

THE BOYLSTON BUILDING:
A CASE STUDY OF PUBLIC/PRIVATE PARTNERSHIP
FOR THE
COMMUNITY ECONOMIC DEVELOPMENT OF CHINATOWN

by

Alma Claire Armstrong

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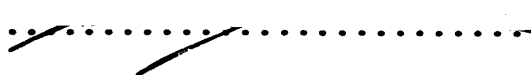
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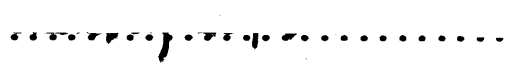
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Signature of Author  Department of Urban
Studies and Planning

Certified by  Professor Tunney Lee
Thesis Supervisor

Accepted by  Professor Langley C. Keyes
Chairman, MCP Committee

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ABSTRACT

In a narrow sense, this Case Study is about an economic development project--the buying and proposed renovation of an historic building located in the Combat Zone, a special overlay district in the Chinatown/Theatre District area of Boston where adult entertainment uses are legally carried on. In a broader sense, it depicts a potpourri of agencies, people, strategies and development mechanisms coming together to form a public/private partnership for the financing and developing of the Boylston Building.

The Study examines the problems encountered, both internal and external to the project, and how the Chinese Economic Development Council was able to bring together the different public and private agencies necessary to take advantage of funding opportunities in order to purchase the Boylston Building.

Thesis Supervisor: Professor Tunney Lee

Department of Urban Studies and Planning

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Finally, my appreciation and thanks to my daughter, Bettina, who gave me moral support and the space I needed to finish this Thesis.

INTRODUCTION

In a narrow sense, this case study is about an economic development project--the buying and prospective renovation of one building in the Chinatown area of Boston--the Boylston Building. In a broader sense, it depicts a potpurri of agencies, people, strategies, and development mechanisms all necessary to form a public/private partnership for the development and financing of the purchase of the Building.

The study is written in four parts: Chapter I provides the reader with background information on Boston's Chinatown, the Chinese Economic Development Council (a community development corporation), and its strategies for development. Chapter II describes the area within which the Boylston Building is located and sets the stage for the Deal. It also gives an historical background of the Building, its physical description, both exterior and interior, its tenants, and the neighborhood within which it is located. Chapter III is the heart and sinew of the study for it presents the Deal, and coming together of all the actors necessary to provide the sources of funding and expertise being sought by the Chinese Economic Development Council. This Chapter also examines the problems

encountered and their resolution. It looks at the business and employment opportunities projected by the community development corporation. Special considerations and financial mechanisms such as historic designation, utilizing a CARD plan, commercial banks, Massachusetts Land Bank, Federal, State and other resources are discussed. Chapter IV presents the conclusions and summarizes the potential costs and benefits to the participants of the partnership.

Because the period studied was between summer 1979 and April 15, 1981, an Epilogue has been added to bring the reader up to date on events occurring after the latter date.

This case study will be of interest to community development corporations and other nonprofit groups who seek to revitalize their communities through community economic development. It will also interest those community developers looking for monies to expand because some of the funding mechanisms can be utilized by them. More often, federal dollars have become contingent on the grantee's attracting other capital. Private commercial banks look at the interest shown by public agencies as a measure of the percentage of risk that they may have depending on collaboration between themselves, the public agencies and the community development corporation or community group.

CHAPTER I

BOSTON CHINATOWN

History of the Area

Chinatown emerged as an outgrowth of an East Coast migration during the early 1870's. Chinese laborers had been underemployed for decades building homes, mass communication systems, and railroads. As these activities declined, the workers were dismissed. Thereafter, some came as strikebreakers to North Adams a small milltown in Massachusetts. After the strike was over, these workers were also let go. They then began a migration from North Adams to other cities that offered jobs. Simultaneously, Chinese workers who were laying the final rail tracks also began to seek opportunities in the East. They came by the same railroads they had helped to lay, and settled near South Station in what was and still is the South Cove area.¹

Some of these early immigrants settled in Scollay Square. From there it was a short distance to the North and South Ends of Boston. They opened laundries as one means of subsistence because most doors were closed to opportunities for employment.

