or burdensome. Twenty percent of the housing must be affordable, and the unit mix must allow families. A minimum density of 8 units/acre is needed, but financial incentives are higher with at least 20 units/acre. The higher density could be achieved under the FAR standards of the existing zoning districts in the study area which impacts the financial incentives as described below. The Chap.40R overlay district may be broken out into subdistricts to specify different uses and open space, without reducing the density standards.

The procedures require that the City apply for and receive a determination from the Department of Housing and Community Development (DHCD) that the site proposed for the Chap. 40R overlay is eligible for the program. The City then adopts the zoning ordinance allowing the DHCD to issue an approval letter, after which the City may receive the incentive and bonus payments.

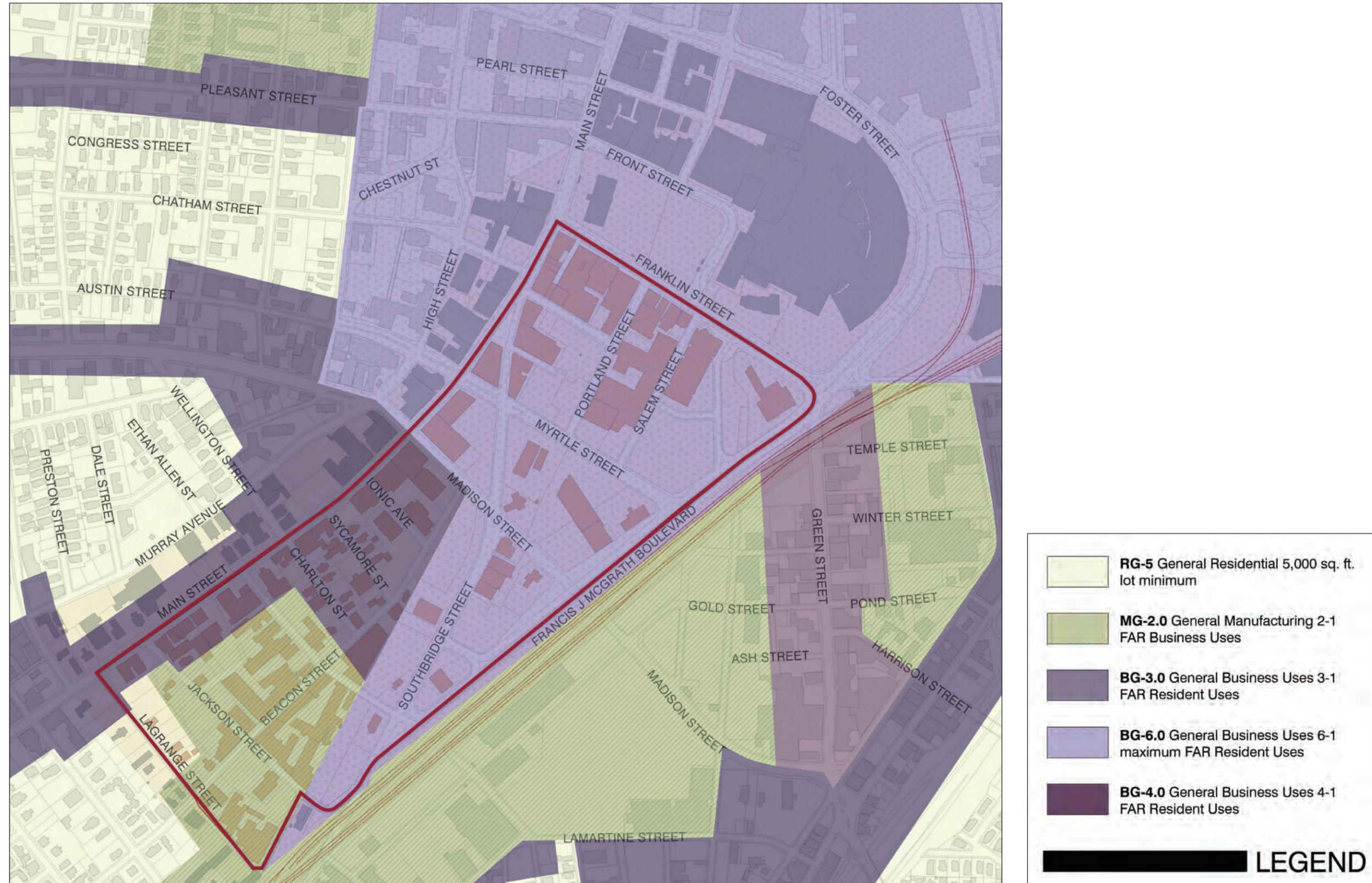
The incentive payments are based on the total number of units possible in the district – over and above what could be constructed by the underlying zoning. This means the higher density districts; such as BG-6.0, with a possible FAR of 6.0, would potentially negate the incentive option. However, in the industrial district, MG-2.0, all of the potential units would be subject to the incentive payment. Overlaying the Arts Overlay District would not impact this potential as the differential is calculated from the underlying, base zoning. Incentive payments are scheduled as follows:

