

A Strong Economy and Housing: Partners in Progress

Economic Development Legislation Proposed by
the City of Boston and the Boston Redevelopment Authority
2001-2002



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Report #550

Executive Summary

Introduction

The City of Boston and the Boston Redevelopment Authority recently submitted its package of legislative proposals to the state legislature for consideration during the 2001-02 session. In this package are proposals by the Boston Redevelopment Authority designed to address the most pressing economic development needs of the City, its neighborhoods, and its residents. At the same time, this legislation can help Boston's neighboring communities meet some of their own economic goals.

While Boston has enjoyed an unprecedented period of economic prosperity, we are facing the challenge of maintaining our strong economy and ensuring that all residents are sharing in the region's success. Boston's economy is as strong as it's ever been in its history¹. Having successfully made the transition to a knowledge-based service economy, Boston is the envy of many other U.S. cities. However, like many of the other US and foreign cities and regions with which the city now competes, its drive for new and skilled workers is relentless and unforgiving. Boston needs both a growing and well trained workforce, if its economy is to survive in this highly competitive global economy.

Recent important studies have documented the need for affordable housing and workforce development in Boston and the region². The slow growth of the labor force in the region places a constraint on its economic growth. Increasing the supply of housing is essential if the region is to continue to attract new workers, who need an affordable place to live. The cost of housing in the city and region, however, places another constraint on increasing the labor force. In particular, the pressure on middle class families and poor families is reaching a critical state. Increasing the numbers in the workforce is not enough, however. The demand is for the highly skilled workers required in the city's and region's knowledge-based and high-tech economy. These dual demands of housing and skills are interacting to produce storm clouds over the city's and region's economic horizon. By acting now, we may be able to minimize an even avoid their effects.

Boston Mayor Thomas M. Menino has made housing creation a major city priority, investing more than \$30 million in total into the production of affordable housing, and including – for the first time ever – \$13 million of the city's own funds³. Over the past two years, the BRA has been charged with facilitating both market rate and affordable housing production in the city to protect the city's middle class and to expand the supply of affordable housing. Since 1999, over 4,000 units of housing have been permitted, many of them affordable. In addition, Mayor Menino has

¹ See Appendix A for a brief overview of Boston's current economy

² See Appendix B for executive summaries of *A New Housing Paradigm for Greater Boston* and MassInc's most recent reports on workforce development, *Opportunity Knocks: Training the Commonwealth's Workers for a New Economy* (2000) and *New Skills for a New Economy: Adult Education's Key Role in Sustaining Economic Growth and Expanding Opportunity* (2000).

³ See Appendix C for an executive summary of *Leading the Way: a Report on Boston's Housing Strategy, 2001-2003*

announced three new training initiatives, asking the businesses community to join him in matching a \$1 million city commitment to train their employees while on the job, adding another \$1 million for high-tech training, and increasing funding to add 400 slots to reduce the waiting lists for English language classes, an important first step in training new workers.

This year's economic development legislation especially reflects the commitment by Mayor Menino to make housing and workforce development top priorities of his administration. Although the City of Boston, under his leadership, has already dedicated millions of dollars of its own revenues to these initiatives, the BRA is proposing some new and creative approaches to encouraging housing construction and workforce development in Boston and in communities in the metro area and across the Commonwealth.

The 2001-02 economic development legislative package addresses four related goals:

- To encourage new housing construction, especially in communities lacking affordable housing options, through new bond issuance as well as economic incentives and contributions to the Commonwealth's new Affordable Housing Trust Fund;
- To provide families and individuals with new opportunities for job training, starting their own businesses, or pursuing homeownership;
- To encourage new partnerships between cities and the business community to train residents for high tech jobs;
- To address specific zoning and environmental impediments to economic development in Boston and other communities.

Whether it be meeting employers' demand for skilled workers in today's competitive new economy or workers' demand for affordable housing, these legislative proposals are designed to give cities and towns new, flexible resources for pursuing the goals most appropriate to their needs.

It has been a particular challenge this year to put together a legislative package with a relatively low cost to the state — a necessity given voter approval of a rollback of the state income tax in the November 2000 election. The emphasis here is on leveraging the resources of local communities, building public-private partnerships, and empowering individuals and families to strengthen their own economic well-being. We have proposed modest tax credits—one related to job training for high tech jobs, another related to housing—to help meet the statewide challenges of providing the skilled workforce and housing options the Commonwealth needs to maintain strong economic growth in the future.

Summary of Legislation

Housing Construction, Affordability, and Homeownership

Affordable Housing Incentive Act (H. 3317)

To encourage affordable housing construction in cities and towns not currently meeting the affordability goals established by Chapter 40B. This bill will require municipalities with under 10% affordable housing to demonstrate genuine progress towards its construction or be required to contribute to a new state Affordable Housing Trust Fund. It also establishes a system of incentives and rewards for communities that meet the 40B goals.

Budget Surplus for Housing Construction (H. 3327)

To require the Commonwealth to use 10% of money in a fiscal year's budget surplus for affordable housing construction. The requirement would only be triggered when housing vacancy rates are low and surplus revenue is available.

Lease-to-Purchase Mortgage Program (H. 3322)

To create homeownership opportunities for moderate-income families for whom the down-payment can be an obstacle. The bill would require MHFA to pilot a lease-to-purchase mortgage program for eligible homebuyers that would allow them to use part of their monthly rental payments towards a future down payment while occupying that home as a tenant.

Charitable Tax Deduction for Donations to Affordable Housing Projects (H. 3440)

To encourage partnerships around the construction of affordable housing and reduce costs for nonprofit groups that are building affordable housing. This bill would make in-kind contributions such as legal or architectural services, labor, or material donations eligible for the state charitable tax deduction when they are donated to affordable housing construction projects

Housing Allowance Increase for Families on Public Assistance (H. 3347)

To provide an additional housing subsidy to the neediest families in the Commonwealth. The bill would require the Department of Transitional Assistance to use surplus federal TANF block grant funds to increase welfare recipients' monthly housing allowance from \$40 to \$100 for those individuals who do not otherwise receive federal or state housing subsidies.

Housing Bond Bill (H. 3439)

The Boston Redevelopment Authority, Department of Neighborhood Development, and Boston Housing Authority are jointly proposing a housing bond bill that will make available \$430 million additional funding for a variety of housing construction programs as well as important infrastructure, safety, and capital improvements.

Job Training, Education, and Workforce Development

High Tech Internships and Job Training Tax Credits (H. 3441)

To address both job training needs and the area's shortage of skilled workers in the high technology sector. The legislation would provide a tax credit of 10% of the costs companies

spend on training expenses and wages used to establish school-to-career internship programs for high school students and recent high school graduates in high technology fields.

Individual Development Accounts (H. 3346)

To help low-income families accumulate savings that can be used exclusively for education, homeownership, or starting a business. IDAs are matched savings accounts to which eligible families can contribute and have their contributions matched by approved public and private sources, up to \$2,000 per year, for 5 years.

Help TANF Recipients Overcome Barriers to Employment (H. 3349)

To identify and refer families that need help overcoming barriers to employment by providing professional assessments of TAFDC recipients. This bill would also fund workforce development agencies and allow families additional time to complete services and programs provided in the bill.

Economic Development

Commercial Area Revitalization Districts (H. 3249)

To assist nonprofit organizations and municipal governments with their economic development efforts. This bill would allow cities to provide tax exempt financing under Chapter 40D for eligible economic revitalization projects by governments and nonprofits outside of commercial area revitalization districts (CARD). The state similarly amended its own bonding authority several years ago.

Long Wharf Repair Funding (H. 3384)

To authorize the Department of Environmental Management (DEM) to release accumulated interest income on state funds previously awarded to the BRA. This bill requires no appropriation. DEM supported the legislation last year.

Tax Credit Flexibility Act (H. 3435)

The BRA has worked with the Environment Department on legislation to make the state's existing brownfields tax credit transferable to eligible persons or corporations. The bill would encourage brownfields cleanup and development by allowing nonprofits and smaller businesses with limited tax liability to make use of the credit.

Affordable Housing Incentive Act (H. 3317)

- Purpose:** To promote the affordable housing goals of Chapter 40B and to establish a system for contributions to the Commonwealth's affordable housing trust fund.
- Description:** Chapter 40B establishes a goal that 10% of a city or town's housing stock should be affordable. Currently, only 19 (of 101) communities in Boston's Metropolitan Area Planning Council (MAPC) meet this goal and most fall far short. Since the current housing crisis requires all communities to do their share, the state needs to do more to encourage the 10% goal of Ch. 40B.
- One way of doing this is to require communities not meeting the 10% goal is to pay a fee to the new state Affordable Housing Trust Fund to subsidize affordable housing. The contribution would be based on each community's affordable housing "gap" as reported by the Department of Housing and Community Development.
- Other details include:
- additional exemption for cities and towns making progress towards new affordable housing construction as evidenced by new building permits
 - priority for competitive state grant programs
 - two year phase-in period
- Budget Impact:** For the State, administrative costs only. Contributions to the Affordable Housing Trust Fund would come from cities and towns. Subsidies for new housing development would come from a variety of existing federal and state funds, as well as from non-profit and private sector development. Trust Fund revenues would be available to help communities meet their goals.

Budget Surplus for Affordable Housing (H. 3327)

- Purpose:** To require that 10% of the state's budget surplus be contributed to the Affordable Housing Trust Fund.
- Description:** The bill would earmark 10% of the yearly budget surplus for affordable housing construction. This requirement would be waived in years when (1) there is no surplus, or (2) the housing vacancy rates in major metropolitan areas rises above 6%.
- Even after the tax rollback, the Administration predicts a state budget surplus of \$200-500 million in FY2001, which would mean, conservatively, an additional \$20 million for housing. Given the severity of the housing problem and the current booming economy, the state can and should devote more resources for housing.
- Channeling surplus money through the Affordable Housing Trust Fund (instead of to existing state programs) also ensures that existing budget lines will not be reduced and allow communities with innovative ideas as well as traditional ones to be eligible for funding.
- Budget Impact:** Administrative costs only. By requesting funds only when a budget surplus exists, this has no impact on other sections of the state budget and does not produce deficit spending.

Lease-to-Purchase Mortgage Program (H. 3322)

- Purpose:** To create homeownership opportunities for moderate-income families for whom the down-payment can be an obstacle to ownership.
- Description:** The legislation would direct the DHCD to create a pilot program for lease-to-purchase mortgages. Typically in these programs, such as those using a Fannie Mae lease-to-purchase mortgage instrument, housing is sold to a nonprofit agency which then “leases” the property to eligible buyers whose lease enters them into a contract to take title on the property in the future. Eligible buyers would need to qualify for mortgage financing. Their contracts would establish rental payments covering necessary costs (property taxes, interest on mortgage, etc.) and set up escrow accounts that would accumulate for a period up to 5 years sufficient to cover the down-payment.
- There are many examples of successful lease-to-purchase programs in other cities. By enabling eligible homeowners to “lock in” the purchase price of a home while at the same time that they are accumulating savings for a down payment, it can provide a way for moderate-income individuals and families to become homeowners.
- Budget Impact:** There will be some administrative costs. As a pilot program, the amount of money appropriated can be capped at \$2.0 million or no more than 20 mortgages per year.

Charitable Tax Credit Eligibility for Donations to Affordable Housing Construction (H. 3440)

Purpose: To encourage public-private partnerships by creating tax incentives for in-kind contributions to nonprofits for housing development so as to reduce the cost of building affordable housing by making certain donations eligible for the state charitable tax deduction.

Description: To help lower the costs of construction or renovation to create affordable housing units. Chapter 62, Sec. 3 (B)(a) could be amended to make eligible for the state's new charitable tax deduction specific in-kind contributions given to non-profit groups engaged in affordable housing construction. Examples would include: building material (lumber, plumbing, etc.), labor (construction work, electrical work, etc.), professional services (architects, attorneys, etc.) The tax deduction would be available to: (1) the business, firm, or individual providing the material or service and (2) corporate sponsors who purchase these materials or services and donate them to the non-profit group. Eligible nonprofits would be defined as a CDC or an incorporated (501)(c)(3). Only contributions dedicated to a specific housing construction project would be eligible.

This would provide an economic incentive for corporate donors or professionals doing pro bono community service to dedicate their resources towards affordable housing, as opposed to other charitable efforts. Reducing material or labor costs should also reduce financing costs, also helping to make these projects more feasible. Similar pilot projects in other cities have found that such donations can significantly reduce the cost of housing construction.

Budget Impact: The cost of this program will obviously depend upon the participation rate. By encouraging people to donate services and materials to developers of affordable housing, the people of Massachusetts will gain nearly ten dollars worth of housing for every dollar spent by the state. Last year, 1,012 affordable units were built in Boston. If \$5,000 in services and \$10,000 in materials were donated to each unit, the state would have lost \$1.4 million in taxes while leveraging \$15.2 million for affordable housing construction.

Increase Rent Allowance for Families Receiving Temporary Assistance (H. 3347)

- Purpose:** To increase the rent allowance for individuals receiving Temporary Assistance to Needy Families (TANF) benefits
- Description:** Federal welfare laws now impose limitations and work requirements on beneficiaries. Benefits are paid by states through federal block grants. States are allowed a good deal of latitude on how to spend the money—in Massachusetts, it is used for job training, child care, and other needs. While many welfare recipients are also getting housing subsidies (Section 8, public housing), 52% are renting private housing. The state provides a monthly \$40 rent allowance, which is woefully inadequate for families in the Boston area. The state has considerable unspent federal TANF block grant money--\$69 million leftover in FY99 alone. We ask that they use some of that to increase the allowance to this neediest group of families.
- We suggest increasing the monthly housing rent to \$100 for those individuals who do not otherwise receive housing subsidizes (Section 8 or public housing). Since the money is paid for by TANF funds, only families eligible for TANF benefits could get this subsidy. However, the state has considerable leeway in determining eligibility (for example, families in danger of homelessness or facing job loss). Again, this is federal money and would have no impact on the state's budget.
- Budget Impact:** None. Costs would be covered by unspent federal TANF funds already released to the state Department of Transitional Assistance.

Housing Bond Bill (H. 3439)

- Purpose:** To increase resources available to cities and towns for the production of new affordable housing units in the Commonwealth.
- Description:** In an effort to meet demand for affordable housing, new bond issuance would provide cities and towns with a variety of funding opportunities to help them to meet a wide range of housing needs. This includes:
- modernizing existing public housing units (\$180 million)
 - making needed infrastructure improvements with additional Community Development Action Grants (\$25 million)
 - Senior Citizen Housing (\$75 million)
 - building new scattered site family housing (\$75 million)
 - expanding the Housing Innovation Fund (\$40 million)
 - supporting mixed use housing in neighborhood commercial areas (\$5m)
 - creating technology centers in public housing (\$5m)
 - support for transit-oriented development pilot projects (\$5m)
 - creating youth programs in public housing (\$5m)
 - expanding the housing stabilization and investment program (\$25 million)
 - supporting new pilot and innovative financing projects (\$10 million)
- Budget Impact:** The bill requests new bond issuance of \$430 million.