Because of the Naturalization Act of 1870, Chinese persons were excluded from citizenship. They were also barred from the United States and their plight

¹City of Boston, Chinatown, Boston 200

exacerbated by the 1882 Chinese Exclusion Act. Immigration of Chinese laborers was suspended for 10 years. Wives of Chinese laborers already in the country were also barred.²

Many laws were passed denying Chinese persons the same rights as European immigrants, or taking away rights by passage of amendments. These laws successfully kept the population of Chinese in this country from growing. These Acts and the discriminatory feelings by Americans against the Chinese forced them to cluster together to work in laundries, restaurants and small retail stores in their communities. These communities, thereafter, became known as "Chinatowns."³

By 1890, settlement in Boston had occurred along "Ping On Alley" a "quarters settlement" for Chinese workers who were constructing the telephone exchange on Pearl Street. Their numbers grew and less than 10 years later about 200 people had settled along Oxford and Harrison Avenues. Here they found low rents and a growing Asian community. By 1910, a small but emerging Chinatown was evident by the 900 people living in the area.⁴

²Chinese Economic Development Council, SIA and Target Group, January 1978

³City of Boston, Ibid

⁴Chinese Economic Development Council, Ibid.

By the early 1900's, Congress declared unconstitutional and repealed some of the discriminatory laws against the Chinese.

In 1943, the Exclusionary Laws were repealed. A National Origins System was legislated which permitted 105 Chinese annually to migrate into the United States as well as the immediate family of those who had been naturalized. Because many Chinese served in World War II, they were granted "legal residence" in the United States and could bring in their wives and children without the restriction of the quota system. The War Brides Act helped to increase the population of Chinese women in Boston. Greater family life became a reality, and many Chinese Americans were born during the years immediately following the Second World War. This was a period of great historical significance for the Chinese Community in Boston.⁵

In 1950, 2,000 Chinese persons were counted as living in the Boston area--1,600 in Chinatown.* Chinatown offered jobs for which little language skill was necessary. The garment industry became the major employer of Chinese women. The Chinese family associations became the cultural and social institutions, and churches provided not only a place to worship, but also a place to learn English.

⁵Chinese Economic Development Council, Ibid.

* See Attachment A

Urban Renewal in the 1950's was another period of Historical significance for the Chinese community of Boston--the Tufts New England Medical Center (T-NEMC) was constructed. Many small stores and rental spaces were demolished to make way for this facility. The Chinese Merchants Association opened its new building in 1951. It, too, became a casualty in the battle for space losing half of its building to the construction of the Southeast Expressway. The Massachusetts Turnpike Extension followed. These projects alone took half of the land area of Chinatown forcing the residents to relocate to the South End and other nearby areas of Boston.⁶

Approximately 1,200 people were displaced because of Urban Renewal activities in Chinatown. To halt indiscriminate dislocation of people and property in Chinatown (on the initiative of the Chinese community), in 1962, the Mayor of Boston in a Memorandum of Understanding accorded the community veto power over outside developers. The Memorandum of Understanding described the boundaries of Chinatown as Essex Street to Kneeland Street, part of the Central Business District, and from Kneeland to Tai Tung Village.⁷

⁶ Ibid.

⁷ Chinese Economic Development Council, Ibid.

Boston Chinatown is centrally located next to the downtown shopping district, the business district to the north and the leather district and South Station to the east. It is bordered by the Massachusetts Turnpike to the south and the downtown hotel district to the west. There are approximately 6,000 people living in this small land area. Because of the relaxation of immigration laws affecting Asians and the influx of refugees, these newcomers may have increased the actual number of residents by thousands.

Residents of the area are presently employed in two areas: the restaurant business and the garment industry. Most men work in restaurants while approximately 75 percent of the women work in the garment industry. The area does not contain sufficient primary sector jobs for Chinese workers to uplift the economic base of the community. Of the major employers in Chinatown (such as T-NEMC, Jordan Marsh, Filenes) few hire Chinese workers. Two reasons may account for this disparity between jobs and workers: lack of skills and a facility with English. Major expansions are underway or envisioned in and around Chinatown: the Park Plaza hotel and residential complex which is within the perimeter of Boylston, Arlington, Stuart, and New Charles Streets; and the Lafayette Place central retail

core of mixed use development which will provide a twenty-four-hour life cycle to the downtown crossing area. Under construction is a hotel, public plaza, pedestrian walkway, retail boutiques and a parking garage.⁸ T-NEMC is presently constructing a new thirteen-acre health care and dental research facility. The facility would include a Nutrition Center and provide for the expansion of the Floating Hospital for Children. The T-NEMC development plan includes demolition and construction of other sites eventually leading to the projected employment of 12,000 people and occupancy of 2.5 million square feet of land space.⁹