- \$10,000 for up to 20 units;
- \$75,000 for 21-100 units;
- \$200,000 for 101-200 units;
- \$350,000 for 201-500 units; and
- \$600,000 for 501 or more units of housing.

The City would also receive a bonus payment of \$3,000 for each unit of new housing built in the district; again only for those units over that allowed as-of-right by the underlying zoning district. This payment is payable upon issuance of a building permit for the housing units.

Application of the district of the Chap.40R district is recommended for consideration over the MG-2.0 zoned area which currently covers the large mill buildings on Beacon Street and the “Junction Shops.” Since no residential is allowed, all new residential units allowed in the overlay district could be applied towards the total payments. This fee could be applied to infrastructure improvements as recommended in this Neighborhood Plan.

Figure 1: Zoning





IMPROVING STREETS  
AND OPEN SPACE





## B. IMPROVING STREETS AND OPEN SPACE

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In order to make meaningful changes to the neighborhood, it will be necessary to directly, and essentially simultaneously, make improvements in the three areas identified in this Plan; Public Safety, Private Investment and Public Infrastructure. However, cost estimates for the proposed public infrastructure investment to improve the whole study area exceed what could be currently funded directly by the City and so must be supported by other funding sources and built in phases. This section describes an approach to phased infrastructure improvements that will:

- Provide immediate support to the potential short-term, key private development projects identified in this study.
- Establish a better character and higher quality to the main gateways and streets across the Beacon / Federal Neighborhood.
- Build better quality internal streets to support the type of development and land use proposed in the Master Plan.

### Support to Potential Short-Term Development Projects

In order to help stimulate private investment for buildings, the adjacent and connecting streets, curbs and sidewalks need to be improved. Three of the identified privately-owned properties that could be short-term investments lie along or near Beacon Street; two buildings on LaGrange Street, the Junction Shop mill complex, and the abandoned Boys and Girls Club. The property owners are interested in carrying out major development work. If these move ahead, it is in the City's best interests to initiate streetscape improvements as quickly as funding can be arranged because the streets and sidewalks there are particularly broken up - or non-existent and need to be improved for financing to be obtained.

Because it will be difficult to finance the projects without the public work being committed, the City should consider:

1. Using the grant sources identified in this Workbook, and
2. Using its bonding capacity to raise funds to provide the street and sidewalk improvements to support these projects.

For short-term efforts, using a bond supported by the value of redevelopment in the neighborhood may be the most efficient. As described elsewhere in this report a total of six building owners have expressed interest in working together to arrange highly complex financing that could result in major renovations to their buildings – of which there are ten, including several of which are just outside the neighborhood. If all ten of these buildings are renovated, the total new private investment is likely to be \$60,000,000 to \$80,000,000. Not all of that investment will be captured in increased assessed property values and taxes<sup>1</sup>, but significant increases will be realized.

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<sup>1</sup> Assessments reflect the economic value of the buildings, which will generally be substantially lower than the costs. This is why the developments require a heavy infusion of public assistance, as suggested elsewhere in this report, from various tax credit programs in order to be economically viable.

The following table outlines the approach to raising approximately \$5,000,000 for a phase of the infrastructure improvements through City bonding. The table suggests that the new property taxes from the work, if all projects proceed, would be likely to substantially exceed the annual debt service on infrastructure improvements of that value. Included in the table is an assumption that if significant infrastructure improvements are made in the neighborhood, and if over a five year period eight to fifteen other buildings are renovated or constructed, most property values throughout the neighborhood will also increase over time. This table does not include values or improvements made to tax exempt properties.

