



Issue Brief

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Coordinating Resources to Grow More Efficiently- The Massachusetts Approach

Summary

Massachusetts' strong economic growth in recent years has increased demands on public resources, raised housing costs, and brought changes to the traditional New England character of the state. Gov. Mitt Romney has acted swiftly to address these challenges. He created a new "super agency," the Office of Commonwealth Development, to coordinate policy and implement reforms that make state investment more efficient, increase the supply of housing, and promote growth in established cities, towns, and villages rather than in the state's open space and natural areas. In addition, the state has made new funds available to support the construction of housing, encouraged residential and commercial development around existing transportation networks through transit-oriented development and "fix-it-first" infrastructure policies, and reformed the regulatory process for construction and development to increase the stock of affordable housing.

Massachusetts' success shows that a state's efforts to maintain quality of life can be substantially enhanced by coordinating across multiple agencies, aligning housing, transportation, and economic development policies, and leading and collaborating with the nonprofit and business sectors.

Background

Massachusetts' strong economic growth in recent years has brought with it some challenges. The state budget has been strained by increasing costs and competing demands; rising housing costs limit the options of employers and residents; and protecting and managing the state's natural amenities has become increasingly difficult.

State Budget Constraints

Massachusetts has recovered from the recent nationwide recession, but state legislators were forced to cut \$420 million from the fiscal 2003 budget.¹ While revenue growth has slowed, inescapable fixed costs have been increasing. For example, the state's costs for Medicaid, debt service, education aid, and other programs are expected to increase by \$900 million next year.² In the face of these financial challenges, the state has re-examined how it spends its development funding and has found innovative ways to coordinate and strategically invest state funds to promote quality economic growth.

Housing Costs

Massachusetts has a reputation as one of the nation's most desirable places to live, but as in other states, the rising cost of housing may be hindering Massachusetts' ability to attract and retain workers and businesses.³ Between 1980 and 2003, home prices in Massachusetts rose by 573 percent—almost twice the nationwide increase of 291 percent.⁴ In 1980, the median home price in Massachusetts was \$48,000; in 2003 it was \$315,000.⁵ Employers worry that the lack of housing options is slowing the growth of the state's workforce.⁶ The state is home to many world-class institutions of higher education, but fewer students are remaining after graduation. Some believe that the high cost of housing is part of the reason.⁷

The burden of high housing costs in Massachusetts is increasingly affecting the middle class. While the growth in real estate values is a strong sign of Massachusetts' economic success, a diminishing stock of housing is leading to problems. Sixty-five percent of families with incomes between \$35,000 and \$99,000 spend more than 30 percent of their income on housing.⁸ With prices moving upward, many young, first-time homebuyers face limited housing choices in eastern Massachusetts. The impact on the working class residents is similarly stark, as many rely on state assistance programs in order to afford adequate housing.⁹

Recognizing the importance of housing to the state's competitiveness, Gov. Romney has reorganized his cabinet to coordinate housing and other key policies, provided new funding for affordable housing, launched initiatives to expand the supply of housing through transit-oriented development, and worked to reduce the zoning and regulatory barriers to affordable housing.

Threatened Natural Amenities

Massachusetts lost 40 acres of open space a day to development between 1985 and 1999.¹⁰ Between 1950 and 1990, the population of Massachusetts grew by 28 percent while the amount of developed land grew by 188 percent.¹¹ The loss of open space has consequences for the economy, the environment, and the state's quality of life. Diminishing open space threatens the traditional New England character of the landscape and may lead to higher costs for services such as water treatment and flood control.¹²

To protect open space and the other environmental features that draw residents, businesses, and tourists to the state, Gov. Romney has emphasized development policies that promote more compact development around transit stations. In addition, infrastructure investments use a "fix-it-first" approach that promotes infill development in established neighborhoods rather than on farmland or pristine areas.

Policy Coordination to Promote Housing and Economic Growth

Recognizing that infrastructure, housing, and quality of life are key components of state economic competitiveness, Gov. Romney acted swiftly to improve all three. Upon taking office, he created the Office of Commonwealth Development (OCD) to identify the connections between housing, transportation, quality of life, and economic development. The OCD is encouraging coordination among agencies in an effort to improve efficiency and promote quality growth. Gov. Romney also pledged new housing funds and supports Transit Oriented Development projects designed to increase the supply of housing for the state's workforce without adding additional pressure on resources. Additionally, he is seeking regulatory reforms that further support these goals.