The areas surrounding and including Chinatown have five separate economies within a small area: (1) the theatre district economy which has brought 1.3 million people into the district who spent \$16 million last year--\$7 million of this sum was spent in restaurants in the area. The theatre business grosses \$35 million annually; (2) the downtown retail district economy which lost seven department stores over the last ten years now has the \$150 million Lafayette Place under construction; (3) the T-NEMC medical economy will eventually have 12,000 jobs; (4) the mixed office economy on Boylston and Stuart Streets

⁸Boston Redevelopment Authority, Lafayette Place

⁹Chinese Economic Development Council, Ibid.

which includes the construction now underway of the Massachusetts State Transportation Building with first floor retail businesses; and (5) the Chinatown core restaurant and small retail economy around Essex and Beach Streets.¹⁰

Although there is a plethora of activities and opportunities for employment within walking distance of Chinatown, residents are not employed in these occupations in proportion to their numbers in Chinatown. They are among the lowest wage earners in the City of Boston because their primary employment is in the food and garment industries where the average wages are \$6,000 and \$7,800, respectively. The residents of Chinatown average a lower family income than Boston as a whole. Much of this low income can be attributable to lack of skills, inability to speak fluent English and the declination of the garment industry.¹¹ Chinatown's retail and restaurant businesses provide little opportunity for growth and are considered as part of the "lagging secondary economy."¹² Of the workers employed by the electronics industry, only 3 percent are Chinese. Teradyne, the

¹⁰ Interview with William Condo, Boston Redevelopment Authority, March 23, 1981

¹¹ Chinese Economic Development Council, Overall Economic Development Plan, January 1978.

¹² Ibid.

largest employer, has 20 Chinese out of its workforce of 1,000 employees. T-NEMC employs approximately 2 percent Chinese of its 3,500 workers.¹³

Because the Chinese community did not own or control any high technology or other kindred businesses, there were not opportunities available to train and employ Chinese workers. The few entrepreneurs who owned gift shops, small retail and grocery stores and restaurants do not require high level skills for employment. The intrusion upon the homes and land in Chinatown further repressed opportunities for growth and development in the area.

Although Chinatown was steeped in poverty, it was "invisible." Many programs which provided job training and other services did not include this area for any funds to alleviate its special problems. It was thus imperative that the community itself plan a course of action for community economic and social development.

¹³ Chinese Economic Development Council, Fund Proposal for Acquisition of the Boylston Building

Chinese Economic Development Council

The Chinese Economic Development Council (CEDC) was incorporated in 1974. Initial funding was provided by the Department of Commerce and some assistance from the Massachusetts Discretionary Comprehensive Employment Training Act (CETA) funds. In the summer of 1977, the Community Services Administration (CSA) of the Office of Economic Development (OED) provided planning funds to CEDC, and it thereafter became one of 36 CDC's funded under Title VII of OED Regulations. CEDC proposed to develop a plan for a Special Impact Area (SIA) described as Chinatown, the South Cove, and part of the South End.¹⁴ CEDC is the only Asian CDC in the country and as such it received special attention from CSA as it moved toward developing its Overall Economic Development Plan (OEDP).

The CEDC's OEDP is geared specifically to the community economic development of Boston's Chinatown. The economy of Chinatown is described as "an unbalanced growth economy with a dual labor market..."¹⁵ To bring the economy into balance and offer an opportunity for residents to move into the skilled primary

¹⁴ Joseph Chow, Draft of Master of City Planning Thesis, M.I.T. 1981.

¹⁵ CEDC, Overall Economic Development Plan, January 1978.

labor market, several strategies have been planned: investment in a high technology firm, start-up of firms; start up of a local development corporation, small business development and housing. These strategies are still a part of CEDC's activities.

Although the CEDC's first priority is jobs, Chinese workers need skills to be able to compete with other workers. Major firms will not locate where they cannot be guaranteed a labor market complementary to their particular industry. To compensate, CEDC provides training for unemployed and underemployed residents.