High-Tech Internships for High School Students (H. 3441)

- Purpose:** To establish school-to-career internship programs in high tech, science, and engineering fields.
- Description:** The legislation would provide a tax credit of 10% of the costs companies spend on training expenses and wages used to establish school-to-career internship programs for high school students. The legislation would specify eligible job categories or industrial sector—the idea is to target high tech jobs. Internship programs would be developed by local governments and schools. It would include a community college partner so that participating students would be eligible for college credit for their work, giving students a head start if they should decide to go on to college later.
- These industries have been slow to partner with the city on job training programs. The tax incentives would help. The program would also help make the state competitive in this tight job market by helping existing students become part of a technology-savvy labor-force.
- Budget Impact:** Depends upon participation rates. A 10% credit on training and wages would cost the Commonwealth between \$2,500 and \$3,500 per intern. In the short term, these costs would partially be offset by the income tax generated by the intern's salary. Over a longer period, the participants' increased earnings because of improved skills will more than reimburse the State's treasury for its investment in them.

Individual Development Accounts (H. 3346)

Purpose: To establish a statewide Individual Development Account (IDA) program

Description: IDAs are matched savings accounts (similar to IRAs) that specifically designed to help low-income families accumulate savings that can be used only for education, homeownership, or starting a business. Individual contributions can be matched by a variety of public and private sources.

The legislation would establish an IDA program in the appropriate state department, which will be authorized to (1) solicit proposals from nonprofit organizations (CDCs, 501c3's etc) to administer programs across the state and (2) approve financial institutions to hold the accounts. Participation would be limited to individuals who are (1) receiving TANF benefits or who are TANF eligible, or (2) with an annual income below \$150% of federal poverty guidelines. Withdrawals from IDA accounts could be made only for approved purchases: education expenses, housing down-payment, establishing a business.

The legislation would

- establish a fund that would be used for state matches to individual savings of up to \$500 per year per participant
- would authorize using state TANF funds for matching contributions
- savings capped at \$2,000 per year per participant to a total of \$10,000

* note: federal welfare reform legislation specifically allows TANF funds to be used for IDAs and does not count IDA holdings towards assets used to determine TANF eligibility.

Budget Impact: Per-participant cost to State of \$500. Could potentially be funded using federal TANF block grant funding. Programs would be administered by non-profit organizations.

Help TANF Recipients Overcome Barriers to Employment (H. 3349)

Purpose: To provide assistance to welfare recipients in overcoming barriers to employment.

Description: A review conducted by the Boston Public Health Commission and the Department of Transitional Assistance found that recipients of TANF benefits who were unable to find a job before the expiration of their benefits often had severe barriers to employment and needed remedial and special services to overcome these obstacles. Early identification of these barriers could have allowed a more comprehensive program to be implemented, leading to a better job.

This bill would require the state to administer professional assessments of TANF recipients when they start receiving benefits. These assessments will be done through a collaboration between the Department of Transitional Assistance and the Department of Public Health. Additional time will be provided to families whose benefits will expire while participating in job training and remedial services and programs. This bill will also fund local workforce development agencies that provide remedial education and/or ESL programs combined with vocational skills training.

Description: A program to provide integrated education and training programs would be \$2.0 million. The cost of the assessment program would depend upon the number of assessments. In previous years, \$2.0 million was earmarked for assessments in DTA's reserve account.

Commercial Area Revitalization Districts (H. 3249)

- Purpose:** To amend Chapter 40D to give Boston and other municipalities the same ability as the state to offer low-cost financing to non-profit organizations.
- Description:** This legislation would make non-profit organizations located outside Commercial Area Revitalization Districts (CARDs) eligible for Chapter 40D tax exempt financing from the City of Boston through the Boston Industrial Development Financing Authority (BIDFA). The Commonwealth's financing arm, Mass Development, had its own statutory authority similarly amended. The bill would also make Main Streets programs eligible for this financing.
- Budget Impact:** Administrative costs only.

Long Wharf Repairs (H. 3384)

- Title:** An act regarding the expenditure of money for repairs and renovations to the Long Wharf in Downtown Boston
- Purpose:** To authorize the Department of Environmental Management to release to the BRA interest income that has accumulated on state funds to be used for state-mandated repairs to Long Wharf.
- Description:** Over several years, the DEM has transferred approximately \$1.4 million to the BRA for the purposes of making a series of mandated repairs to Long Wharf. Since 1990, the BRA has used the principal to cover the costs of construction, design work, etc. Over time, the principal amounts have accumulated interest, at this point approximately \$135,000. Although DEM would like to release this money to the BRA to continue repairs, they are not authorized to do so. This legislation would provide the necessary authorization.
- Budget Impact:** None. The money is existing interest income on already released grant money.

Tax Credit Flexibility Act (H. 3435)

Sponsored by the City of Boston's Environmental Department

PURPOSE: To increase the use of the state's existing brownfields tax credit by allowing eligible credits to be transferable for up to 75% of the original credit.

Description: The tax credit acts as an investment incentive for larger developers with large tax liabilities. This proposal is aimed at smaller companies or nonprofit organizations which do not have sufficient tax liability to take advantage of it. This can provide an important source of funding for further redevelopment. Because the legislation restricts its transfer to those already eligible, it ensures that those responsible for the contamination cannot take advantage of this option.

The legislation would:

- allow the transfer of brownfields tax credits at up to 75% of their value.
- restrict transfer to individuals or businesses already eligible for existing state tax credits.
- allows tax credit transfers only for successful cleanups.

Budget Impact: No new appropriation required. Although increased use of the tax credit would result in additional tax expenditures, these would be more than matched by increased private investment and the potential for new economic development.

Appendices

Appendix A:

- BOSTON'S STRONG ECONOMY – 2001: *A Strong Economy Continues In The New Millennium.*

Appendix B:

- *A New Housing Paradigm for Greater Boston*
- *Opportunity Knocks: Training the Commonwealth's Workers for a New Economy*
- *New Skills for a New Economy: Adult Education's Key Role in Sustaining Economic Growth.*

Appendix C:

- *Leading the Way: A Report on Boston's Housing Strategy, 2001-2003.*

BOSTON'S STRONG ECONOMY – 2001

A Strong Economy Continues In The New Millennium

A summary and update of Boston's most recent economic conditions.

Boston's economy continues to grow, expanding each of the past nine years since 1993, even though incomplete indicators show a level of growth in 2000 somewhat below the strong pace in 1999.

The number of jobs in the city continued to rise to an all-time high and unemployment continued at a record low pace, thanks to the city's diverse economy that includes financial and business services, research and development, health care and higher education, tourism and retail trade. Boston's office, hotel, and housing markets are among the strongest in the nation.

The following report presents the major economic, demographic and market indicators that demonstrate the strength of the city's current economy and Boston's place as the engine of the state and regional economies as well.¹

OVERVIEW OF CURRENT ECONOMIC CONDITIONS

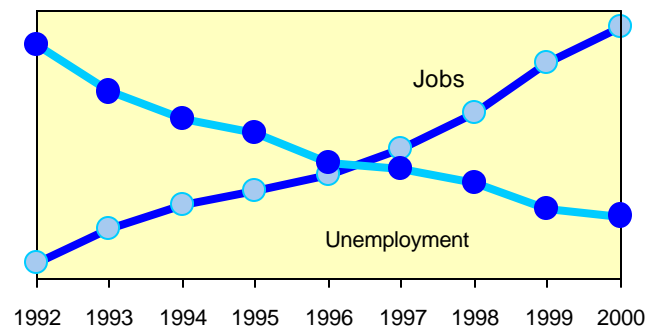
Boston is the economic hub of both the Commonwealth of Massachusetts and the New England region. It is a center for professional, business, financial, governmental, higher educational and medical services, as well as transportation, communication, export, cultural and entertainment activities. Research and development, high technology, manufacturing and wholesale distribution also contribute to the economy of the city and its suburbs.

The current economic expansion is in its ninth year, having begun its comeback in 1993. The Boston economy continued to grow in the year 2000 even though incomplete indicators show a level of growth somewhat below 1999's meteoric pace. These economic indicators reveal continued growth in increased employment, declining unemployment rates, continued strong office, hotel and residential real estate markets, an estimated \$2.11 billion in private

¹ The text and data for this report are based upon the City of Boston's bond prospectus from February 2001 but contain a summary section and include data for full year 2000 not yet available at that time.

development construction investment, and the continuation of several large public sector projects which will improve the infrastructure capacity of the city.

Boston's Jobs Reach All Time High - Unemployment Falls to Record Low



Over 104,000 jobs were added between 1993 and 1999; and preliminary numbers for 2000 show an increase of more than 123,000 jobs with the total number of jobs reaching over 700,000 - a modern high for the third year in a row. Unemployment continues to be low, with a 2.9% average rate for 2000 dipping to its lowest point in the 31 years of modern measurement.

Boston's office market demand remains high. With little exposure to the turbulent "New Economy" sector and a backlog of space requirements from traditional financial services and professional services firms, Boston continues to absorb new space even before it can be completed.

The downtown office market ended last year with a slim 1.5% overall vacancy rate. Class A vacancy was approximately 1.3% and net absorption in the city reached 2.2 million square feet as the Landmark Center and World Trade Center East opened their doors at 95% pre-leased. Average asking rents across all classes of space reached a record \$61.00 per square foot with Class A asking rents at \$70.00.

Hotels continue to post high occupancy and room rates even with new rooms added to the stock. Residential real estate has posted increasing sales since 1992 and housing sales prices, stable in the 1989-1995 period, have shown substantial gains since then.

POPULATION

Boston's population reached 589,141 according to the 2000 U.S. Census, registering its second gain in the past two decades as testimony to Boston's economic and social strengths and its physical attractiveness. Boston's population has grown again by attracting young professionals from all over the country and by its role as a gateway city for new immigrants from all over the world.

Boston is the center of a metropolitan area of more than 3.4 million persons, and is the capital of the Commonwealth, which has over 6.3 million residents. Boston is also the center of the nation's seventh largest Consolidated Metropolitan Statistical Area, which stretches from Maine and New Hampshire down to Southeastern Massachusetts and Connecticut and contains 5.8 million people.

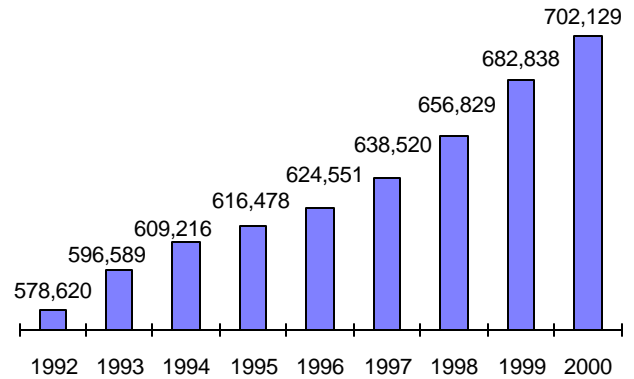
The population of Boston is young, in large part because of the high concentration of younger adults who come to the city to attend school or to work. Another characteristic of Boston's population is shown by the racial and ethnic diversity of its residents: the racial composition is 49.5% white and 50.5% minority. Hispanics and Asians are the city's fastest growing minority groups.

EMPLOYMENT

In 1998 the total number of jobs in Boston reached a modern high and in each of the past two years that high has been exceeded. The number of jobs in Boston reached an all-time high of 682,838 in 1999, a gain of 104,218 since the low point of the recession in 1992 and preliminary data for 2000 show the total number of jobs in Boston reaching over 702,000.

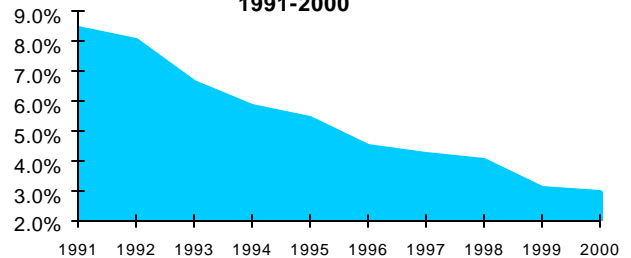
Boston's unemployment rate continues to decline. In 2000 Boston's annual average unemployment rate fell to 2.9%, the lowest rate in the 31 years of modern measurement and well below the recessionary peak of 9.5% reached nearly ten years ago in July 1991. The average annual number of persons unemployed has fallen from 25,186 in 1991 to only 6,772 in

Jobs in Boston 1992-2000



December of 2000. Boston's unemployment rate for 2000 was slightly above the Massachusetts rate of 2.6%, and well below the national unemployment rate of 4.0% in 2000.

Boston's Annual Average Unemployment: 1991-2000



COMMERCIAL MARKETS

Boston continues to show economic strength in the hotel, office, and retail market sectors.

HOTEL MARKET. Boston's strong hotel market has stimulated considerable new development. Since 1980, the number of hotel rooms in the city has nearly doubled, rising from 6,907 to 13,673 by December 1999. Despite the additional number of rooms, the average annual occupancy rates grew steadily from 72.3% in 1992 to 74.8% in 1999 and the average daily room rates rose from \$117.57 to \$188.82 during that same period. For 2000, occupancy was up to 78.6% and the average daily room rate was at \$200.10.

As of December 2000, three new hotels representing 473 new rooms were under construction, while applications to construct fourteen additional hotel projects with a total of 5,036 rooms had been filed requesting Boston Redevelopment Authority (BRA) approval.

OFFICE MARKET. Boston's office market is also one of the nation's strongest and currently contains 62.3 million square feet of office space. As of December 31, 2000, the overall vacancy rate was about 1.5%, the Class A vacancy rate was 1.3%. According to the CB Richard Ellis Office Vacancy Index, Boston's Downtown office market vacancy rate was second only to San Francisco.

In 1999, three major office projects were completed: the 400,000 square foot Lafayette Corporate Center at Downtown Crossing, the 480,000 square foot renovation of the Fargo Building on the South Boston Waterfront, and the renovation of 220,000 square feet at 255 State Street. In 2000, three additional office projects were completed: the 475,000 square foot World Trade Center East office tower on the waterfront, the renovation of the 200,000 square foot Renaissance Center near the Ruggles Stop on the Orange Line in Roxbury, and the 600,000 square foot Landmark Center reuse project in the Fenway.

As of December 2000, 15 office projects with 4.8 million square feet of new office space were under construction and scheduled for completion in the 2000-2003 time period, both downtown and in the neighborhoods. Another seven projects, which would add 4.6 million more square feet to the office supply, are in the planning stages.

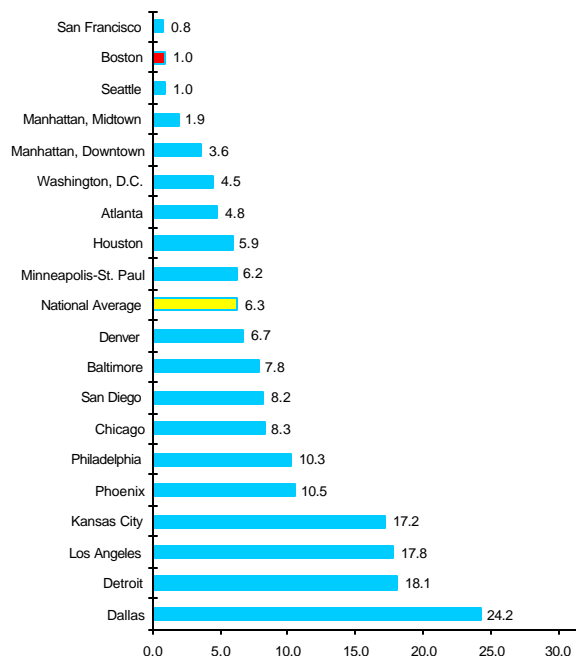
RETAIL MARKET. As of 1997, the date of the last U.S. Economic Census, Boston's metropolitan regional retail market was the ninth largest in the nation. Over 2,200 retail establishments were located in the city, containing 10 million square feet, and enjoying estimated total sales of \$5.6 billion.