**Table 1: Potential Bond Proceeds from Increased Private Investment**

	Existing Non-Exempt Properties	Potential Redeveloped Properties	Totals
Estimated initial new assessed value:		30,900,000	
Increased valuation over time		6.0%	
Current Valuations	113,000,000		
Potential increase in valuation over time:	6.0%		
Increased valuation over time:	6,780,000	32,754,000	\$39,534,000
Blended Tax Rate for improvements*:	\$20.00	\$18.00	
Annual new property taxes:	135,600	590,000	\$725,600
Percent of increased property taxes devoted to bond debt service:			50.0%
Increased property tax revenues for debt service			\$362,800
Bond Term in years		20	
Bond Interest Rate		4.0%	
Bond Debt Service Constant	(level payments)	7.272%	
<b>Amount of Bond supported:</b>			<b>\$5,000,000</b>
<b>Net annual increase in Property Tax Revenues to the City</b>			<b>\$362,800</b>

\* The City of Worcester maintains different tax rates for commercial and residential properties

The \$5,000,000 bond supported by this approach would fund approximately 7,500 linear feet of streets, which is equivalent to about one-third of the total length of streets in the study area, or some combination of a lesser length of road and property acquisition for open space. In either case this would make a significant improvement to the public infrastructure.

This report suggests that such an investment by the City could be tied to the commitment of financing and start of construction by some number of the building owners. Infrastructure funding programs are described in Section 4-B.

### Support for Long-Term Change

While the short-term projects, if proceeding, definitely warrant City support in improving the adjacent streets, other improvements could substantially change the overall and longer-term outlook of the neighborhood, with similar impacts on the viability of nearby properties, as described in the Infrastructure Improvement Plan section. These improvements should be funded with a combination of grant funds and City bonds considering the same approach recommended for the potential short-term projects.



FACILITATING  
DEVELOPMENT

SECTION 5





## C. FACILITATING DEVELOPMENT

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The fall of 2009 is a time ripe with opportunity for raising development funds to carry out renovations to buildings in the Beacon/Federal Neighborhood. The amount of Federal New Market Tax Credit Funds available in the funding round that will be announced in October, 2009 has been increased nationally from approximately \$3.0 billion last year to \$4.5 billion this year. This represents an infusion of funds from the Federal Stabilization Bill. It is likely that projects that are ready to be under construction by the summer of 2010 will be able to obtain allocations of the New Market Credits, if not from the Massachusetts Housing Investment Corporation (“MHIC”), then from other Community Development Entities (“CDEs”) from the region.

The balance of the financing is also likely to be available over the next six months. The Federal Historic Tax Credits are automatic if the requirements of the National Park Service are met. It should be possible to negotiate conventional financing from a consortium of local banks. The final piece of the financing is the State Historic Tax Credits, which are allocated by the Secretary of State through a competitive process. There are \$50,000,000 of credits available annually, and the next round of funding requires applications to be submitted on January 15, 2010.

The attached Gantt Chart sets forth the steps and actions that must be taken by the various players in order meet the funding application dates and put developments in a position to be under construction next summer. It is an aggressive schedule. However, it can work if there is a broad commitment by the various parties to make it happen.

The first key date that drives the schedule is the need to have an application before MHIC no later than in early December for the New Market and Federal Historic Tax Credits. This application needs to include a preliminary commitment from the bank consortium for the conventional financing. By that time it will also be necessary to have a response from the Mass Historic Commission (“MHC”) that the buildings are eligible for the tax credits. December is expected to be when MHIC will allocate the funds it has received in the October funding round. Other elements being equal, it is expected that MHIC will base its allocations largely on its judgment as to whether a summer construction start will be feasible.

The second key date is having full applications into the Massachusetts Secretary of State for an allocation of the State Historic Tax Credit (“SHTC”). This application is due on January 15th, and should include commitments for financing from MHIC and from the conventional lenders. Once submitted, it will take 60 to 90 days to hear back from the Secretary of State as to the allocation of funds. Prudence is likely to dictate that the preparation of detailed construction documents, both architectural and engineering, not begin until the SHTC funds are secured. The Gantt Chart shows that the timing of the closing for the financing will be a function of the time it takes after receiving the SHTC commitment. Optimistically, that would be in July.