Strategies for Development

In the summer of 1978, during a site visit to the CEDC by the associate director of the OED, it was suggested that CEDC develop a project which would leverage funds from the Economic Development Administration (EDA) and the private sector. In line with this suggestion, CEDC carried out an in-depth study of the development potential of two available properties located within the SIA--the Boylston Building located at 2-22 Boylston Street and the Hudson Building located at 75 Kneeland Street both in Chinatown. These two buildings were especially attractive because of their size and locations.

The CEDC first proposed to purchase both buildings. Subsequently the Boylston Building was selected for purchase because of its strategic location. CEDC saw the proposed acquisition and rehabilitation as a fulcrum to open up industrial space for light assembly and manufacturing which is extremely limited in Chinatown. The acquisition would also give the Chinese community a forceful voice in its economic growth. The Boylston Building would reverse the "taking" of land from the community. CEDC projected that this building would retain existing industrial and retail businesses already in the area by giving them a place to expand while attracting new industrial enterprises into the area. It would also mean control of a large facility, jobs for residents, and the beginnings of land expansion by and for Chinatown residents.¹⁶ The Boylston Building is within the special overlay district known as the Combat Zone.

The Combat Zone

With the arrival of Urban Renewal to Scollay Square and the subsequent building of the Government Center Complex, the "red light" activities of the Square

¹⁶ CEDC, Funding Proposal for Boylston Building

moved toward the Washington Street and North Station areas. Some activities began to infiltrate into Bay Village, Back Bay, and Kenmore Square. Because of complaints from residents and businesses in these areas, in November 1976, the Zoning Commission of the City of Boston, amended "Map 1 - Boston Proper, of the Series of Maps entitled "zoning District-- City of Boston," by adding an adult entertainment overlay district. This district is on two blocks of Washington Street between Boylston/Essex and Stuart Streets. This district effectively cuts off an avenue for expansion of Chinatown because of the kinds of business activities that can be located there.

The Boylston Building is within the northern boundary of the special overlay district (within the theatre district). This becomes important since the CEDC planned to buy the building and lease space for other more desirable uses than presently occurs within it.

Most of the twenty-five buildings that exists in the Combat Zone (Zone) are vacant above the first floor. The ground floors specialize in adult entertainment uses. This tends to create an abundance of underutilized areas making other uses impossible to attract to upper floors.

The Zone has a major impact on people who live and work in the Theatre District. In an audience survey by the Mayor's Office of Cultural Affairs and the Boston Redevelopment Authority (BRA), funded in part by the Ford Foundation, many people were offended by the Zone. They felt more threatened by the street activities than by the clubs. Because the Theatre District has a number of public and private alleyways, these, too, are seen as places for street action and people fear passing them.

Some people who live or work in areas surrounding the Zone object to its influence on their "turf." People who come to the theatres are afraid to walk and park nearby. Developers and the City view the Zone as having an adverse effect on revitalization efforts. However, there is another view of the Zone; that is, that most big cities have an adult entertainment district which is seen as another part of the life of the city. If the City had not created the Combat Zone, many Boston neighborhoods would be infiltrated by adult entertainment uses and those street activities that normally occur.¹⁷ Commercial developers are attracted to the Zone's location in the downtown, but fail to

¹⁷ Interview with Isaac Graves, Assistant to Senator Paul Tsongas, March 18, 1981.

invest because of its present uses. Federal, State and Foundation monies are often withheld until these avenues of support perceive that the area is being revitalized and "cleansed" of its present uses.

Chinatown most of all suffers from the effects of the Zone. Some people say that youths from the mainland acquire mental health problems brought on by culture shock from interaction with the Zone; that the elderly are mugged, and people are victimized and assaulted. Others, that these are exaggerated statements and the Zone is relatively safe.

CHAPTER II

THE BOYLSTON BUILDING

As part of its business development strategy, CEDC purchased the Boylston Building on December 1, 1980. This building is the centerpiece of CEDC's business development activities. It encompasses the four strategies for community economic development set forth by CEDC: (1) ownership of manufacturing activities in Chinatown; (2) manufacturing opportunities in the leading sector economy; (3) job opportunities for area residents; and (4) on-the-job and language training for area residents.¹

History of the Building

Throughout most of the 18th Century, the area around what is now known as the Boylston Building was a marshy land mass between the Common and Back Bay. The only public way in the area was Frog Lane (Boylston Street).² In 1810, the architect, Carl Fehmer, was commissioned by the Boylston Market Association to design a building to replace the Boylston Market which had previously occupied the same site. This market was one of three trading centers in Boston. The building was intended to serve retail

¹ CEDC, Funding Proposal, Ibid.