Recent major retail projects opening downtown include Borders Books and several new stores in the Lafayette Corporate Center at Downtown Crossing. There are currently 200,000 square feet of retail and theater space under construction at the Millennium Place on lower Washington Street.

In the neighborhoods, the South Bay Center Mall, open 24-hours-a-day, is home to some of the highest grossing stores in the nation for an inner-city location and the newly-opened Landmark Center in the Fenway contains roughly 200,000 square feet of retail and theater space. Three buildings with first floor retail space are being renovated in Dudley Square and a new mini-mall has opened in Grove Hall. Nine new neighborhood supermarkets have been built throughout the city, two have been renovated, and nineteen

business districts are now participating in The Main Streets Program, a public-private initiative established in 1995 to revitalize neighborhood commercial districts.

Office Vacancy Rates for the 20 Largest Downtown Office Markets



HOUSING MARKET. According to the U.S. Bureau of the Census, the city's housing stock consisted of 250,863 units in April 1990.

After nearly six years of relative stability between 1991 and 1996, home prices have risen at a fast pace since the first quarter of 1996. The National Association of Realtors reported that the median sale price of existing homes in the Boston metropolitan area was \$290,000 for 1999, a 12.2% increase over 1998. The third quarter 2000 price was \$356,000, up 18.3% above the third quarter in 1999.

Within the city, residential sales prices have been increasing steadily since 1997. The median sales price for a single-family home in Boston reached \$209,000 in the second quarter of 2000, up 35% over two years. Condominium prices have also increased from \$179,000 in the second quarter of 1998 to \$221,000 in the second quarter of 2000, a 23% rise. Total home sales were 10.4% higher in 1999 than in 1998, but were off by -13.3% for January through October of 2000 compared to the same period in 1999.

As far as the rental market was concerned, a survey of the Rental Housing Association of the Greater Boston Real Estate Board found the 1998 rental vacancy rate was 2.12%, while a study done by the city's Department of Neighborhood Development showed that the median advertised rent for an apartment in Boston was \$1,495 per month for mid-year 2000, up from \$1,400 per month at mid-year 1999.

PRIVATE DEVELOPMENT

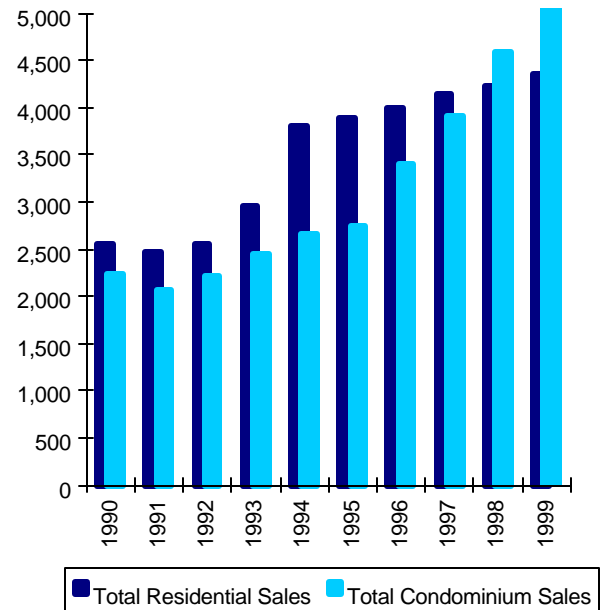
During the last four decades the public and private sectors have carried out a major expansion of capital construction and investment activities. Revenue from building permit activity fees during fiscal 2000 represented \$2.11 billion of total construction activity. Data from July through October 2000 showed projected building permit revenues running slightly ahead of the same period last year.

Development is presently centered on the three new hotels and 15 office projects under construction. Retail development is also moving forward with large mixed-use projects downtown and in the Fenway, a boom in construction of neighborhood supermarkets, and the revival of many neighborhood retail districts through the Main Streets program. Residential housing development is also taking place, of both "affordable" and "market rate" units.

Boston's medical and higher education institutional sectors also continue to invest in new facilities. As of December 2000, Tufts University was constructing a new \$40 million biomedical research building and nutrition center on Harrison Avenue, Children's Hospital had both a medical research building and a clinical building approved to start, and a number of other new buildings in the Longwood medical area were significantly along in the approval process.

Completed in 2000 were an 819-bed dormitory at Boston University, two smaller dormitories totaling 470 beds and a Science Center at Northeastern University. Currently under construction are dormitories at Massachusetts College of Art and Wentworth Institute, a new student center at the Harvard Business School. More projects at all these institutions and at Boston College have

Annual Residential and Condominium Sales in Boston: 1990-1999



received approval and will be starting construction soon.

Private development is also proceeding along the South Boston waterfront. In February, 1999, the Boston Redevelopment Authority presented a Seaport Public Realm Plan to guide future growth in the 1,000 acre South Boston Waterfront district of the city. In addition to a new Boston Convention and Exhibition Center, the plans calls for creation of an additional 16-21 million square feet of development, including 6,000 new hotel rooms, up to 8,000 units of housing (at least 10% of which will be affordable), and 44 acres of open space, including an extension of the city's HarborWalk. Already, new hotels and office buildings are open or under construction there, and proposals for further development are being proposed to city and state agencies.

In August 2000, state legislation was enacted authorizing public support for a plan by the Boston Red Sox to replace Fenway Park, its baseball stadium, with a new facility at the current site expanded to include adjacent areas. The legislation included provisions for the city to acquire and finance the site and the state to pay for transportation-related infrastructure improvements in the area. Subsequent to passage of this legislation, however, the current owners announced that the team is for sale. New private development is expected to continue

during the next several years, with the strong economy stimulating demand, drawing down vacancy rates, and making new construction more desirable and financially feasible.

EMPOWERMENT ZONE DESIGNATION

In January, 1999, the City of Boston was designated an Empowerment Zone (EZ) community by the U.S. Department of Housing and Urban Development. The ten-year EZ designation brings with it \$130 million in tax-exempt bonding authority for qualified projects, and \$100 million in grants to support job creation, business development, home ownership opportunities, affordable housing creation, transit system improvements, computer technology training, and job training and educational efforts. The Empowerment Zone, wholly in Boston, is a 5.8 square miles area that includes parts of the neighborhoods of South Boston, Downtown, the South End, Roxbury, Jamaica Plain, and Mattapan, containing 57,640 residents – roughly 10% of the city's population.

LARGE PUBLIC SECTOR PROJECTS

Throughout the year 2004, Boston will continue to be the site of several major public sector projects which will significantly improve the infrastructure and increase the city's ability to attract and accommodate visitors.

NEW CONVENTION CENTER. The new 1.7 million square-foot Boston Convention and Exhibition Center will be built on a 60-acre site in South Boston through the joint efforts of the City of Boston, the Commonwealth of Massachusetts, the BRA, and the Massachusetts Convention Center Authority (MCCA). The facility will include approximately 500,000 square feet of contiguous exhibition space on one level, 150,000 square feet of meeting space and a 50,000 square foot ballroom, as well as banquet and lecture halls.

Under the legislation authorizing the development, the BRA has been responsible for site acquisition, demolition, site preparation, environmental remediation, and tenant relocation. The BRA has completed site acquisition for the BCEC, site preparation is on schedule, and tenant relocation is proceeding. The MCCA has announced a design plan for the BCEC and the project is currently expected to be completed and open for operation in 2004.

OTHER PROJECTS. As of June 30, 2000, the depression of the Central Artery, the section of U.S. 93 that runs through downtown Boston, together with and

the construction of the four-lane Ted Williams Tunnel under Boston Harbor in 1995 are now estimated to cost up to \$14.1 billion. It is estimated that these two transportation projects have employed about 5,000 on site workers and 10,000 auxiliary workers during the peak years of construction in 1998 through 2001.

The Massachusetts Water Resources Authority (MWRA) has recently completed construction of one of the largest wastewater treatment facilities in the nation, a \$3.9 billion project which is bringing wastewater discharge in Boston Harbor into compliance with federal and state requirements. The MWRA is planning to spend another \$1.9 billion on additional wastewater and water system improvements over the next ten years. While relatively small portions of these improvements are located in Boston, they should nonetheless provide major improvements in the system infrastructure that serves the city.

The Massachusetts Port Authority (Massport) has undertaken a long-range \$3.0 billion capital improvement program for its facilities, most of which are located in the city. Included is the \$1.0 billion Logan Airport modernization project, currently underway, which includes a new roadway system, 3,150 car parking garage, public transit terminal, 600-room hotel, as well as major terminal renovations and improved signs and walkways.

The Boston Housing Authority (BHA) is currently undertaking major revitalization initiatives at two of its public housing developments: Mission Main, in the Mission Hill neighborhood of Boston, and Orchard Gardens in Roxbury. The BHA received two HOPE VI grants from the Department of Housing and Urban Development, totaling \$80 million, to implement these initiatives, which are designed to revitalize not only the BHA sites, but the surrounding neighborhoods as well.

By providing new and improved housing, transportation, convention, and water treatment facilities, these major infrastructure projects will increase private development investment, resident jobs and wages, and spin-off spending throughout the local economy into the 21st century.

A New Paradigm for Housing in Greater Boston

A report prepared by

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FleetBoston Financial

Greater Boston Chamber of Commerce

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Housing Partners Inc.

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Executive summary

Greater Boston's economic renaissance, begun nearly two decades ago, has endowed the region with an extraordinary labor market where unemployment remains below 3 percent and family incomes are rising faster than in almost any other metropolitan area in the nation. The market has been so strong that it has attracted professional workers to the region from other parts of the country and a new wave of immigrants from abroad.

But prosperity brings its own challenges. None is more acute than the region's severe housing crisis. Vacancy rates are now so low that home prices and rents are being bid up substantially faster than most household incomes. Between 1995 and 1999, the median price of a Greater Boston home shot up by a nominal 35 percent while incomes rose by a healthy, but more modest, 25 percent. As a result, many long-time residents of the region, in addition to many newcomers, are facing a severe affordability gap between their incomes and what they must pay to rent housing or purchase a home. Prices and rents are rising so quickly that not only are the poor in trouble, but an increasing number of working and lower middle income families worry that prosperity may price them out of the Boston housing market. Indeed, if housing prices continue to rise, the housing crisis could pose a barrier to the future growth of the region as employers find it difficult to recruit workers and are forced to locate elsewhere.

We face the equivalent of a natural disaster such as a destructive hurricane or flood. Thousands of housing units that many families could afford have "disappeared" from the housing stock. Physically, those units are still standing, but for these families they might just as well have been destroyed by wind or flood.

Short of a disastrous economic recession, the affordability gap can only be allayed by a significant increase in housing supply. We must preserve existing affordable housing and boost the number of new housing units throughout the region. As long as vacancy rates remain exceptionally low – below 1 percent for single-family homes and only 3.1 percent for rental units – any further increase in family income will be met by an even faster increase in housing prices and rents. Prices and rents could rise as much as 40 percent *faster* than family incomes, if vacancies remain at the current rate. This will mean that tens of thousands of more families will be forced to pay an ever higher share of their incomes for basic shelter – or leave the region altogether.

If the disappearance of affordable housing had been caused by a natural disaster, there is no doubt the state and federal government would have immediately offered assistance to rebuild the lost housing stock. Low cost loans and other assistance would have flowed into the region to the tune of hundreds of millions or even billions of dollars.

Without such a natural disaster, we must find an equivalent response. **That will mean the private sector and the public sector must work together to “rebuild” the supply of housing that is affordable to households of all income levels.** This can only be done with all sectors of society assuming *collective responsibility* for solving the problem.

The goal should be to provide enough new housing to keep prices and rents rising no faster, or even slower, than the rise in family incomes. If we can create enough housing to raise the average vacancy rate to a more optimal level, the responsiveness of housing prices and rents to rising income should fall to the more normal .5 to .7 range. That would mean as incomes rise by, say, 10 percent, housing prices would rise by only 5 to 7 percent. In that case, as economic growth continues and family incomes improve, housing will become more affordable over time.

To increase the supply of housing, we will need to overcome **social and political barriers** on the one hand and economic barriers on the other. Many residents and political leaders are anxious about adding new housing to their communities, fearing this will threaten the character of the community and lead to additional costs related to schools and public infrastructure. Others fear they will be inundated with newcomers, some of whom have lower incomes and who would increase the need for social services. To overcome these barriers, we must create attractive mixed-income, mixed-use communities. Wherever possible, housing should be built according to the principles of the classic “urban village” community, with economically diverse households, and a mix of

land uses that includes housing, commercial activity, cultural amenities, social services, and public transportation. The urban village model emphasizes “infill” development – the strategy of filling in gaps within existing communities – that strengthens existing commercial and residential areas. Cities and towns should adopt incentives that encourage developers to build mixed-income housing, while state assistance should be made available to help offset the costs of additional local public outlays for schools and infrastructure.

To deal with the **economic barriers** that limit the production of mixed income housing, we must proceed along several tracks. On one, we must work earnestly to amend state and local building codes, speed up permitting and inspection services, streamline government financing mechanisms, and revisit zoning laws – all in the name of reducing the time and cost of producing housing without compromising safety or environmental quality. Experts suggest that such regulatory reform could reduce the overall cost of building housing by anywhere from 5 to 40 percent – encouraging the private and non-profit sectors to expand the housing supply substantially. The other extraordinary cost is land. Here, local governments and the state could assist by making existing parcels of land available at reduced or zero cost to developers who commit to producing affordable housing.

Universities and private business also need to play a strong supportive role in meeting the housing crisis. Boston-area universities and colleges need to further increase the supply of student residence halls to take pressure off of the neighboring housing stock. Large private firms – particularly those that are expanding employment in the region -- should also help by committing to the construction of market rate housing or could contribute to the state’s new Housing Trust Fund. By pairing with private developers, these firms could help solve the housing supply problem that their own expansion plans help to fuel.

Finally, the state and federal government will need to significantly increase their own investment in housing through an expansion in subsidy programs.

HOW MUCH ADDITIONAL HOUSING DO WE NEED?

Over the past five years, the number of housing permits issued in the Boston metropolitan area has increased from approximately 6,500 in 1995 to 8,400 in 1999. The economic boom has generated a demand for new housing, a portion of which is being supplied by the market.

Despite this increase in housing production, vacancy rates have continued to fall below optimal levels – well below the rate of 2 percent for single-family

homes and 6 percent for rental units. This suggests that even with the recent increase in housing production, the supply of units is lagging behind demand.

To meet the demand and dampen the cost of housing, it will be necessary to build sufficient numbers of units to account for the natural increase in population as well as to increase the vacancy rate to a more optimal level. Greater Boston needs to add approximately 10,000 new housing units a year simply to keep pace with growth in the number of households and a modest increase in the population. In addition, we need to construct 5,100 additional units a year to raise the vacancy rates. Assuming the current production rate does not decline, ***this leaves a production gap of approximately 7,200 new units a year in Greater Boston – a total of 36,000 units above current production levels over the next five years.***

This production goal does not include the need to stop or replace the loss of affordable units due to the conversion of subsidized units to market rate, condominium conversion, and demolition. Units that are lost will need to be replaced in order to meet the production goals outlined in the new paradigm strategy. Federal, state, and local officials will need to continue their efforts to secure funds to preserve existing affordable units.