The MHIC application to be submitted by the first of December should include a report on the progress that has been made in organizing the neighborhood, in conjunction with the Police Department, to reduce crime and improve behavior and civility on the sidewalks.

In addition, the application to MHIC should include a plan for improving infrastructure in the neighborhood to sufficiently support the proposed development, as described earlier in this report.

The neighborhood plan and the infrastructure improvement plan must be sufficiently persuasive so that the lenders of the conventional financing and MHIC are convinced that the environment in the neighborhood will be sufficiently improved, over time, so that the projections of rental revenues in the proposed pro formas are credible.

It is probable that for most of the participating buildings it will be difficult to develop a pro forma that can work within the framework of the available financing. The struggle will be to project revenues high enough to support enough conventional debt to make the transactions feasible. Consequently, everything that the City can do to assure that improvements will be made to the overall environment will be invaluable in the effort to achieve feasibility.

A key part of the suggested plan is to have the City convene a Task Force that will meet regularly, and that will contain representatives from all of the interested parties. This should be an expansive group, with the more participating the better, because it will require much cooperation and individual effort to achieve the timelines set forth in the Chart.

By working together on a comprehensive approach to the improvement of the Beacon/Federal Neighborhood, it is believed that the City, the building owners, bankers, potential tenants, and neighborhood residents and business owners will have a good chance of seeing a start of construction next summer. The scope of the vision and the potential to truly change an entire neighborhood will stimulate enthusiasm and efforts on the part of many to help obtain the funds that are needed and solve the problems that will emerge.

Most importantly, the New Market Tax Credit funds are likely to be available over the next six months. That may well not be the case a year from now.