² Ibid.

³ Building and Streetscape Preservation Survey for Boston's Theatre District, Vol. E. administered by Boston Landmarks Commission, 1979

space on the first floor with office and wholesale space on the upper floors. Nearby Park Square housed the Boston and Providence Railroad Terminals between 1835 and 1900. After 1850, the area boasted of such institutions as the first Boston Public Library, the Hotel Pelham, and the Masonic Temple. As the century changed, the Building accommodated many wholesale clothing dealers.

After the Fire of 1872, the commercial district (which housed sweatshops, shoe stitcheries and wholesale clothing stores) moved southward and settled into the upper floors of buildings along and adjacent to the areas on lower Washington Street. Because of this usage, this area became known as the "garment district."

In 1885, one of the buildings in the Hollis Street Meeting House area converted to a theatre. At the same time the Boston Providence Railroad Terminals moved to South Station and the area was ripe for its development as a theatre district. The Tremont Theatre was built in 1889, the Colonial in 1900, the Majestic in 1903, the Shubert in 1910, and the Wilbur in 1915. Throughout its expansion and development, the area continues a potpurri of uses from small-scale retail and entertainment on the street level to office,

residential, wholesale and light manufacturing on the upper floors.⁴

Around 1950, Century Building Trust, et al purchased the building. At the time it was rented to Topsy Chicken, a fast foods restaurant. The upper floors were rented to Kay's Jewelry and used as its headquarters, from which to distribute jewelry to all its other stores. Because of the area's decline, Kay's Jewelry decided to relocate even though it had a year left on its lease (a \$75,000 penalty was paid to break the lease). Over the years, other tenants occupied the building, for example, a dress manufacturer, the University of Massachusetts, a municipal union, etc. About twenty years ago the building was rented to American Supply Co. The firm sold clothing, jewelry, and other retail items on the ground floor and had a furniture showroom on one of the upper floors. After American Supply moved, the building was rented to a Jewish Vocational School for about seven years. The school used only the first floor although the entire building had to be heated. Because of this, the landlord let the school break its lease even though it had a year or more to go. The landlord thereafter

⁴ Funding Proposal, Ibid.

closed off the top floor. Subsequent to occupancy by Topsie Chicken, the first floor had been remodeled into seven or eight stores and rented out to separate tenants. After the Jewish Vocational School left and the top floors were closed off, the stores on the first floor were rented to adult bookstores. The Pizza store has been at its present location for about 15 years. A 1965 photograph shows the building was utilized by the Pizza store, a stationary store, a radio/appliance store, the Book Cellar, M. Leventhal and National Pants Stores--all on the ground floor on the Boylston Street side. The upper floors appear to be partially occupied.⁵

Under the ownership of Century Building Trust, the building uses changed. As the area became populated by tradespeople from the Scollay Square district, so the uses of the stores changed to accommodate the newer clientele.

One side of the Building is on Washington Street, the other on Boylston. Approximately 175 feet of the building fronts on Boylston while 80 feet fronts on Washington. The Building is a six-story, free-standing brick and steel construction situated on a 15,400 square foot lot. An "L" shaped private way known as Boylston Place is one of its boundaries. The Building

⁵ Interview with David Gopen one of the principals of Century Building Trust, on March 20, 1981.

contains 15,000 square feet of space on each floor. The basement space is also useable. The Building is within one and a half blocks of the MBTA Green Line and Across the street from the Orange Line. Immediately surrounding the building are the following structures on Boylston Street: an open parking lot; the Copper Skillet (a fast foods restaurant); Abbot-Allen Stationers; Bottled Liquors; and an historic building, the YMCA Union. Across the street (on Boylston) is a nude strip lounge, the Casino 13, and an office building which houses The Roast Beef (a fast foods restaurant) on one side of the ground floor and a passport photo shop on the other; an open parking lot; the Orange Line subway (Essex Street Station) and a newsstand. The Washington Street side of the building is surrounded by nude lounges; clubs; fast foods restaurants; Brewer Rooms; a retail store and another entrance for the Essex subway station.