To meet the production goal of 36,000 new units, we propose the following:

(1) Universities and colleges should collectively agree to build a total of 7,500 student residence units over this five-year period – an average of 1,500 per year. Currently, 3,450 units of student housing are planned or under construction. Boosting this number to 7,500 units over the next five years will allow the region's institutions of higher education to house as many as 21,000 additional students, reducing pressure on the rental housing market.*

(2) Private, for-profit developers should be encouraged to boost their production of market rate and subsidized housing in response to a streamlined regulatory and zoning environment. Based on estimates of the Rental Housing Association of the Greater Boston Real Estate Board, such streamlining could result in an additional 1,350 market rate, middle-income rental units a year just in the City of Boston itself. Overall, the private sector should commit itself to producing an additional 2,700 units a year, or 13,500 units over 5 years in market rate and owner-occupied housing – an increase of roughly one-third over current production levels.

* This number, 21,000 students, assumes that a new residence hall unit will accommodate an average of three persons per unit.

(3) Local, state, and federal government agencies must be encouraged to engage in regulatory reform and increase funding to assist with subsidizing the remaining 15,000 needed units – an additional 3,000 units per year over the next five years. This housing will provide opportunities for low and moderate-income families to pay rents that are more affordable. Local governments can make available surplus property. The Commonwealth can help by endowing the state's new Housing Trust Fund with an on-going revenue stream to underwrite subsidized housing built by private, for-profit and non-profit developers. The federal government can help by adding funds to existing housing production subsidy programs.

(4) Private business, church groups, labor unions, and other civic institutions can also help to mitigate the housing crisis by contributing funds for the development of housing and by providing land for new construction. These organizations can also advocate for an increase in housing resources on behalf of their members and employees, particularly within communities that are hesitant to encourage new housing production. Most importantly, these organizations can encourage all of their members to embrace and support affordable housing development in their communities.

Altogether, we estimate that given current projections of economic growth and housing production costs, the **private and public sectors** need to provide a little more than \$300 million in additional subsidies each year for the next five years for a total of \$1.5 billion. This will provide a net addition of 15,000 units of the total 36,000 needed in the Greater Boston area. Part of this subsidy can come in the form of land dedicated by the state and/or local government, and by private institutions for affordable housing; another share could come from the state Housing Trust and other state housing programs; while the remainder might be found in expanded federal subsidies including increases in the Low-Income Tax Credit (LIHTC), the HOME block grant, Community Development Block Grants (CDBG), and the private activity bond cap.

This, then, provides a bold challenge to all of the communities in the Greater Boston region. The public, the private, and non-profit sectors all have a role to play in meeting the housing crisis. That means overcoming the social and political barriers to increased housing production, and finding in this booming economy, the funds necessary to meet the housing needs of all our region's citizens.

Opportunity Knocks

Training the Commonwealth's Workers for the New Economy

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March 2000

A Joint Project of:



Mellon
Mellon New England

MassINC

The Massachusetts Institute for a New Commonwealth
Lifelong Learning Initiative

EXECUTIVE SUMMARY

Massachusetts has always lived by its wits. Education and technological sophistication have always mattered more in this rocky northern commonwealth than in locales more favored by geography. This heritage makes Massachusetts well-placed to prosper in the new economy. But one worrisome problem both dims the luster of the current boom and might even cut it short—inadequate skills. Shortfalls in human capital, as a series of MassINC reports has argued, threaten to inflict major damage on two fronts.

First, the state's middle class—the anchor of our commonwealth's economy, culture, and civic life—is under pressure. The income growth of families with one or more high-end professionals or technical workers is far outpacing families with less-skilled breadwinners. The widening economic gap between the have's and have-not's implies a host of troubling consequences on the social, political, and civic scenes.

Second, Massachusetts businesses are finding their competitive advantages eroding because critical positions are going unfilled. Employers are now faced with a threefold dilemma: Native Massachusetts workers too often lack the skills that new jobs require. Few skilled workers from other states are willing to migrate here. And many companies see their most skilled workers enticed by opportunities in lower-cost locales in the South and West.

MassINC's previous study, *The Road Ahead*, found that the Massachusetts labor force grew by less than one percent from 1990 to 1997, slower than the pace in 46 other states and starkly short of the 8 percent national average. The report also found that 220,000 more people left the state than moved here between 1990 and 1997. This discouraging aggregate trend concealed an intensified exodus of the young and educated. Of those 220,000, almost 90,000 had college degrees and 126,000 were 25-34 year-olds.

The state's current boom cannot be sustained without adequate supplies of skilled labor. We need to make the most of every worker, and recognize that wasting workers through needless skill deficiencies is as real a loss as the brain drain to other states. Only by raising the Commonwealth's skills

base, especially among our least skilled workers, can we begin to reduce economic disparities and reinforce the economic vigor we currently enjoy.

But we are not well positioned to pursue this mission. Our top colleges and universities are second to none. Serious bipartisan efforts at primary and secondary education reform promise to improve the skills of the next generation. Many employers provide ongoing training for their own workers—but mostly for those who already have strong skill foundations.

Massachusetts's weak suit—compared to other states, and to our own needs—is providing skill-building opportunities for adults, especially lower-middle-class and working-class adults.

New federal legislation—the Workforce Investment Act of 1998—provides a rare occasion for Massachusetts to rethink, reorganize, and reinforce its workforce development efforts. But the new legislation is more an invitation than a mandate. It leaves key decisions (and most of the burden) to the separate states. We can use this occasion to build on strengths, make good our weaknesses, and integrate scattered programs into a true workforce development system. Or we can slide by with the minimal changes the new law requires.

Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost.

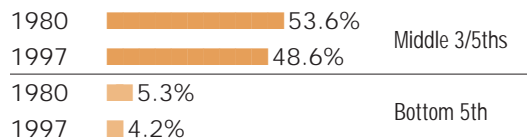
If we squander this special opportunity to use the Workforce Investment Act as a lever for reform, however, we will be passing on a chance that other states are unlikely to miss. Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost. Massachusetts can maintain its lead in top-flight, highly adaptable labor. It can deliver the skilled hands and minds to staff our businesses, swell the ranks of taxpayers, shrink the ranks of dependents, and help thousands more of our citizens firmly secure their place in the broad middle class. But we can only do this by building and funding a workforce development system that goes beyond the ambitions of the past.

KEY FINDINGS

Income inequality has increased starkly over the past two decades despite years of sustained economic growth.

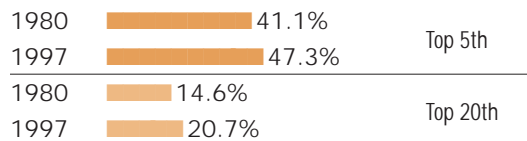
- The fraction of family income collected by the broad middle class—the middle three-fifths of the income spectrum—dropped from 53.6 percent to 48.6 percent from 1980 to 1997. Over the same period, the share of family income collected by the bottom fifth of families nationwide fell from 5.3 percent to 4.2 percent. *See page 6.*

Family Income Falls for the Middle and Bottom



- The income share of the top fifth of American families, meanwhile, has risen from 41.1 to 47.3 percent—and, within that top fifth, the top *twentieth's* share of total family income has gone from 14.6 percent in 1980 to 20.7 percent in 1997. *See page 6.*

Family Income Rises for the Top and Very Top



- One study that examined state-by-state average income for families with children in 1985-87 and again in 1994-96 found that the top fifth of families in Massachusetts gained an average of 15 percent in annual income while the bottom fifth *lost* an average of 8 percent, once inflation is factored in. During this decade the U.S. as a whole saw a little more gain at the top (16 percent) but considerably less loss at the bottom (3 percent). *See page 6.*

The evidence is clear: investments in human capital increase the economic returns to both employers and workers.

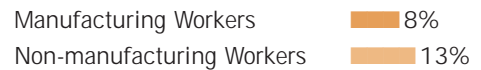
- While earning power is surely affected by genetic endowment, family background, luck, timing, individual character and work experience, there is ample evidence that investments in human capital matter

greatly on their own. Researchers have found that a year of post-secondary education increases annual earnings by 5 to 10 percent, even after controlling for other factors and (importantly) whether or not that education was from a two-year or four-year college program. *See page 5.*

- Indeed, human capital need not be acquired in an educational institution. Research suggests that a year of structured on-the-job training can have the same impact on wages as a year of college. *See page 5.*

- Using data from a nationally representative survey of U.S. employers in 1994, researchers found that increasing the average educational level of workers in a firm by one year raised productivity as much as 8 percent in manufacturing industries and 13 percent in non-manufacturing industries. *See page 5.*

Productivity Rises When Average Worker's Educational Level is Increased One Year



The economic returns to skills are increasing—even as college enrollments increase.

- Economic divisions among American families are deepening along educational lines. Professional families averaged more than three times the income of high-school graduate families in 1998, and their income has grown three times as fast since 1991. *See page 4.*

Education and Family Income in the 1990s*

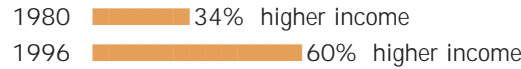
Education of Family Head	Average 1998 Family Income	Real Growth 1991-1998
High School dropout	\$33,356	4%
High School graduate	\$48,434	8%
Associate's degree	\$63,524	10%
Bachelor's degree	\$85,423	13%
Master's degree	\$101,670	17%
Professional degree	\$147,170	24%

- In 1980, male college graduates collected 34 percent more annual personal income, on average, than high-school graduates. Men with some post-graduate education, in turn, earned 15 percent more than

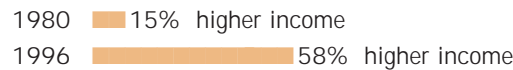
* Current Population Survey historical data, Table F-18, from <http://www.census.gov/hhes/income/histinc/f018.html>, accessed November 1999.

those who stopped with the bachelor's degree. By 1996, college graduates earned 60 percent more than high-school graduates. And men with post-graduate degrees earned 58 percent more than college graduates. In other words, in just sixteen years the best-educated men went from earning roughly one and a half times as much as high-school graduates to earning over two and a half times as much. *See page 4.*

Male College Graduates Earn Increasingly More Than Their High School Graduate Counterparts

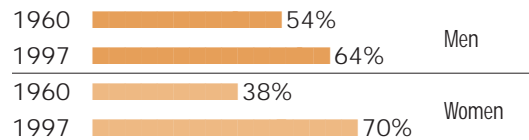


Male Post-Graduates Earn Increasingly More Than Even Their College Graduate Counterparts



- The widening of the education premium is even more striking when one considers that it has occurred in the context of a rapidly rising *supply* of educated workers. In 1960, 54 percent of male high school graduates and 38 percent of female high school graduates enrolled in college. By 1997 college enrollment rates had soared to nearly 70 percent for young women, and close to 64 percent for young men. *See page 4.*

College Enrollment Rates of High School Graduates



Many Massachusetts employers provide training to at least some of their employees—but training goes disproportionately to those employees who already have high levels of education and skill.

- For both the U.S. and Massachusetts, virtually all employers with more than fifty employees provided or paid for some type of formal training for at least some employees. Smaller employers are considerably less likely than larger employers to have established formal training programs. This difference in the probability of providing training, depending on the size of the business, is particularly important in light of the fact that unskilled and lower skilled workers are employed disproportionately in smaller firms. *See page 24.*

- Very few employers (nationally or within Massachusetts) offer any basic skills training. Within Massachusetts, only one percent of all businesses provided any basic skills training to their employees, and hardly any of the smallest businesses did this. *See page 24.*
- Employers in both the U.S. and Massachusetts, on average, are more likely to provide job skills training programs for managers, computer technicians and sales workers than for production or services workers. So skill begets skill. In other words, workers who have a lot of skills when they enter a firm are more likely to receive additional skills. But workers that are “skill deficient” when they enter a firm are less likely to get training from their employers. *See page 24.*

- Small businesses in Massachusetts are less likely to provide training for production workers and clerical workers than the US average. Over a third of U.S. firms include clerical and production workers in their skill-training programs; around a quarter of the Commonwealth's firms do so. Since we know that these same types of workers are *also* less likely to be upgrading their skills at community colleges, JTPA and state-funded training programs in Massachusetts than in other states, this result is cause for concern. *See page 25.*

Massachusetts has no organized workforce development system designed to lift the skills and education levels of our many low-skilled workers.

- Current efforts represent a hodge-podge of efforts—Welfare Reform, Adult Basic Education, job training (through the Job Training Partnership Act, which will be replaced by the Workforce Investment Act in July 2000), incumbent worker training financed with Unemployment Insurance funds, and community colleges supported by state appropriations and tuition fees (some subsidized, directly or indirectly, by the state and federal governments). Each has its own funding streams, which are often complicated—and its own reporting mechanisms, which are not uniform across different parts of the system.
- There is no information system in place that allows taxpayers, employers, and workers to evaluate how each of these elements of our workforce development “system” are performing. Consequently, there is too little real accountability and no easy way to demand more of it.

New federal legislation provides Massachusetts with a lever to create a unified workforce development system for the first time.

- The Workforce Investment Act was passed in 1998 — a rare, bipartisan accomplishment following years of struggle and debate in Washington.
- WIA is a significant—but imperfect—change to the old federal system embodied in the Job Training Partnership Act. It calls for:
 - Consolidation and coordination among workforce-related programs,
 - “One-stop” service for job-seekers and employers,
 - Information-based accountability, and
- Customer choice and competition among service providers.
- It encourages states to integrate programs for the unemployed and workers (including the working poor).
- But the fine print in the WIA gives states the option of making only minor changes to the old system.
- And the rhetoric of the new federal law is undercut by the fact that there is little new money to match the expanded mission. Moreover, the funding formula Washington uses means Massachusetts gets a small share of what money there is.

RECOMMENDATIONS

Recommendation 1: Focus on measurable performance outcomes and hold elements of the system accountable for results. *See page 47.*

- **Build the state’s new workforce development system using key features of the state’s K-12 Education Reform model.** The K-12 model hinges on two interlocking features: a renewed funding commitment and a concerted push to create performance measurements and accountability mechanisms that will provide both customers and taxpayers with easy-to-understand data on the value of their investments.
- **Make earnings growth, rather than the conventional measure of job placement, the central indicator of the new system’s performance.** Adult job training—arguably unlike K-12 education—has a simple goal: Raising earning power. Such gains can be measured—not perfectly, but tolerably well—and should serve as the system’s touchstone. The state’s workforce development system should gauge its progress on the basis of the earnings of individuals who have used it. Weaving the unemployment insurance program’s wage records into the workforce information system, and interpreting these data with proper care will make it possible to track this indicator.
- **Take advantage of the freedom WIA gives states to define their own goals.** WIA presents no bar to a state defining higher wages and family-supporting earning power as the goal of its workforce development system. The past few decades of employment and training policy have shown that placement is

relatively easy; raising earning power is hard. The more the Commonwealth sets the scorecard in terms of placement alone, the less aggressively we will see real reform in workforce development. A placement bias will tilt the system towards job-search services and short-term or job-specific training, and away from deeper investments in worker skills.

Recommendation 2: Encourage business and labor support and invite business and labor pressure. *See page 47.*

- **Business organizations should show the same vision and tenacity they displayed in taking on the K-12 challenge.** Publicly-funded workforce development remains a marginal issue for too many in the business community. Some business organizations have developed an ongoing interest in job training. But this involvement is typically episodic, or low-level, or both. In addition, business organizations should actively work to forge coalitions with labor organizations to build and sustain momentum for reform.
- **High-profile leaders within the business community should publicly associate themselves with the move toward implementing WIA.** Only if business leaders develop a personal stake in the establishment of an integrated workforce development system will they bring pressure to bear that can counter the temptation to pass on the opportunity for deep reform.
- **The labor movement should recognize and act on its own stakes in effective workforce develop-**

ment. A campaign of system-building for workforce development offers a prime occasion for partnership between the state's labor movement and business community. The active engagement of senior labor leaders could help assuage the anxiety of some public-employee union members, and thus broaden the coalition for reform.