Creation of Supra-Agency to Coordinate Policy

Gov. Romney's boldest move has been to organize his cabinet to create the OCD, a "super agency" that oversees the Executive Office of Environmental Affairs, the Department of Housing and Community Development, the Executive Office of Transportation and Construction, the Division of Energy Resources, and the state's development policies.¹³ The agency coordinates the programs and aligns the capital budgets of these agencies to promote sustainable development and foster economic growth and achieve a substantially greater impact in the annual spending of approximately \$2 billion in state and federal funds.^{14 15}

The creation of the OCD represents an institutional change that has begun to alter the land development process in Massachusetts. The OCD facilitates cooperation among the departments over which it has oversight, and the secretary of the OCD chairs the legislatively created Commonwealth Development Coordinating Council, a body that advises the administration in the preparation of a coordinated development policy.

The OCD is charged with managing the administration's smart growth initiatives and has established the Commonwealth Capital Fund for fiscal 2005 to provide resources to local jurisdictions in meeting the state's smart growth objectives. The fund combines approximately \$75 million of discretionary dollars from each of the departments overseen by the OCD. The review and approval of grants to localities is based on how local development policies support smart growth. This creates incentives for cities and towns to pursue smart growth policies through changes in their zoning and other laws. Through the fund, the OCD also advises how the state spends an additional approximately \$300 million in water and sewer infrastructure loans.

How does Massachusetts Define Smart Growth?

"Smart Growth is not about no growth. Smart Growth or sustainable development is about growing where it makes the most sense: in an around central business districts or traditional city or town centers, near transit stations, or in areas that have previously developed for commercial, industrial or institutional uses. It's about growing where there is existing infrastructure and utilities, with greater access to schools, civic facilities, retail or employment centers, and other destinations. It's about developing in ways that are consistent with sustainable development principles."

Source: [Massachusetts Office of Commonwealth Development](#)

The OCD reviews all approved state development projects and suggests changes that conform to state goals, especially smart growth and sustainability goals. The state benefits not only from strategic funding and alignment of programs, but also from mechanisms for state departments to collaborate and work together in pursuit of common state goals.

Funding and Policy Innovation

As part of his smart growth and sustainable development agenda, Gov. Romney has charged the OCD to remake the development process to improve results. The state has committed new resources to housing and community revitalization, and has tied these resources to policies supporting transit-oriented development. The state is also employing the principle of "fix-it-first," which places a premium on maintaining and enhancing existing infrastructure before building new infrastructure. The governor is

leading an effort to reform and modernize state land use regulations to promote smart growth and housing production.

New Housing Funds

To increase the supply of housing for workers, Gov. Romney pledged \$100 million in state funds to support the development of affordable housing. The source of the funds is bonds issued by MassHousing, the state's housing finance agency. Proceeds of the bond issue are available to the developers of housing projects with an affordable component. The bond proceeds are used to bridge any gaps in financing provided by commercial lenders. Priority is given to projects that are located near transit stations or that reclaim brownfield property. Additional funds will be made available to communities to help them develop affordable housing plans that incorporate smart growth policies.¹⁶

Transit-Oriented Development

Massachusetts is attempting to build stronger communities is by supporting transit-oriented development (TOD). A development is considered to be transit oriented if it creates a community within walking distance of a transit stop with a mix of residential, retail, office, open space, and public uses that is accessible on foot or by public transportation.¹⁷ TOD can reduce strains on infrastructure by reducing driving demand and increasing density in appropriate areas.

The state has launched a major new TOD initiative, "Taking it to the T," as a partnership between the departments overseen by the Office of Commonwealth Development and the Massachusetts Bay Transportation Authority (MBTA, known locally as the "T"). The state departments and the MBTA coordinate efforts to promote high-quality TOD on and near MBTA-owned property located around transit stations in designated communities. The state is also promoting TOD on the property it owns around 20 transit stations.¹⁸

In addition, the state's recently enacted 2004 Transportation Bond Bill provides \$30 million to promote TOD.¹⁹ The state can use the funds to make grants and loans for the construction or reconstruction of infrastructure, site preparation, or the development of brownfield sites, housing, or mixed-use development.

Finally, the MBTA is working to complete a commuter rail line to serve a range of suburbs in the Greenbush corridor south of Boston.²⁰ The project includes the construction of seven new commuter rail stations, where the state is supporting new TOD.

Fix-it-First

To support the multiple goals of greater efficiency, economic competitiveness, and protection of natural amenities, Gov. Romney is pursuing a fix-it-first policy for allocating state development resources that gives priority to projects supported by existing infrastructure. This supports community revitalization by encouraging development and redevelopment in town centers, in urban areas, and along transit lines. It also supports the governors' goal of providing more housing by encouraging the conversion of existing, often underutilized buildings into new housing. The program already has converted a naval air station, hospital, glue factory, and several vacant schools that were slated for demolition.²¹

LePage Glue Factory Site Becomes Early Example of Fix-it-First

Housing prices in Gloucester, Massachusetts, have increased in recent years due in no small part to the community's coastal location on a commuter rail line only 30 miles north of Boston. In a prime example of the multiple benefits of a fix-it-first strategy, Massachusetts is supporting the redevelopment of the LePage Glue Factory site in Gloucester to expand housing opportunities, retain long-time residents, and maintain the community's vitality.