The Boylston Building has many architectural features. It was designed by the architect Fehmer whose work includes many Back Bay residences. Its presence on the site of the former Boylston Market (designed by the architect, Charles Bulfinch, is of significant architectural history. The building is

particularly attractive because it is flanked on
Boylston Street by 18th Century street lights,
cobblestone brick sidewalks and Liberty Tree Plaza.⁶
The Washington Street side blends in with the Zone.
It houses the Pizza shop and one adult bookstore on
the ground floor. The bookstore seems to have been
vacant for a while. Although the entrance to the
bookstore is on the ground floor, it is reached by
stairs leading to the upper floor. This side of
the Boylston Building is within the main pedestrian
traffic of the Zone.

Description of the Building

The Boylston Building is a six-story commercial building of mixed load-bearing masonry and iron frame construction faced with Nova Scotia sandstone, measuring 188 feet along Boylston Street, and 82 feet along Washington. Designed by Carl Fehmer and built by Woodbury and Leighton in 1887, the building is a proto-commercial style design with Renaissance and Romanesque detailing.

The decorative sandstone veneer on the building's two major street elevations also continues for two bays around each alley facade. This veneer is hung on a cast-iron frame which supports the building's interior floors and partition walls, and is framed into load-bearing brick walls along the two alley facades. The building has seven structural bays along Boylston Street, and three along Washington. The bays on the ends of each street facade are set slightly forward from a facade plane, creating the effect of corner towers. The simple iron post and beam design of the first floor is largely obscured by storefront additions and signs; however, many of the piers which support and define the facade bays are still visible between storefronts.

⁶ Fund Proposal, Ibid.

The second floor facade is composed of pairs of recessed, round-arched windows sharing a central pilaster with a carved capital, and joined by a connecting hood mold with a foliate label stop at the junction. These windows have one large square pane topped by two quadrant-shaped panes which are separated by a fluted pilaster. The window bays are connected horizontally by an egg-and-dart molded belt course running across the wide structural piers to connect the imposts of the window arches. The third floor facade is composed of rectangular windows with plain, molded architraves that have small, carved paterae in their corners. There are two of these windows in each tower bay, and three in each of the bays in between. A thick, cornice-like belt course with an egg-and-leaf carved molding separates the third and fourth floors, and defines the 'base' of the building's facade composition.

Resting upon this heavy string course are the combined fourth and fifth floor window bays, united under arcading binding arches, with the arches of each bay joined by connecting hood molds which again have label stops in the junctions. The arches within each bay share pilasters on pedestals, with carved capitals, and the arcade bays are joined by running impost moldings. The fourth floor windows are rectangular, and are separated from the round-arched fifth floor windows by recessed, panelled spandrels with medallions which have alternating rosettas and cameo heads carved in relief. These two floors form the middle section of the facade composition, which is defined on its top by a heavy stone modillion cornice.

The top or attic story is composed of arcading round-arched windows connected by hood molds, four in each tower bay five in the remaining bays. The plain cornice molding on the building's crest is interrupted by parapets at the three outside corners of each of the corner tower bays. The brick walls on the alley facades are undecorated and window openings are arranged in a neutral grid.⁷

The inside of the building appears to need substantial renovation.

The floor system appears to be closely spaced 'I' beams with flat brick arches between them. These members are plastered over and the floor system is thus probably adequately fire proofed. The building

⁷ Report of the Boston Landmarks Commission, November 30, 1977.

has Edison steam heat, a full wet sprinkler system, and a very limited amount of air conditioning. There are two fire walls that divide the floor spaces. One of those does not continue below the second floor-- suggesting that they may not be bearing...There are two passenger elevators and a firestair at the center of the building. The railings of the firestair were of wood construction. The elevator had been modified and was automatic. There was a freight elevator, a firestair and another small elevator on the back wall. The exterior walls above the first floor are of stone and appear to be bearing. The exterior walls facing the alley are of brick. The windows are wood framed, single glazed and the tops are semi-circular in shape under the stone arches. The first floor's exterior was covered with cheap and unattractive materials that have deteriorated. There is some indication at the top that the original column claddings on the first floor are still under this new material. This would facilitate any restoration of the facades.

Toilet rooms which are antiquated at most of the floors are located along the back alley.