Recommendation 3: Build the nation's best workforce information system. *See page 48.*

- **The Governor, with support from the Legislature, should commit state resources, and solicit private resources, to create a workforce information system that is second to none in the nation.** A new system is required that goes beyond current efforts in collecting, analyzing, and disseminating data. Only if workers have good data on the skills required by area employers can they make good choices about what kind of training to pursue. Only if employers have confidence that credentials accurately reflect skills will they come to rely on workforce public labor exchanges. Only if prospective trainees can compare the differences in earnings outcomes among providers can they make intelligent choices as "consumers" of these services. Moreover, only if the Commonwealth has rich, reliable data on the performance of providers, regional organizations, and types of training, can it intelligently adjust its workforce policies in years to come. An ambitious information system is thus the prerequisite to building a workforce development system.
- **Policy-makers should set a deadline of January 2001 for having the essential components of the system in place.** There are significant challenges in making good data on labor markets and training providers widely available to citizens. But the challenges are mostly financial, organizational, and political rather than technological. Since a good data system is a prerequisite to key elements of reform, an aggressive implementation timetable for the information system is essential. And since a good data system does not exist yet, it is important to recognize that system-building will be an on-going campaign. Some steps, obviously, cannot be completed by the time WIA takes effect in July 2000; some cannot even be well underway by then. But a commitment to having the basics of a data system in place by January 2001 is the most crucial downpayment the

Commonwealth can make on a workforce development system.

Recommendation 4: Build a workforce system that provides training opportunities to a broad spectrum of workers, not just the unemployed. *See page 49.*

- **Take advantage of the freedom WIA gives states to decide what groups their programs should serve.** The Workforce Investment Act allows states to engineer their training and employment programs to benefit a variety of low-wage workers, rather than restricting assistance to the jobless and dependent. But it does not mandate major efforts in this direction. Nor does it provide the additional resources to support a broader agenda. Workforce development will remain marginal and under-funded if it remains merely an aspect of anti-poverty policy. And we will miss out on our best chance to create a system that empowers more citizens to move up the ladder of economic opportunity into the middle class.
- **Think creatively about ways to encourage employers to provide training opportunities to their low-wage workers and to share at least some measure of the cost.** Many low-wage workers are short on time and money, making some conventional training approaches (such as extended courses of classroom study) infeasible. Workers generally fall into two different groups: those whose employers are willing (or can be rendered willing) to invest in them, and those whose employers will not. Expanding realistic training opportunities requires a different approach for each group.
- **For employers that have shown they are willing to invest in their low-age workers, create incentives to encourage on-site training.** Incumbent worker training is usually based in or near the workplace itself. It might also occur on paid time, or just before or after paid time. The great advantage of this type of training is that it puts less pressure on a worker's schedule. As much as possible, we should pursue policies that move more workers (and their employers) into this first category. Tactics worth exploring include targeted grant, loan, or tax-incentive programs tailored to small- and medium-sized companies.
- **For employers that have not shown a willingness to invest in their low-age workers, experimental**

loan or grant programs ought to be explored to help workers who must pursue training independently to replace their lost wages. For the members of this group, making a living and getting some training are separate and distinct activities. They occur in different places and at different times. A useful model is to consider how graduate students at universities are typically treated. Graduate students often get two kinds of benefits at once: Tuition scholarships, so they don't have to pay for it out of pocket. And a stipend to cover their living costs, so that they don't have to give up study time in order to be able to work. With major changes in what community college students must pay for tuition, the state has begun to provide an equivalent to this free tuition model. The next logical step under the graduate student model would be a measure of access to loans or grants to free up time for training. This merits serious consideration as a significant—but admittedly expensive—extension of workforce development assistance to the working poor. The state should begin exploring potential partnerships with foundations, as well as leaders in the private sector, to fund a pilot program of “training stipends” to support low-wage adult students while they pursue educational opportunities.

Recommendation 5: Take consolidation and customer choice seriously—but gradually. *See page 50.*

- **The Legislature and the Administration should develop and embrace a strategy to knit the entire workforce development system together—and not just the programs specifically slated for integration under the Workforce Investment Act.** Employer-based training for incumbent workers, financial aid for post-secondary programs, remedial and basic education for adults, and other enterprises should be rendered more a system, less a scatter of separate programs. This will take time and political capital. But several considerations suggest it will be worth the effort. So long as “job training” is walled off and secondary to other kinds of investments in human capital, the broader workforce development system will remain warped.
- **As part of the effort to knit institutions and programs into a system, identify and pursue operational economies.** A less important reason for integration, though still a respectable one, is opera-

tional economy: Pooling administrative resources can improve the earning power bang for the education and training buck.

- **As part of the effort to knit institutions and programs into a system, build a diversified financial base.** Some of the current funding sources (like employer-mandated contributions to the Workforce Training Fund) rise with the Commonwealth's economy while others (like federal training allocations) fall. Integration can promote system-wide fiscal stability. Finding new ways to put “funding” eggs into more than one “spending” basket, while politically and managerially vexing in the short-term, will augment the system's impact and efficiency over the long haul.
- **Take steps now that will make choice and competition progressively more central to the system and endorse the competitive model as the eventual goal.** The Administration and Legislature may be sorely tempted to downplay the opportunity to introduce more choice and competition into workforce development: The infrastructure is not in place, the model has some real limits, and the competitive ideal inspires skepticism (even hostility) among many insiders. As a short-term model it has undeniable problems. But longer-term it offers tremendous advantages in efficiency, integration, and performance.
- **Do not declare any one provider or group of providers immune from the imperative to demonstrate their payoff to individuals. At the same time, make sure to strengthen each set of providers first, before putting them against each other in full competition.** Community-based organizations with good track records should get technical assistance to help them to adjust to the challenge of vouchers. The Commonwealth can afford to buffer the transition to full competition. And it should, since the alternative is either a risky and traumatic transition or (more likely) a political stalemate leading to a relabeled status quo.
- **Provide public community colleges with adequate funding incentives to make larger-scale incumbent worker training initiatives possible.** Until campuses are rewarded adequately for their efforts to expand their job training mission by

defraying the cost of new training initiatives, uncertainty and risk will continue to stymie progress in making them a central part of a new workforce development system.

Recommendation 6: Fund the workforce development system at a level that reflects its growing importance to our state's shared prosperity. *See page 52.*

- **Our elected officials in Washington should step up their advocacy on two fronts:** First, they should be attentive to instances where federal aid distribution formulas penalize the state unreasonably. Building legislative coalitions with other states similarly short-changed is the best route to amending existing formulas. Second, our leaders should advocate higher federal spending levels nationally for workforce development. The Workforce Investment Act incorporates a number of potentially promising policy changes, but it fails to provide any significant funding increase that would light a fire behind those initiatives. Without a reliable funding increase from the federal government, states will find it difficult, if not impossible, to build the kinds of workforce development systems that can empower low-wage workers to better their circumstances.
- **The workforce development system should be supported in part by concentrating existing streams of state and federal funding that have not been integrated in the past.** There is no legal or logical barrier against engaging a wide range of existing programs—including those of the Department of Transitional Assistance, federal and state Adult Basic Education programs, post-secondary financial aid, and the Workforce Training Fund efforts of DET—to amplify the impact of more narrowly defined job training funds. This will not happen automatically, of course. One reason why high-level commitment is essential is that otherwise turf-consciousness and simple inertia will undercut the potential for synergy.
- **State government should also step up to the plate with a series of targeted appropriations increases for the institutions and programs at the core of the new system.** Over the next five years, the state has the chance to create a real workforce development system for the first time—and WIA provides the perfect opportunity to begin that

process this summer. But no one seriously believes that we can create a job training system that serves low-skilled workers well without committing significant new resources over the next five years.

Recommendation 7: Provide the bipartisan leadership vital to the effort's success. *See page 53.*

- **State political leaders of whatever ideological or partisan stripe should affirm consensus on the importance of skill-building, and seize the opportunity for dramatic action.** This report does not call for a scorched-earth approach to Massachusetts's employment and training programs. But existing institutions and their leaders—no fonder than anyone else is of outside pressure, and scarred by recent disputes—are generally disinclined to undertake major changes. And given the low salience of job training in good times, and the modest federal requirements for serious restructuring, the Commonwealth will waste a rare occasion for reform unless arrangements for funding, governing, and providing employment and training are examined closely and skeptically. Without tenacious political leadership, innovation is unlikely.
- **The state's political, civic, business, and labor leadership should draw lessons, and courage, from their collective experience with K-12 Education Reform.** Tenacious leadership is exactly what the state has received on K-12 Education Reform for most of the past seven years. At each crucial moment, strong leadership from the Senate President, the House Speaker, the Governor, the business community, the Board of Education and many others has held the line on the state's funding commitments and kept the pressure on for raising standards and delivering improved performance. To build a workforce development system that embodies these same principles will require the same kind of sustained commitment from policy-makers, from business and labor leaders, and from other organizations and individuals across the state. Workforce development promises to be a major part of the solution to some of the Commonwealth's most important problems: Skills shortages that strangle economic growth potential, earnings stagnation at the low end of the labor market, and growing income inequality.

New Skills for a New Economy:

Adult Education's Key Role in
Sustaining Economic Growth and Expanding Opportunity

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MassINC

THE MASSACHUSETTS INSTITUTE FOR A NEW COMMONWEALTH
Lifelong Learning Initiative

EXECUTIVE SUMMARY

Workers today need a much broader and stronger set of skills than they did ten or twenty years ago. They must also learn new ones continually if they are to adapt and contribute to companies competing in the fierce global marketplace. The Commonwealth thus far has done exceedingly well in the new knowledge-based economy. As a state that has long built its livelihood on the brains and skills of its workers, it has been well-positioned to exploit the new opportunities.

Future Economic Growth At-Risk

There are some worrisome signs, however, that our state will not be able to sustain its current prosperity. Our workers are what fuel the state's economic engine. They are our competitive advantage. But we are experiencing shortfalls in human capital unlike anything we have seen before. According to a recent study in Massachusetts, in some fields, including information technology, one in twelve positions for skilled workers are unfilled. Increasingly, employers have had to look outside the country to find workers who can do these skilled jobs, and still critical positions are left vacant.

As MassINC's 1998 study *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy* documented, the slow growth in the size of the state's labor force is a leading factor in high job-vacancy rates and poses a serious threat to sustaining a healthy economy. Labor shortages in critical occupations are likely to stifle future growth and erode the state's competitive edge. The growth of the labor force in the New England region has lagged far behind the rest of the nation. Over the last decade, the national labor force grew by nearly 11 percent. During that same time period, the labor force in Massachusetts grew by only 1½ percent, the fourth-lowest rate in the nation and a far cry from the state's double-digit growth rates of the 1970s and 1980s. The consequence of this trend is clear: the state's current economic boom simply cannot be sustained without more workers, and especially, skilled workers.

During these good economic times, the state is not doing enough to create an adult education and training pipeline that gives workers the skills that our economy requires. MassINC's most recent report, *Opportunity Knocks: Training the Commonwealth's Workers for the New Economy*, argued that "Massachusetts's weak suit — compared to other states and to our own needs —

is providing skill-building opportunities for adults, especially lower-middle-class and working-class adults." Every day we become more aware of just how true this is. In our state, there are no workers to waste. A workforce with insufficient skills is as big a threat as the persistent outmigration of workers to other states.

Those with Limited Skills Falling Further Behind

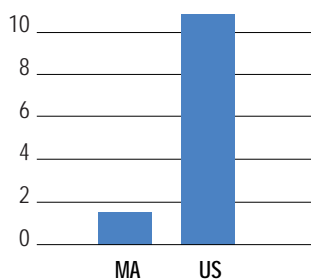
At the same time that jobs are going unfilled, a substantial number of workers remain an untapped resource because of their limited ability to participate in the New Economy. People who don't speak English, adults without a high school diploma, and those who may have a high school diploma or even some college education but have limited skills all have few options in today's labor market. They are often working harder and harder just to keep pace financially. Increasingly, they are stuck in low-wage jobs, falling further behind with little chance to share in the state's prosperity.

Leads to Continued Growth of the Gap between the "Haves" and "Have-nots"

To sum up, this phenomenon hurts all of us. What used to be viewed as an individual's problem is better understood as a public problem, with major economic and social consequences. Having a large number of workers with weak skills threatens the state's economic prosperity; a workforce with strong skills is the cornerstone of a healthy economy. The widening gap between the haves and have-nots also erodes the state's middle class. A healthy and growing middle class is the foundation of a healthy Commonwealth. Yet, inequality has been growing in the Commonwealth. If Massachusetts continues this course, we can expect a host of social, political, and economic problems.

This report puts forward a long-term vision to help sustain our state's economic prosperity by focusing on those workers with the weakest skills. *New Skills for a New Economy: Adult Education's Key Role in Sustaining Economic Growth and Expanding Opportunity* builds on previous MassINC research in which we have argued for an integrated adult education and training system. In *Closing the Gap: Raising Skills to Raise Wages* (1997), we offered a vision of "lifelong learning" that stretches from pre-K education all the way through higher education and includes adult education and job training. *Closing the Gap* raised as many questions

Rate of Labor Force Growth in the 1990s



¹ Several years ago the Mass. Department of Education estimated that 877,000 adults were in need of adult basic education instruction. This figure was publicized by MassINC in *Closing the Gap*. The DOE estimate and the estimate presented in this report are calculated in different ways. Readers are cautioned against comparing the two estimates and making an “apples to oranges” comparison. The DOE estimate includes all adults in Massachusetts who have skills in the lowest literacy level of the National Adult Literacy Survey (NALS Level 1). In this report, we only consider working-age adults (16-64 years old), and we include people who have skills in the lowest two levels of the National Adult Literacy Survey (NALS Level 1 and Level 2). In addition, the DOE estimate of 877,000 was based solely on the NALS survey. In this report, we include members of two other categories, because research on labor-market outcomes suggests they too are not sufficiently prepared for the New Economy. These categories include immigrants who have limited English speaking skills and people who lack a high school diploma or GED. In sum, this new estimate provides a much more detailed, reliable, and thorough representation of the size and nature of the twenty-first century skills problem.

as it answered, and this report continues to examine the nature of the state’s current skills problem. For instance, in *Closing the Gap*, we relied on the Massachusetts Department of Education’s estimate of the population in need of ABE instruction, which was the best estimate available at the time. This report offers a fresh analysis of the size of the adult population not sufficiently educated or trained for the New Economy.¹ *New Skills for a New Economy* continues the task of understanding the twenty-first century skills problem by asking the following four questions:

- 1) How many adult residents of Massachusetts lack the new basic skills?
- 2) How well does the ABE system work?
- 3) How do we best serve those who are not candidates for traditional ABE instruction but who need their skills upgraded in order to succeed in the New Economy?

- 4) How well integrated is ABE with other efforts to upgrade workers’ skills?