The closure of the factory in 2001 after 121 years in operation dealt a blow to the Gloucester community. At its peak, the factory employed more than 600 employees. That blow was heightened by the fact that housing costs were forcing out many long-time residents, especially teachers, firefighters and other middle-class workers.

To stem the tide of departing residents and make the site once again an anchor of the community, the state's Affordable Housing Trust Fund provided grants to support the redevelopment of the factory site into a 115-unit, mixed-income village by the Cape Anne Housing Opportunities (CAHO), a local nonprofit organization. A major determinant of the state support was the fact that the site is connected to existing utilities and transit infrastructure and conforms to other fix-it-first criteria.

Regulatory Reform

Gov. Romney is working to reform the state's development regulations to promote smart growth and increase housing production.

As part of its f 2005 budget bill, the state enacted Chapter 40R, a law that authorizes municipalities to designate Smart Growth Zoning Districts that will receive cash incentives from the state for new housing.²² To be eligible for the incentives, the development in a district must be guided by a comprehensive housing plan and zoning regulations that include minimum housing densities for multifamily, single-family, and semi-detached buildings. In addition, not less than 20 percent of residential units constructed in the district must be affordable to those learning less than 80 percent of the median income. The financial incentives amount to a state payment of up to \$600,000, based on the number of new housing units projected to be built, plus a \$3,000 bonus for each unit payable at the time of the issuance of the building permit. To offset the costs of the program, the state has created a Smart Growth Housing Trust Fund financed with revenue from the sale of state surplus land.

Gov. Romney is also seeking to reform the 35-year-old provision of state law known as Chapter 40B, also called the Comprehensive Permit Law or the "Anti-Snob Zoning Act."²³ The goal of the law is to encourage the production of affordable housing by reducing the barriers created by local approval processes, local zoning, and other restrictions. Some local communities use such barriers to create minimum lot sizes, time-consuming review processes, and prohibitions on the construction of multifamily housing units, which discourage the construction of housing affordable for lower income families. The

law is generally credited with securing local approval for the development of 35,000 affordable housing units since 1969 that would not otherwise have been approved.²⁴ These numbers have encouraged other states, including Connecticut, Illinois, and Rhode Island, to experiment with similar zoning measures with some success.

Despite this success, the law has been controversial. It requires the zoning board of appeals in each municipality in the state to approve affordable housing development proposals that contain long-term affordability restrictions if the municipality fails to maintain at least 10 percent of its housing stock as affordable. To qualify as affordable, at least 25 percent of a project's proposed units must be affordable to residents making not more than 80 percent of the municipality's median income. Many communities object strenuously to being forced to approve housing development proposals without regard to any consideration other than affordability.

In hopes of building on Chapter 40B's successes and creating a fairer process, in February 2003 Gov. Romney convened a task force of government officials, leaders of nonprofit organizations, academics, developers, and citizens to review the law. The task force reported back to the governor with 17 reform proposals to improve the process, enhance planning efforts, and increase local control over development. Most of the proposals are now part of a package of reforms being considered by legislature.

One major reform would adjust the means of measuring a municipality's compliance with the 10 percent affordability requirement to give municipalities more recognition for efforts to increase the supply of affordable housing.²⁵ Another major reform would allow the size or scale of a proposed development to be taken into account. A municipality would not be required to approve a proposed development that is too large scale for the community, based on the number of units in the community as a whole. A final reform would authorize the collection of fees from developers to support the provision of technical assistance to municipalities by the Massachusetts Housing Partnership.

Leadership and Collaboration

Much of Massachusetts' success is due to Gov. Romney's leadership, his vision for the state's future, and his willingness to engage and draw on the state's robust nonprofit and business sectors. Nonprofit organizations working with the support of the business community were instrumental in advancing the ideas that led to the creation of smart growth zoning districts under Chapter 40R.

Building on that success, lawmakers are now considering an innovative proposal advanced by the nonprofit sector that seeks to remove one of the most substantial barriers to new affordable housing: the additional public education costs that may accompany residential development.²⁶ About one quarter of districts experience a net revenue loss from residential development after accounting for property tax revenues and state education aid. Under the proposal, in exchange for permitting the development of qualified new housing, the state would insure cities and towns against increased school costs.