SCHEDULE **SECTION 5** **D**

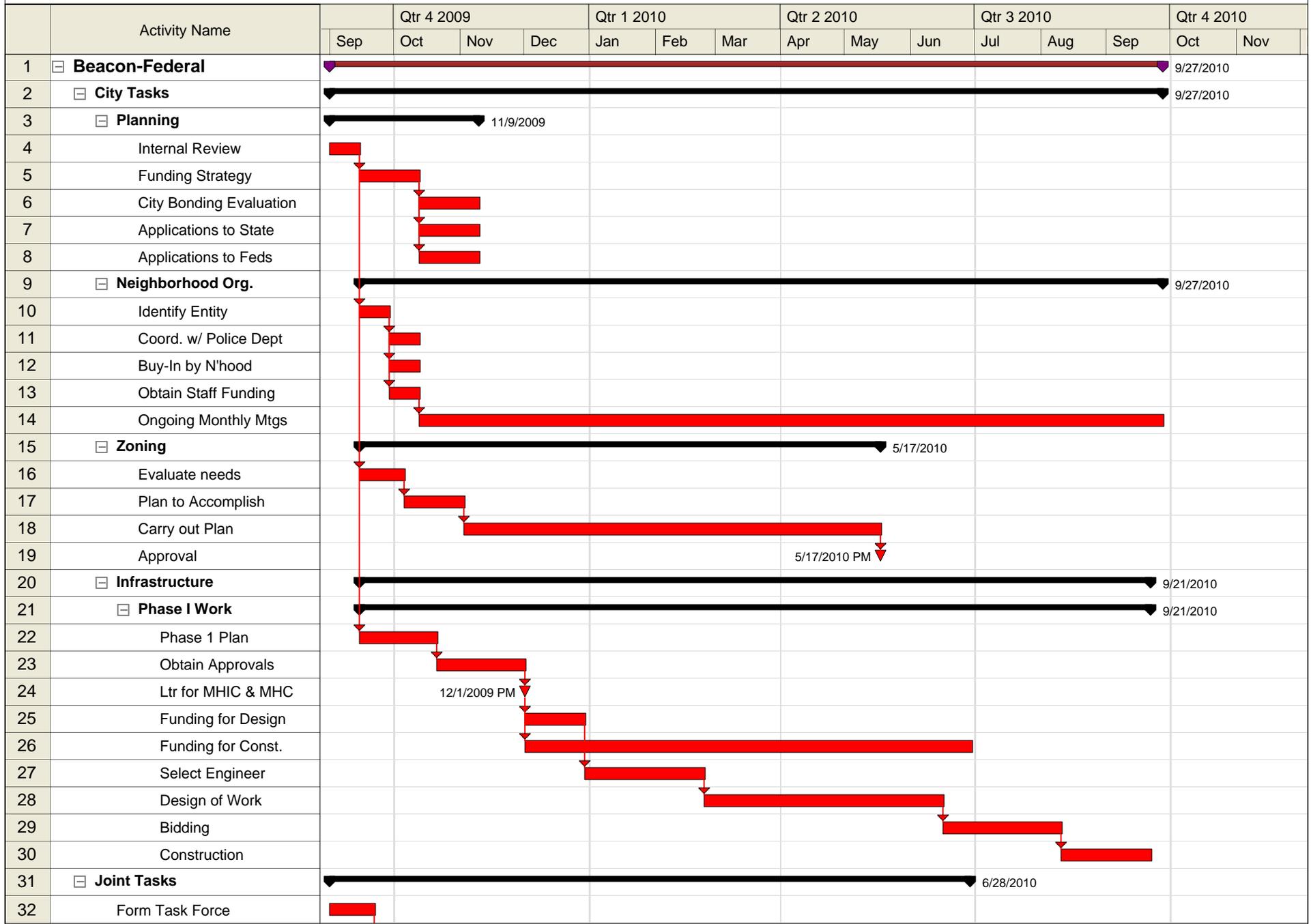


## D. SCHEDULE

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Start: 9/1/2009  
Finish: 9/28/2010

Beacon / Federal Neighborhood Development Plan





	Activity Name	Qtr 4 2009				Qtr 1 2010			Qtr 2 2010			Qtr 3 2010			Qtr 4 2010	
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
67	<input type="checkbox"/> <b>Financing</b>	11/30/2009														
68	<input type="checkbox"/> <b>Conventional</b>		10/30/2009													
69	Prepare Applic.		↓													
70	Submit Applic.		10/30/2009 PM ↓													
71	<input type="checkbox"/> <b>MHIC</b>	11/30/2009														
72	Initial Discussions	↓														
73	Informal Approval		↓													
74	Prep. Application		↓													
75	Submit Applic.		11/30/2009 PM ↓													
76	<input type="checkbox"/> <b>Other Evaluations</b>		11/24/2009													
77	Env. Assessment		↓													
78	Appraisal - complete		↓													
79	<input type="checkbox"/> <b>New Market Financing</b>		7/9/2010													
80	Submit App to MHIC		11/30/2009 PM ↓													
81	Review of Appli.				↓											
82	Receive Ltr for SHTC				1/11/2010 PM ↓											
83	Ongoing Discussions				↓											
84	Prep. for Closing							↓								
85	Closing									7/9/2010 PM ↓						
86	<input type="checkbox"/> <b>Historic Tax Credits</b>	5/11/2010														
87	<input type="checkbox"/> <b>Determine Eligibility</b>	12/14/2009														
88	Engage Consultant	↓														
89	Identify Buildings		↓													
90	Review w/ MHC		↓													
91	Prepare Part 1		↓													
92	Submit Part 1 to MHC		↓													
93	MHC Review			↓												
94	Receive Part 1 Approval		12/14/2009 PM ↓													
95	<input type="checkbox"/> <b>Obtain SHTC</b>		4/9/2010													
96	Prepare Part 2			↓												
97	App for SHTC to MHC			1/15/2010 PM ↓												
98	MHC Funding Review			↓												
99	Allocation of State Funds							4/9/2010 PM ↓								
100	<input type="checkbox"/> <b>Obtain NPS Approval</b>					5/11/2010										

	Activity Name	Qtr 4 2009				Qtr 1 2010			Qtr 2 2010			Qtr 3 2010			Qtr 4 2010	
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
101	App. to NPS for review				1/19/2010 PM											
102	NPS Review															
103	NPS Approval															
104	<input checked="" type="checkbox"/> <b>Conventional Financing</b>	7/11/2010														
105	Identify Consortium															
106	Discussions with Owners															
107	Investigate Sources															
108	Determine Loan Terms				10/19/2009 PM											
109	Receive Loan Applications															
110	Review Loan Applications															
111	Issue Financing Commitments															
112	Ongoing Coordination															
113	Loan Closing Prep															
114	Loan Closing															7/12/2010