This report emphasizes the specific role of adult education in expanding the skilled workforce and raising the incomes of workers, but the need for strong basic skills goes beyond the workplace. By building the skills and knowledge base of its students, adult education contributes to society in other ways. It helps adults in their roles as parents, citizens, and members of communities who must negotiate an ever-more-complicated world. Some students gain skills that allow them to help their children with their school work or to become more effective advocates for their communities. The benefits that come from this investment will be both social and economic. Research suggests that children will do better in school, communities will have more active members, and the Commonwealth will have a more informed electorate.

What do we mean when we say...?

Adult Education refers to a range of classes that build the skills of adults. It includes ABE (see below), developmental education, and other training courses that focus on building basic skills. (**Job training** refers to a narrower set of job-specific or technical skills.)

Adult Basic Education (ABE) or ABE system refers specifically to classes in basic literacy, GED (high school credential), and English for Speakers of Other Languages (ESOL) that are administered by the Massachusetts Department of Education.

Developmental Education refers to classes offered by community colleges in collaboration with companies to upgrade workers’ skills. Although developmental education can also be used to describe college preparatory courses, that is not the focus of this report. The developmental education to which we refer is focused on skill-building, and the intention is to help workers gain skills, not to help students gain the skills necessary to enroll at community colleges.

New Basic Skills is a term coined by Professors Richard Murnane and Frank Levy and refers to the set of skills needed in today’s economy. Today, to secure a middle-class job, workers must be able to solve complex problems, think critically, communicate effectively, and use computers and other technology. Drawing on their research and other labor market research, this report finds that adults today need to speak English, have a high school credential, and have a set of literacy skills equivalent to NALS Level 3 or higher. Each of the challenges listed below addresses one of these three specific requirements.

NALS refers to the 1992 National Adult Literacy Survey. Respondents were placed into one of five levels, with Level 1 representing the weakest skills and Level 5 the strongest skills. A wide range of experts, including the National Governors’ Association, agree that today’s economy and society require skills at Level 3 or higher. This concept of literacy measures adults’ skills across a wide array of tasks that reflect the reality of the demands of today’s workplace and society.

NALS Level 3 In concrete terms, adults who do not perform at Level 3 are unlikely to be able to consistently handle tasks such as planning travel arrangements for a meeting using a flight schedule. They are unlikely to be able to read a news article and identify a sentence that provides the interpretation of the topic addressed. They are unlikely to be able to identify multiple pieces of information from a bar graph.

The Language Challenge refers to immigrants with limited English speaking skills.

The Education Credential Challenge refers to adults who lack a high school diploma or GED.

The New Literacy Challenge refers to low-skilled workers who have a high school credential. These workers have skills equivalent to NALS Level 1 or Level 2—the lowest two levels. These people may not be illiterate in the traditional sense, but they have limited reading, math, and analytical skills that restrict their ability to participate in the New Economy.

How Many Adult Residents of Massachusetts Lack the Basic Skills Needed in the New Economy?

The New Basic Skills

What does being literate for the New Economy mean? At one time, mastering a set of mechanical skills could ensure a lifetime of good employment. That possibility is increasingly unrealistic in a world defined by complexity, competitiveness, and market change. In the twenty-first century, strong basic skills are essential to be able to participate in a world governed by complex information and communication technology. A single set of technical skills is no longer sufficient.

In their book *Teaching the New Basic Skills*, Richard Murnane and Frank Levy (professors at Harvard University and MIT, respectively) compile a list of what are now considered “basic skills” based on their research into highly productive businesses. Though literacy and math are still the core basic skills, they are no longer sufficient. Today, to secure a middle-class job, workers must be able to solve complex problems, think critically, communicate effectively, and use computers and other technology. Workers now need solid literacy and math skills just to get their foot in the door of today’s workplace, and over the next few decades, the expectations will only increase.

The Scope of the Problem: Three Challenges

Guided by research on the demands of today’s labor market, we identify three distinct challenges to building workers’ skills:

- a Language Challenge
- an Education Credential Challenge
- a New Literacy Challenge

While many people face more than one of these challenges, we focus on each separately in the order that they are logically approached.

Challenge #1

A Language Challenge: Immigrants with Limited English Speaking Skills

Immigrants have accounted for all of the net growth in the state’s labor force over the last ten years and are a rapidly growing segment of the population. More than a quarter of a million new immigrants have arrived in Massachusetts since 1990. These new residents offer a great opportunity to expand our labor force, and in fact,

other states are waging active campaigns to attract new immigrants to their states for precisely this reason. However, many immigrants do not speak English well, and this is a minimum requirement for many of today’s fast-growing professional, managerial, and sales positions. Consequently, some immigrants are faring poorly in the labor market. Immigrants with limited English speaking skills earn 24 percent less than their employed counterparts who are fluent in English. In Massachusetts, 195,000 working-age immigrants—six percent of the state’s workforce—have limited English speaking skills, and this estimate, based on the 1990 Census, is almost certainly higher today.

Worse yet, many immigrants face the dual problems of weak English speaking skills and limited formal schooling. More than half of the 195,000 immigrants with limited English speaking skills also lack a high school credential. In fact, immigrants in Massachusetts are nearly four times as likely as native-born workers to lack a high school diploma. Both of these challenges are important to address. In order to meet the educational challenge, however, we must first help these immigrants learn to speak English.

Challenge #2

An Education Credential Challenge: High School Dropouts

High school dropouts pay a steep economic price for not obtaining a high school credential. No other demographic group has been more heavily penalized in the New Economy for a lack of a credential. Their rate of employment has declined, and when they are employed, the real value of their wages has also declined. In fact, in the 1990s, families headed by someone with a high school diploma earned almost fifty percent more than families headed by a high school dropout. Moreover, high school dropouts are extremely vulnerable to future changes in the labor market. As noted above, immigrants are much more likely than native-born adults to lack a high school credential. To avoid duplication in our overall count, we exclude those immigrants with limited English speaking skills who also lack a high school credential. After excluding the overlap, we find there are 280,000 working-age high school dropouts in Massachusetts. That almost nine percent of the workforce lacks a high school credential is cause for grave concern, especially in a state that prides itself on a highly educated population and labor force.

The Three Challenges

195,000

Immigrants with Limited English Speaking Skills

280,000

High School Dropouts

667,000

Workers who have a high school credential but have limited skills

Challenge #3

A New Literacy Challenge: Low-Skilled Workers Who Have a High School Diploma

In 1992, the National Adult Literacy Survey (NALS) measured the literacy skills of the adult population in the country. People who scored in the lowest two levels (Level 1 and Level 2) may not be illiterate in the traditional sense but, rather, have limited reading, math, and analytical skills that restrict their ability to participate in the New Economy. Experts across the board, including the National Governors' Association, agree that today's economy and society require skills at Level 3 or higher. This new definition of "literacy" measures adults' skills across a wide array of tasks that reflect the reality of the demands of the twenty-first century.

In concrete terms, adults who do not perform at Level 3 are unlikely to be able to consistently handle tasks such as planning travel arrangements for a meeting using a flight schedule. They are unlikely to be able to read a news article and identify a sentence that provides the interpretation of the topic addressed. They are unlikely to be able to identify multiple pieces of information from a bar graph.

A major finding of this report is that a surprisingly high number of people active in the state's labor force have a high school credential but still have skills in the lowest two levels of NALS, meaning they are not fully literate according to the new definition of literacy. Separate and distinct from the two groups cited previ-

ously (immigrants with limited English speaking skills and high school dropouts), we identified another 667,000 workers who despite having a high school credential are still not adequately trained or educated for the twenty-first century economy. These workers account for almost twenty-one percent of the workforce.

Two phenomena explain how so many workers with a high school credential have weak literacy skills. First, some of these workers never achieved the desired proficiency of a high school graduate, although they have a credential. The state's K-12 Education Reform efforts are poised to end this practice for future generations, but this should not distract from the bigger issue. Today's skill requirements are substantially different from those of the past. Today's economy demands a higher level of skills, more complex than the sort high school graduates were taught in previous years. While the future workforce should be adequately prepared, we have more than half a million workers in the workforce today who need their skills upgraded for the twenty-first century.

1 in 3 Workers Not Adequately Prepared for the New Economy

In different ways, members of each of these three groups are not prepared for today's economy. When we calculate an unduplicated count of workers who are not adequately trained or educated for the New Economy, we arrive at 1.1 million adults.² They constitute 35 percent of the state's labor force of 3.2 million workers. In other words, we believe that about 1 in 3 workers in Massachusetts are not adequately prepared for the New Economy.

Despite the enormity of the problem, we must resist the temptation to say that it is too big to address in a meaningful way. Instead, we must focus on what we can do to make a difference—and there are things we can do. Really, we don't have a choice. The families who are working harder and harder just to keep pace financially need help upgrading their skills. And the future economic health of our state depends on our ability to improve the skills of our workers.

Thousands of Workers Willing to Take Responsibility for Improving their Skills

There is some good news that comes with these three challenges. Thousands of workers in the state want to improve their skills. Each year, tens of thousands of adults who want to improve their basic skills and who want to learn how to speak English come to the doors

² Our estimate is based on three sources of data. The estimate of the Language Challenge is based on the 1990 U.S. Census; the Education Credential Challenge estimate is based on the Current Population Surveys; and the New Literacy Challenge estimate is based on the National Adult Literacy Survey combined with the Current Population Surveys to get a state estimate.

Estimated Universe of Need⁽¹⁾ for Adult Education, 1998-99

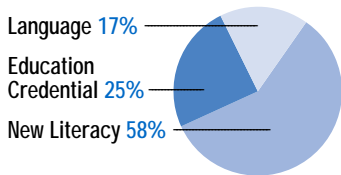
Group in Need	Number
Language Challenge	
Immigrants with limited English-speaking skills	195,000
Education Credential Challenge	
Adults lacking a high school diploma or GED	280,000
New Literacy Challenge	
Full-time employed ⁽²⁾ with a Level 1 or 2 proficiency	509,000
Part-time employed ⁽²⁾ with a Level 1 or 2 proficiency	126,000
Unemployed ⁽²⁾ with Level 1 or 2 proficiency	32,000
Subtotal	667,000
Total	1,142,000

Note: (1) Counts exclude 16-24 year old students in high school and college and all persons 65 and older.

(2) Counts exclude persons lacking a high school diploma or a GED certificate.

1.1 Million Workers Not Prepared
For the New Economy

What is the Breakdown of the Problem?



of ABE and other adult education programs for help. The actions of such workers demonstrate their willingness to take responsibility for improving their skills. Their commitment to helping themselves will help the state as well as their own families, and the state must do more to respond. In the report that follows, we identify priorities and points of entry that offer the biggest potential payoffs.

Need for Lifelong Learning

As we focus our efforts to tackle the twenty-first-century skills challenge, it is important that we think in terms of the need for lifelong learning. Lifelong learning is the expectation of continuous revising and upgrading of skills throughout a person's life to keep pace with a changing economy. Lifelong learning is particularly important for workers with weaker skills, who traditionally have not had access to professional development and training.

There is clearly a wide literacy gap between the highest skilled workers and those with the most limited skills. We cannot kid ourselves by believing that the workers who lack basic skills are one class away from solving the labor shortage. The reality is it may take many classes to get them well-positioned for the New Economy. There are no easy answers. The solution we advocate—a serious, integrated adult education and training system—presents the best opportunity for sustaining our state's economic prosperity and making certain the prosperity is broadly shared.

Meeting the Three Challenges

How to Meet the Language Challenge and the Education Credential Challenge: The Demand for and Role of Adult Basic Education

We have identified three distinct challenges in building people's skills. We first discuss how to meet the Language and Education Credential Challenges and then turn our attention to the New Literacy Challenge. The adult basic education system, operated under the state's Department of Education, is one of the principal places where adults with limited skills begin to build their skills. Currently, ABE is geared toward helping immigrants learn to speak English and helping students gain basic literacy skills. The most advanced classes in the literacy sequence are GED classes, and these classes prepare students to earn high school credentials. Thus, the ABE system has limited opportunities for students who have a high school credential but still need their basic skills upgraded—this is the New Literacy Challenge. Rather than create a new sequence of classes within the ABE system, which is what would be necessary to systematically address the New Literacy Challenge through the ABE system, we believe ABE should focus on meeting the Language and Education Credential Challenges.

The Massachusetts Legislature has demonstrated a serious commitment to building an adult basic education system by substantially increasing funding every year for the last six years. Since 1994, the amount of money the Commonwealth has allocated to adult basic education has increased more than sevenfold from \$4.1 to \$30.2 million. In Fiscal Year 2000, the total cost of ABE was \$40.9 million, and the state provided three-quarters of this money. Great benefits have come from this investment. Indeed, the number

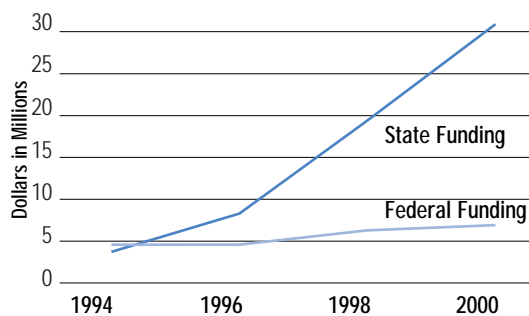
Meeting the Three Challenges

Challenge	Population in Need	Current Situation	Recommendation
Language Challenge	195,000	Currently served by DOE ABE classes (25,000 students served)	Expand, improve, hold accountable (see chapter 8)
Education Credential Challenge	280,000		
New Literacy Challenge	667,000	Not being served by a coherent system. Addressed through community colleges, ABE, workplace education, job training. (No idea how many people served)	Expand developmental education through community college—employer partnerships. (see chapter 8)

of students taught by the ABE system has increased from 14,557 to 24,581, and the quality of instruction has also improved significantly.³

Through its ESOL and literacy classes, the ABE system is prepared to meet the Language and Education Credential Challenges. It is important not to diminish the size of the challenge facing the ABE system or the vital importance of the basic literacy, GED, and ESOL classes being provided. The combined total of 195,000 immigrant workers who have limited English speaking abilities and the 280,000 workers lacking a high school diploma adds up to almost half a million workers (475,000). There is, of course, room for improvement in the delivery of ABE instruction, and our research provides some guidance about how to accomplish this.

State and Federal Funding for ABE



Only a Tiny Fraction of the Population in Need Attend ABE Classes

Despite all of these efforts, a tremendous amount of work remains. First, only a tiny fraction of the workers who need to upgrade their basic skills receive instruction. In the year 2000, approximately 25,000 students will attend ABE classes.⁴ Thus, the ABE system currently reaches less than six percent of the 475,000 adults whose skills deficits could be addressed through ABE classes. At the same time, thousands of adults are on waiting lists for ABE classes.

Waiting Lists for ABE Classes Have Not Disappeared Despite Substantial Increases in the Number of Seats

Second, because of limited capacity, the adult basic education system does virtually no outreach to potential students. Even without outreach, students show up for a chance to improve their basic skills. Not everyone can be offered that chance, though, because there are not enough slots. Many students are placed on waiting lists. For instance, 224 students are waiting for classes at the Framingham Adult ESOL program. In fact,

sometimes more students are waiting than are learning in a program. At the Boston Chinatown Neighborhood Center, the waiting list is almost twice as long as the enrollment list. The number of students on waiting lists statewide varies throughout the year. In recent years, the numbers have ranged from 8,000 to 16,000. The greatest demand is for ESOL classes, and more than half of those who wait seek these classes. The wait is longest in large urban areas, and students can wait more than a year for ESOL classes. The stumbling block here is clearly the lack of available classes, not the lack of interest.