There is also a great deal of optimism among nonprofit groups that the much-contested Massachusetts Community Preservation Act will play an increasingly important role in encouraging housing production and smart growth. This act authorizes each municipality in Massachusetts to hold a referendum to determine whether voters would like to charge a fee for new real estate developments. The municipality

may use the funds raised by fee collection to preserve open space, develop low-income housing, preserve historic sites, or develop recreational facilities. Since the law was enacted in 2000, 61 communities have approved the fees and adopted plans to use the funds, while others are planning referenda.²⁷

Conclusion

The Massachusetts example can be instructive to other states as they develop strategies to promote better, more efficient growth and enhance competitiveness and the quality of life. It demonstrates that such efforts can be substantially enhanced by:

- Identifying basic connections between housing availability, transportation options, quality of life, and economic development. Understanding how these issues are linked will enable a more coordinated response and permit a more effective use of resources. Identifying relationships can also help a state identify its strengths and weaknesses.
- Aligning agency policies with overall development goals. A state policy developed by an agency to achieve a specific, narrowly defined outcome may unintentionally undermine the achievement of a broader state development goal. Policies should be carefully studied and, if appropriate, amended to ensure that overall goals are achieved.
- Encouraging cooperation among departments. Developing common goals and coordinated systems can help departments leverage resources.
- Demonstrating leadership and engaging stakeholders in the formation of policy. Gubernatorial leadership can positively energize many groups. Engaging and bringing together developers, business leaders, nonprofit organizations, residents, and other stakeholders to think about growth and visions for the future frequently increases cooperation among these groups and support for state policy.

Endnotes

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- ¹ National Governors Association and National Association of State Budget Officers. *The Fiscal Survey of the States: December 2003*. (Washington, D.C., 2003), 2-3
- ² Massachusetts Taxpayers Foundation. *Commonwealth Faces Large and Growing Structural Deficits*. (October 12, 2004), 2.
- ³ *Ibid.*, 22.
- ⁴ Donahue Institute, University of Massachusetts. *Winners and Losers in the Massachusetts Housing Market*. (2003), 4.
- ⁵ MassDevelopment Press Room. <http://www.massdevelopment.com/press/09132004-01.aspx>
- ⁶ Speech by Cathy Minehan, President and Chief Executive Officer, Federal Reserve Bank of Boston, October 16, 2003. Presented to New England Economic Project Conference on Housing: Status and Consequences.
- ⁷ *Ibid.*, 4.
- ⁸ *Winners and Losers in the Housing Market*. 17.
- ⁹ Goodman, Michael and James Palma. *Winners and Losers in the Massachusetts Housing Market*. UMASS Donahue Institute. Jan 2004. Pg.15-16. [Note: is this the same document as above? If so, why is the year different? If not, and this is an annual publication, try to make the endnotes consistent –e.g., with authors' names, etc.]
- ¹⁰ *Ibid.*, [page number?]
- ¹¹ Breuinig, Kevin, *Losing Ground: At What Cost?* (Mass Audubon, 2003), 9.
- ¹² *Ibid.*
- ¹³ The Office of Commonwealth Development is recognized by the Governor. The State Legislature recognizes the Office as the Chair of the Commonwealth Coordinating Council. A measure to formalize the authority of the OCD did not pass the Legislature.
- ¹⁴ *Ibid.*
- ¹⁵ Muro, Mark and Robert Puentes, *Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns*. (Brookings Center on Urban and Metropolitan Policy, 2004).
- ¹⁶ Governor's Press Release. *Romney Launches \$100 Million Program to Spur New Housing*, January 26, 2004.
- ¹⁷ See: <http://commpres.env.state.ma.us/content/glossary.asp>.
- ¹⁸ Anthony Flint, "Romney to Seek Policies Deterring Sprawl Wants Growth Nearer to Transit." *Boston Globe*, December 17, 2003, B11.
- ¹⁹ *Ibid.*
- ²⁰ The new line will provide rail service in the Greenbush corridor through the towns of Braintree, Weymouth, Hingham, Cohasset, and Scituate.
- ²¹ Bluestone, Barry, Edward C. Carman, and Eleanor White, *Building our Heritage: A Housing Strategy for Smart Growth and Economic Development* (The Commonwealth Housing Task Force, 2003) 12-15.
- ²² Smart Growth Zoning Act, Section 92 of Chapter 149 of the Acts of 2004.
- ²³ The Comprehensive Permit Law, Massachusetts General Laws chapter 40B, §§ 20–23.
- ²⁴ Conversation with Aaron Gornstein, Executive Director, Citizens Housing and Planning Association. March 12, 2004.
- ²⁵ *Chapter 40B Task Force: Finding and Recommendations*. (2004), 1.
- ²⁶ *Ibid.*, 1-6, 14.
- ²⁷ Conversation with Sharon Krefitz,, Clark University. March 18, 2004.