Sadly, we do not really know how many adults want to upgrade their skills and would participate in classes if given the opportunity. In the 1990s, the state's landmark Education Reform Act (ERA), best known for setting new guidelines for the state's K-12 system, also established the Adult Education Committee, chaired by Jerome Grossman, to look at the state of adult basic education. Its final report, which has come to be known as the *Grossman Report*, offered a plan to eliminate the waiting lists. The Legislature was quite responsive to its recommendations. Each year, the state has devoted more resources to adult basic education specifically so that people who want to learn basic skills do not have to wait. Yet seven years later, despite substantial increases in the number of classroom seats, waiting lists have not disappeared. Rather, they have remained at roughly the same length. More people keep coming for a chance to learn, and this is happening without advertising or active outreach efforts.

As people learn about opportunities, they want to improve their skills. Tens of thousands of people in the state are not looking for a handout; they are looking for a hand up. Despite the economy's need for more skilled workers, despite people's desire to help themselves, the state is not fully able to respond. This is especially a problem for immigrants who want to learn to speak English.

We believe that the Legislature should expand funding for adult basic education until everyone who wants help improving his or her basic skills, learning to speak English, or studying for the GED test can get it within a few weeks. The explicit objective of future appropriations increases should be the elimination of all waiting lists by the Fiscal Year 2003 (June 30, 2002). If a person is willing to come to class and put in the work necessary to upgrade his or her skills, then Massachusetts should become a state that makes cer-

3 In addition to ABE funding, there are other sources of public funds that support building workers' basic skills. For instance, some of the training programs under the federal Workforce Investment Act (formerly "JTPA") support basic skills education. In addition, this year the Legislature provided \$2.1 million to expand the "developmental education" provided by community colleges. Moreover, a modest fraction of the \$18 million contributed annually by employers to the state's Workforce Training Fund is spent on basic skills education.

4 Basic skills are also taught through programs outside the ABE system. However, there is currently no way to identify the total number of participants in all the different programs that provide some form of basic skills instruction. The overall number is higher than 25,000, and it still falls significantly short of the need. For instance, in 1998, of the approximately 13,000 adults who enrolled in JTPA job training programs, 61 percent lacked ninth grade math skills, yet fewer than 15 percent received basic skills instruction.

tain there is a seat available for that person and that the classes deliver effective instruction.

What Does the State Buy with Its Investment in ABE? How to Improve the Effectiveness of Adult Basic Education

The Department of Education’s ABE system educates a tiny fraction of the total number of workers whose skills need to be upgraded. Before increasing the system’s capacity, we should assess what return the state gets from its investment in ABE by asking: Does participation in adult basic education programs lead to positive outcomes?

For the first time in the history of ABE in Massachusetts, we are able to conduct a comprehensive quantitative analysis of student outcomes. We are able to do this because of recent improvements in data collection and the willingness of the leadership of the Department of Education to share its data with interested parties for objective analyses. Our analysis allows us to determine whether the money the state spends makes a difference in our ability to teach adults basic skills and help them acquire educational credentials. It also offers guidance about how to improve the delivery of ABE.

Students Learn in ABE Classes

We find adult basic education to be effective in improving students’ literacy skills, but there is also room for considerable improvement. Although student motivation and the efforts that they put forth are the key to success, there are specific steps the Department of Education can take to improve the delivery of ABE instruction. We find that more than half the students

achieve learning gains, and almost one-third gain more than two grade levels (or student performance levels in the case of ESOL students). As students receive more hours of instruction, more of them achieve learning gains. The longer students stay, the better they do. Thus, we need to focus on getting students to class and getting them to stay longer. Our research suggests that we should aim to keep students in class for 150 hours per year.

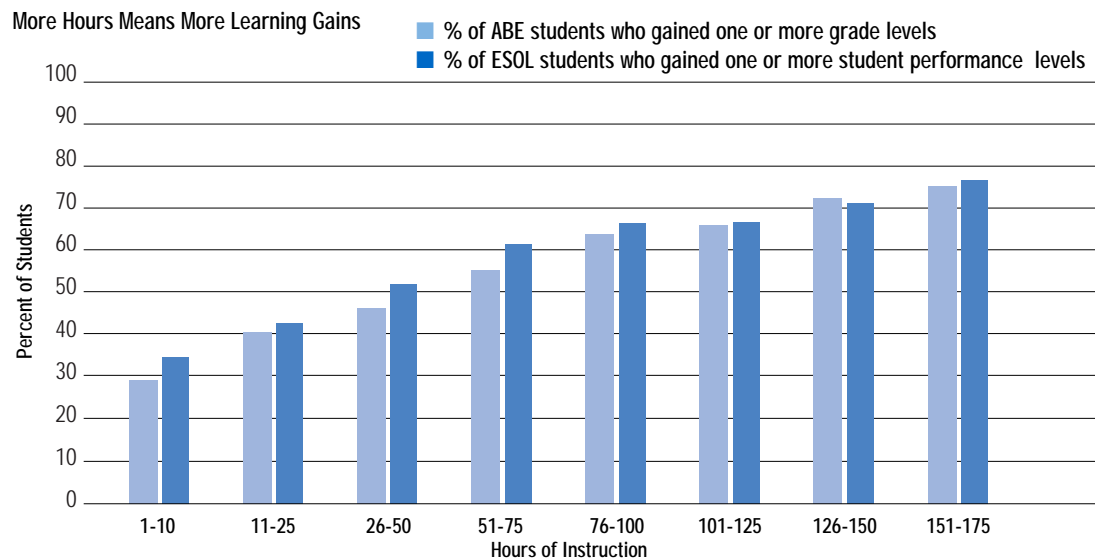
Too Many Students Leave ABE Classes Too Soon

As students spend more hours in class, they are likely to learn more. Many students, however, only attend classes for a short time. Almost one in five students drop out after a month—approximately 25 hours of instruction. At a few hours per week, a month is not long enough for most students to achieve any substantive learning gains. On this score, ESOL students do better because they tend to stay in class for a longer period of time. We should redouble our efforts on finding ways to retain students, especially in literacy classes. Currently, only 21 percent of students receive at least 150 hours of instruction. The Department should set a goal that 33 percent of all students receive a minimum of 150 hours of instruction.

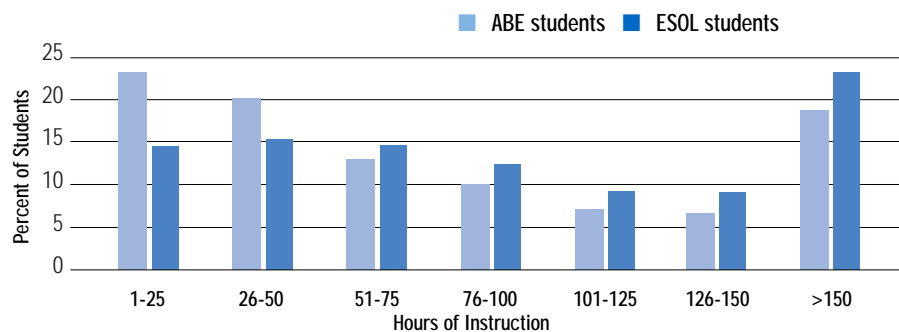
Intensity of Instruction Matters for Students

Trying to Earn a High School Credential

For those students trying to earn a high school credential, we also find that how we teach students matters. We examined intensity of instruction, defined as the number of planned class hours per week, in GED and pre-GED classes. For this specific group of students,

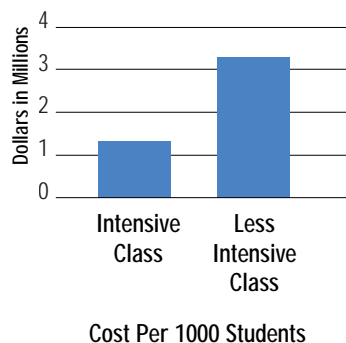


Too Many Students Drop Out Before 150 Hours



we find that fewer overall hours, if offered intensively, can actually be more effective than more hours spread over a longer period of time. We also find that for the same number of hours, a student is always better off if the class is taught intensively. Intensity might also be an effective recruiting tool. The class might be thought of like a SAT review course that helps prepare students to take an exam. The intensive class period will be difficult for students balancing many responsibilities, and ABE funders and programs will need to be creative about finding ways that help students attend such classes. Nonetheless, intensive classes with a specific endpoint are likely to appeal to many students.

Intensive Classes Will Cost Less



Our research suggests that the effort to offer intensive classes and recruit students for them would be worthwhile. Consider that a student who receives a total of 100 hours of instruction at 12 hours per week has the same probability of earning a high school credential as a student who receives a total of 225 hours of instruction at 6 hours per week. (In both these cases, about one in three students are expected to earn a credential). The intensive class will take about two months of instruction—the length of a summer school semester—compared to the less-intensive class that will take about nine months—the length of an entire academic year. Furthermore, given that the average student receives about 100 hours of instruction, it isn't likely that the student in the less-intensive class will stay in class for the full 225 hours in order to get the same benefit as the first student.

Potential Cost Savings

For this subset of students who are likely to benefit from intensive classes, intensive instruction will also cost the state less money, because intensive classes require fewer overall hours for the student. In 1999, the average cost in state money per student-hour was \$14.69. An intensive 100-hour class would cost \$1,469

per student. In contrast, the less intensive way, which is more similar to how we currently teach GED classes, would cost \$3,300 per student. While there are certain fixed costs that would not be affected by fewer overall hours, it nonetheless appears that intensive classes for this subset of students appear to be both a very smart investment and a better way to address the Education Credential Challenge.

It is important to note that MassINC research only looks at the probability of earning a high school credential. It does not consider what learning gains students achieve in these classes or what test scores students earn on the GED exam. We agree with others who claim that there are no quick, painless shortcuts to genuine skill-building. But we also know that having a high school credential has important implications in the labor market. Thus, helping high school dropouts earn this critical credential through intensive GED classes has the potential to boost incomes for thousands of working families—a distinct benefit in its own right.

Expand Weekend Classes

Classes should be more convenient for students. In 1999, a total of 6,959 students indicated that Saturday classes would be convenient for them. Yet out of the approximately 1,500 classes, only 25 are offered on Saturday. Across the state, 3,832 ESOL students indicated a preference for Saturday classes. Those ESOL students who live in southeastern Massachusetts are out of luck, since at the time of this research there is not a single ESOL class in that region on Saturday - all the more disturbing for the large immigrant communities in New Bedford and Fall River. The number of classes offered on Saturday should be increased, and students across all regions of the state should be able to take ABE classes on Saturday. In addition, some programs should offer classes on Sunday to see if Sunday would also be convenient for students.

Track Students' Outcomes in the Labor Market after They Leave the Classroom

Finally, it is critical to acknowledge that one of the best ways to assess the value of our investment is not currently used in Massachusetts. Precious little information is collected by providers and state agencies about what happens to students once they leave the classroom. We know that of the participants in ABE programs who were looking for work, 18.2 percent, or

893 people, found a job during Fiscal Year 1998, but we don't know anything about the quality or wages of the jobs. We also do not know how these students will fare in the labor market over the next five years.

We cannot answer these critical questions in part because the state currently does not require different state agencies to share relevant information. This problem is more the result of a lack of political will than any true technical barriers to gathering such information. It would require collecting the social security numbers of participants and then requiring the Department of Revenue and other agencies that track labor market participation to share their data on the employment and earnings of these students. This raises some privacy issues, but we believe that these issues can be addressed with proper safeguards.

Meeting the New Literacy Challenge: Expand Developmental Education through a Community College-Employer Partnership

We have suggested that the ABE system focus on meeting the Language and Education Credential Challenges by expanding and improving existing programs. What, then, should be done for the 667,000 workers who have a high school credential but still lack the necessary basic skills—the New Literacy Challenge? While these workers might benefit from a GED class, it is not practical on a large scale to direct workers with a high school credential to such classes, because they already have a high school equivalency. Currently, there is no coherent system in place to address the New Literacy Challenge, and this group of workers is estimated to represent 21 percent of the total labor force.

On their own initiative, workers may seek out help from existing job training programs, community colleges, ABE programs, churches, or other community groups. Through workplace education programs, employers sometimes offer basic skills instruction to their employees. Unfortunately, we have no way of knowing how many workers with high school credentials (or even without credentials) receive help in upgrading their basic skills. National research indicates that only a very small fraction of firms provide such training to their front-line workers. We do know that meeting the New Literacy Challenge requires a systematic strategy and coherent policy.

To address this challenge through the current ABE system would require the creation of a new sequence of classes. But we don't believe this is necessary or wise

because a set of institutions already exists that is well-positioned to undertake this challenge: the state's public community college system. We believe that a new system of partnerships between our fifteen community colleges and local employers offers the best opportunity to meet the New Literacy Challenge for the 667,000 workers in question.

Currently, community colleges offer what is called “developmental education” instruction. Although developmental education is primarily understood as college preparatory education, it is more than that. Community colleges offer developmental education instruction in collaboration with companies to upgrade workers' skills at no cost to the worker. (See the workplace-education section below.) These classes are typically located at the workplace and are privately funded by businesses. In addition to paying for the courses, employers are critically important in identifying workers who are unlikely to perceive themselves as needing help or who are not likely to know how or where to get the right type of help. The employers provide a vitally important bridge between the workers and the adult education classes.

The geographical distribution of community colleges enables them to reach companies and individuals across the state, and they have existing physical infrastructures and personnel resources that eliminate the need to start from scratch. Because they are doing this type of work already (although on a smaller scale) and are also often ABE providers, they already have some expertise in this area and have existing relationships with employers. The community colleges are not doing enough, though, and their willingness to engage in this type of work is uneven across campuses. Stronger leadership is required. Rather than being tangential to the mission of community colleges, we believe that developmental education for workers who need to upgrade their skills (and not necessarily with the goal of attaining a higher education degree) should be explicitly incorporated into the mission of community colleges.

Expand Community College Developmental Education

Developmental education should be expanded. Expanding developmental education through aggressive outreach and marketing offers the most promising way to meet the New Literacy Challenge. We believe this should be done through public-private partnerships that builds on two recent improvements. Over

the long run, it should also be considered whether it is appropriate for the workers who benefit from these programs to bear some of the costs. In July, 2000, the Legislature established two new programs. It appropriated \$2.9 million to establish and implement a new Community College Developmental Educational Program, and it appropriated another \$2.1 million for a new Community College Workforce Training Incentive Program. These programs provide a strong incentive for community colleges to expand their developmental education programs.

Create Tax Incentives for the Private Sector

To encourage companies to participate in these efforts and help share the cost, the state should also establish a Basic Skills Training Tax Credit. Adopting this legislation would encourage companies to invest in their workforces and ultimately enhance the competitiveness of the Massachusetts economy.

How Companies Gain from Investing in Upgrading Workers' Skills

Employers have long recognized that many of their workers need better skills. Because of this, there has been a growing interest in workplace education. The idea of workplace education is simple: basic skills classes offered through the workplace within the workplace context. This simple idea has caught on. It suits employers by helping improve the basic skills of their workers, and research suggests that there is a substantial productivity payoff to workplace literacy programs. Labor unions enthusiastically support the efforts. Workplace education also helps workers by teaching them basic skills that often translate into concrete opportunities to advance in their jobs.

Workplace Education Programs Help Workers

Classes at the workplace are more convenient for working participants. They put less pressure on a worker's schedule. Moreover, employers that receive state funding must offer at least half of the class time as an in-kind benefit to employees, which means workers can spend more time learning. A recent evaluation found that almost all participants in workplace programs are satisfied with their programs, and many are interested in taking more courses. Moreover, many participants reported benefits such as increased responsibility or a pay raise as a consequence of their participation.

Employers See the Value of Workplace Education Programs

Employers who have invested in strengthening their workers' skills recognize the benefits. In addition to increased productivity and profits, they credit the programs with improving the quality of work, increasing morale, and leading to better team performance. Often for the first time, workers speak a common language and can work better as a team. Perhaps not surprisingly, the employers with whom we spoke were enthusiastic proponents. In fact, one local employer credits the company's survival and prosperity to the investment in upgrading its workers' skills.

We see workplace education as particularly important in meeting the New Literacy Challenge. Because almost all of 667,000 adults we identified as low-skilled are already working, we believe they would be most effectively identified and instructed through encouragement from their employers. Outreach to these workers is necessary, because many of those who might benefit are unlikely to realize their skills are not up to par, and even if they do, they are not likely to know how or where to get the right type of help to upgrade their skills. Developmental education taught through community colleges in a partnership with companies offers a great opportunity to address the New Literacy Challenge.

Toward an Integrated System of Adult Basic Education and Job Training

This report emphasizes that adult basic education should not be seen as an end in itself but as part of a lifelong learning process. ABE is effective for many students, but it should be seen as the first step toward other training and educational opportunities. The community colleges, Workforce Investment Boards, Corporation for Business, Work, and Learning, Department of Employment and Training, Department of Transitional Assistance, Department of Labor and Workforce Development, and the Board of Higher Education should all be more closely integrated with the adult basic education system. Currently, however, job training and adult basic education are run separately and are governed by different agencies with little institutional linkage between them, even though these agencies serve essentially the same population.

Workers with Most Limited Skills the Least Likely to Receive Job Training

Not all eligible people who come for job training actually receive training and education services. This occurs primarily because of limited funding. However, when we look at who receives help and what type of help they receive, a troubling pattern emerges. Workers who have the weakest skills are the most likely to be screened out and not receive actual training or education services. At this time, we do not have enough information to know why this is the case, but it is cause for concern. Although 61 percent of workers who enrolled in programs through the Job Training Partnership Act in 1998 had skills below the ninth-grade level, fewer than 15 percent of them received basic skills instruction, and they are rarely referred to a system that could help them—the adult basic education system.

Even if they do receive services, participants who do not have ninth- or tenth- grade proficiencies are less likely than workers with stronger skills to receive occupational training or on-the-job training. These two types of training are the most desirable in that they lead to better outcomes in terms of higher wages and higher rates of employment than other types of training services. The training system works the best for those workers with the strongest skills and makes fewer provisions to help those workers with the weakest skills.

Workers with Weak Skills Rarely Referred to ABE System by One-Stop Career Centers

People who come for job training with weak reading and math skills should automatically be offered or referred to basic skills classes. According to the Department of Education, in 1999 only 314 out of 25,000 students (1 percent) were referred to the ABE system by the state's one-stop Career Centers. This number likely underestimates the number of referrals because it is based only on the information provided by students at the time of their intake, but it should not distract from the genuine problem of a lack of coordination between the agencies.

ABE Students Rarely Directed toward Other Education and Training Opportunities

At the same time, the adult basic education system must also be better integrated with existing job training programs. Upon completion of basic skills classes, participants should be pointed toward job development, job placement activities, and other forms of training

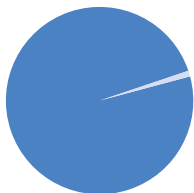
that are likely to lead to higher wages. And yet, upon completing their ABE classes, only 557 of ABE students (2.38 percent) cited that they planned to take further education or training courses. Basic skills classes are effective in improving basic literacy and numeracy skills, but they are only the first step in upgrading adults' skills. Basic skills instruction, job training, and increased educational opportunities are the key to providing the skilled workers that the state's economy demands, while at the same time improving the wage and earning prospects for less-skilled workers.

Concluding Thoughts

We have identified 1.1 million workers in the Commonwealth who are not adequately prepared for the New Economy. That is 1 in 3 of our workers. These workers face one of three distinct challenges to upgrading their skills: a Language Challenge, an Education Credential Challenge, and a New Literacy Challenge. Through its ESOL, literacy, and GED classes, the ABE system is prepared to meet the Language and Education Credential Challenges. It does, however, need to be expanded and improved. More significantly, there is currently no coherent system to meet the New Literacy Challenge for 667,000 of the 1.1 million adults. These workers have a high school credential but do not have the skills needed for today's economy. To address this need, we suggest expanding developmental education through community college-employer partnerships. By allowing the ABE system and the community colleges each to do what they do best, hundreds of thousands of workers who want to take responsibility for upgrading their skills will have that opportunity.

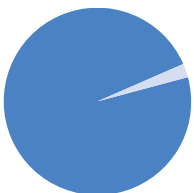
If workers are willing to put in the necessary work, they will not only help themselves and their families, they will also contribute to the Commonwealth's economic prosperity. The Commonwealth does not have the luxury of deciding whether to accept the challenge of preparing its workers for the twenty-first century. The long-term economic health of our state depends on our willingness to invest wisely in a stronger and more fully integrated adult education initiative. At the same time, we need to hold the ABE system and the community colleges accountable for the outcomes of the students they teach. We must track what happens to the students who participate in these programs. Finally, as a state that lives by its wits, we must also continually encourage innovative thinking about how best to upgrade the skills of our workforce.

One-Stop Career Centers Refer Few Students to ABE System



1% of students referred to ABE system by one-stop Career Centers

Few ABE Students Plan to Take Further Education or Training



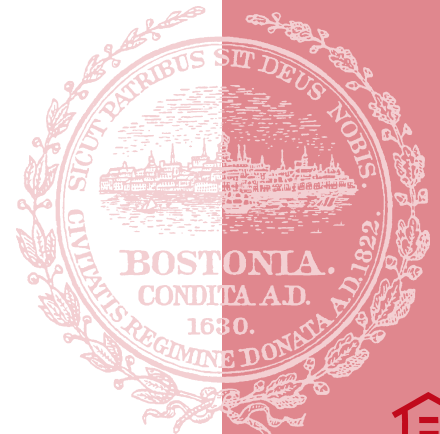
2% of students who complete ABE classes plan to go on to further education or training

Leading the Way

A Report on
Boston's
Housing Strategy
FY 2001-2003

October 2000

Thomas M. Menino
Mayor



Executive Summary

Leading the Way: A Housing Strategy for Boston outlines the City of Boston's campaign to increase and protect Boston's housing supply over the next three years. Since January 1999, Mayor Thomas M. Menino has focused on housing as a top priority for his Administration. This report details a strategy to build on the Administration's commitment to create and preserve housing in Boston.

Under the Mayor's leadership, this three-year campaign will unify and focus all of the City's housing agencies around a comprehensive Strategy to advance key objectives: produce new housing at all income levels and preserve as much of the City's affordable housing as possible. The Strategy sets ambitious goals that will result in the production of 7,500 new units. This includes 2,100 affordable units, 4,300 new market rate units and the restoration of 1,100 vacant public housing units. In addition to the production of new housing, 10,000 units will be preserved.

To meet the goals set forth, Boston's Housing Strategy combines existing programs with new resources and initiatives. It includes a strategic plan to use **\$30 million** in City resources, **5.5 million square feet** of City-owned land, valued at **\$15.5 million**, and calls for **\$50-\$100 million** of new private capital dedicated to affordable housing.

In total, this Housing Strategy represents public and private investment of more than \$2 billion over the next three years.

In this report, the City of Boston:

- Identifies the complex forces that shape the Boston housing market in 2000;
- Reviews the policies and programs City housing agencies have in place to address Boston's housing needs;
- Defines a series of strategies that build on and expand Boston's current housing initiatives to meet ambitious production and preservation goals;
- Calls on partners to help Boston meet our objectives;
- Outlines a plan for action and accountability to ensure that our goals are met.



BOSTON'S HOUSING CHALLENGES IN A REGIONAL MARKET

In the first year of the 21st Century, Boston is financially strong. Metropolitan Boston has the fourth largest economy in the nation. Over 18,000 new jobs were created in Boston alone last year, and over 42,000 new jobs in the metropolitan area. This puts enormous pressure on the regional housing market. Boston's housing challenges reflect many factors:

- Other than Boston, only seven of the 129 communities in the metropolitan area meet the minimum goal that 10% of their housing stock is government-assisted, affordable housing. This has created a 37,000-unit shortfall in affordable housing, most highly concentrated in Boston's closest neighbors. With almost 20% of its stock subsidized, Boston provides over 40% of the region's affordable housing.
- Federal spending for housing has dropped from a high of 7.5% of the Federal budget in 1978 to only 1.5% today.
- Housing production metro-wide is only 56% of what is needed to meet the growing demand in the region.
- The end of rent control as well as owner prepayments of Federal mortgages have resulted in almost 18,000 affordable rental units in Boston going to market prices over the last five years.

These factors have resulted in some severe housing impacts in Boston today:

- In a city of 228,500 households, over 54,000 spend more than 50% of their incomes on housing.
- Boston has a record number of homeless – 5,820, exceeding the previous record of 5,299 set in 1994.
- An average two-bedroom apartment in Boston now lists for \$1,448 per month – 59% higher than the \$909 listing price in 1995.
- House prices are up 23% from just a year ago. Only one in four Bostonians can afford the average price of \$224,000.
- Over 15,000 households are on the waiting list for public housing.

BOSTON'S RESPONSE

While the City of Boston cannot solve the regional housing crisis alone, Mayor Menino has committed his Administration to providing leadership. Boston's Housing Strategy recognizes that the regional and local imbalance of supply and demand and the resultant hardships created by our strong growth require two immediate responses:

- 1) **We must increase the supply of housing.** Production of new housing for people at all income levels is needed to achieve a balanced and stable housing market.
- 2) **We must preserve and protect the affordable housing we have.** Preservation of existing housing and protection for households who are casualties of our strong economy must be an immediate priority.

The report details both existing programs in the City’s tool kit and new initiatives to help us meet our goals. The \$30 million recently committed by Mayor Menino is an important new City resource to help meet these ambitious goals. The City has a strong commitment to make units created or preserved available to a range of incomes. Our strategies will preserve the City’s economic diversity and ensure that Boston doesn’t become a city of rich and poor. Set-asides of newly-created affordable units and aggressive use of rental vouchers and counseling will insure that affordable units can serve very-low income and homeless persons and families. Developers will be encouraged, through the use of tax incentives, to produce housing for middle-income families.

KEY INITIATIVES TO ACHIEVE PRODUCTION AND PRESERVATION GOALS

- **Public Housing:** The City will bring back on line all 1,100 long-term vacant units of public housing. New financing tools will leverage State and Federal funding for public housing revitalization. This will be the first time in over 20 years there will be no boarded up public housing in Boston.
- **Land for Housing:** The City will make 1,000 parcels, valued at \$15.5 million, available for development; catalogue on the Web all of its developable land resources; negotiate with other land owners and start construction on major development sites. City Requests For Proposals (RFPs) for land disposition will promote mixed-income housing or will use the net proceeds of a market sale of land for affordable housing uses.
- **\$50-\$100 Million Low-Interest Loan Fund:** Boston businesses and institutions will be called upon to contribute to a low-interest loan and grant pool to finance affordable housing. Partnership contributions will increase the impact of City funding and deepen affordability.
- **Development Process Reforms:** The City will support its housing producers by:
 - 1) Continuing to expedite the City’s permitting systems, including the appointment of a “Permits Czar,” to facilitate the development process;
 - 2) Creating a new dynamic for community review and participation that will address legitimate community concerns while responding to developers’ needs for timelines and predictability;
 - 3) Implementing new comprehensive planning and zoning management initiatives to facilitate housing development.
- **Abandoned and Vacant Housing Initiatives:** Seniors and low- and moderate-income homeowners will receive technical assistance and funding to bring units back on line. Receiverships will be employed to attack the most intractable owners of abandoned property.
- **Housing Preservation Alliances:** The City will provide funds to help tenants avoid displacement and to help non-profits buy buildings in transitional neighborhoods before the prices spiral out of control.

- ***Preserving At-Risk State and Federal Housing:*** The City will work with owners and non-profit partners to preserve units at-risk of losing subsidies or affordability restrictions. Additionally, the City will also call upon the Massachusetts Housing Finance Agency (MHFA) to protect all affordable units in its SHARP developments.
- ***Employer Homeownership Challenge:*** The City will encourage employers to contribute to employee homeownership. Matching grants and loans will increase affordability and allow more employees to own in the City.

PARTNERS AND RESOURCES:

In order to meet its goals, much will be required from the City and its partners:

The City of Boston is taking the lead. The City will:

- Contribute \$30 million in new City funds from the sale of City assets and from the surplus property fund to increase affordable housing;
- Support production and preservation efforts by using \$131 million in locally managed funds, including CDBG, HOME, Linkage, Lead Paint Abatement Funding, Public Housing Capital Funding and revenues from surplus property sales to leverage another \$760 million in public and private development financing;
- Provide funds from its new Inclusionary Development policy;
- Lobby for and utilize increased Linkage fees for affordable housing;
- Make 1,000 of its parcels of City-owned land available for housing development;
- Coordinate land acquisition and aggregation from other private and public sources;
- Further improve its housing permitting process and create new community review procedures that will make the housing development process more predictable;
- Advocate for a regional, statewide and national commitment to housing production, and a fair share of resources for Boston;
- Convene a blue-ribbon panel to examine other, new City housing resources, including bond revenues and tax abatements to be dedicated to affordable housing.

The City will ask much of its partners:

The pipeline of ready-to-go housing projects is tremendous. The City has projects in the pipeline *right now* that can quickly turn this funding into affordable housing. To get these units on line and encourage more, we will call on our partners to help us sustain Boston's economic vitality and diversity.

- The Federal and State Governments must provide more resources for affordable housing.

- Business and institutional partners will be asked to contribute to a \$50 - \$100 million housing finance pool of low-interest loans and grants to help us leverage City resources even further.
- Colleges and Universities will be asked to create more student housing.
- Private developers will be asked to step up production with new housing designed to community standard.
- Rental property owners will be called on to make a pledge to cease excessive rent increases that are increasingly commonplace in this tight market.
- Neighborhoods must put out the welcome mat for new housing.
- The region must do its fair share to meet regional housing demand.

A PLAN FOR ACTION AND ACCOUNTABILITY

The success of our Housing Strategy will be measured on how much housing we produce and preserve and how well we keep Boston affordable to a broad range of incomes. It is important to establish goals and a system of oversight and accountability. This report suggests the following ways to keep our Strategy on track:

- City Housing Agencies will develop clear performance goals and timelines along with clear lines of responsibility for achieving those goals;
- The Mayor's Housing Advisory Panel will meet semi-annually at which time the City will provide a report on its performance;
- The Advisory Panel will also reassess the Housing Strategy on a regular basis to ensure that the City's efforts are still strategic and appropriate for the housing issues we face at the moment.

In summary, the Menino Administration is committed to ensuring a place in the City for all Bostonians. City housing agencies will focus intensely on production and preservation through a series of new initiatives combined with tried and true programs. Boston is fortunate to have an array of partners with energy and talent who are committed to working with the City to find solutions. Over the past year, we have reviewed an extensive and impressive catalogue of housing actions assembled from many individuals, elected officials, developers, community organizations and advocacy groups. Their input has informed our report and energized our work.