The condition of the super structure and the stone exterior walls were good. The windows in these exterior walls were in fair condition. However, on the back alley wall the condition was very deteriorated. The rain water downspouts which were located on this site were in disrepair and the water was running down this face of the building. This has caused some deterioration in the brick and the windows were all badly deteriorated on this facade. There is considerable evidence of water damage on the interior in this back wall. Other areas of leakage would also suggest that the roofing would have to be replaced.⁸

The building does not currently meet fire, energy, electrical and plumbing codes.⁹ The interior needs major renovation to meet safety standards and to bring the building up to market standards. There are

⁸ Boston Landmarks Commission, Ibid.

⁹ Massachusetts Government Land Bank, Proposed Determination of Decadent or Blighted Open Conditions Boylston Building, Boston, Massachusetts, January 19, 1981.

no sufficient docking facilities; inefficient ventilating equipment on some floors and none on other floors; exposed, uninsulated wiring; and the building is not properly insulated.¹⁰

Importance of the Location

The Boylston Building is at a crossroad for the CEDC. It is a major development expansion which gives the Chinese community an entre into the downtown retail district. It is the "first" acquisition of a site out of the Chinatown area. The expectation is that economic diversity--high technology, small businesses--will begin a trend from which opportunities for high skilled employment and business growth will take place. The building will house an assembly plant on the upper floors and an arcade with six or seven primarily Chinese businesses. Already the demand for space far exceeds the limited area available. Approximately 35 people have inquired and filled out questionnaires as to their spacial needs and the kind of businesses they own.

The Building will also be a breakthrough for the Chinese community in that they will cross over Washington Street to the side nearest the Common.

¹⁰ Ibid.

A Chinese pharmacy has opened up at the corner of Tremont and Boylston Street over the past few months. The revitalization of the Building will also threaten the adult uses legitimized by the Zone, because they, too, will be located in the immediate area.

The Building is near the YMCA Union another historic building on Boylston Street. If this building is successfully tenanted, and a Chinese Arcade is erected, other buildings will likely be torn down or renovated for commercial uses.

Because the Building is within the Theatre District and this district is undergoing renovation, and because a priority of the BRA is to bring patrons and dollars to increase the Theatre District economy, the Boylston Building is not only a centerpiece of development for the CEDC but also for the City since its upgrading will stimulate developers to look within the Zone as well for commercial spaces.

In a letter to William Leong, Executive Director of the CEDC, Robert J. Ryan, Director of the BRA states:

The rehabilitation and reuse of the Boylston Building is critical to the successful economic revitalization of the Theatre District, a top priority of Mayor Kevin H. White and of the Boston Redevelopment Authority, the City's planning agency. Located in the heart of the

severely underutilized and blighted Adult Entertainment District, the Boylston Building is a crucial component of the BRA's comprehensive revitalization strategy for the Theatre District and is the key to attracting massive private investment into the Combat Zone.¹¹

The building is also important since it will become a major training center for Chinatown and other unskilled residents in the commercial, retail and high technology fields.

The BRA is also developing comprehensive land use and design guidelines to point out those developments and parcels slated for rehabilitation. These guidelines will be geared toward creating linkages between the Zone and the downtown retail area.¹²

Availability of the Building

Over the 30 years that the Building had been owned by the Gopens and Century Building Trust, it has been difficult to sell at a profit because of its location in an area that had steadily declined. The Gopens received prior offers to buy, but these were below what they felt was a fair and profitable price. When the building was leased for retail or wholesale activities using only the ground floor, the landlord lost money because of the high maintenance costs. Since it has

¹¹ Boston Landmarks Commission

¹² David Gopen, Ibid.

been closed off and available to the bookstore owners, it has shown a profit. However, with the development and imminent upgrading of the surrounding area, the adult entertainment uses may subside thereby causing the building leases to be less profitable for the landlord.

The Gopens own other buildings in the area: one building in the Theatre District on Boylston Street. When the Boylston Building is renovated and occupied, buildings in the area will demand a higher rental for space. This will mean greater profits for the Gopens in their other buildings. The offer by CEDC to purchase the building was exactly the kind of buyer the former owners would have sought had they been actively in the market to sell. They could not turn down the CEDC offer under the above circumstances.¹³

Present Uses of the Boylston Building

The Boylston Building is presently tenanted by one nude strip lounge (Silver Slipper); five adult bookstores with coin-operated films--peep shows--(Fantasy, La Connoisseur, the 14th Amendment, and the Liberty Tree); one "Smoke Shop" a store that sells drug-related paraphernalia and one Pizza Parlor (King of Pizza).

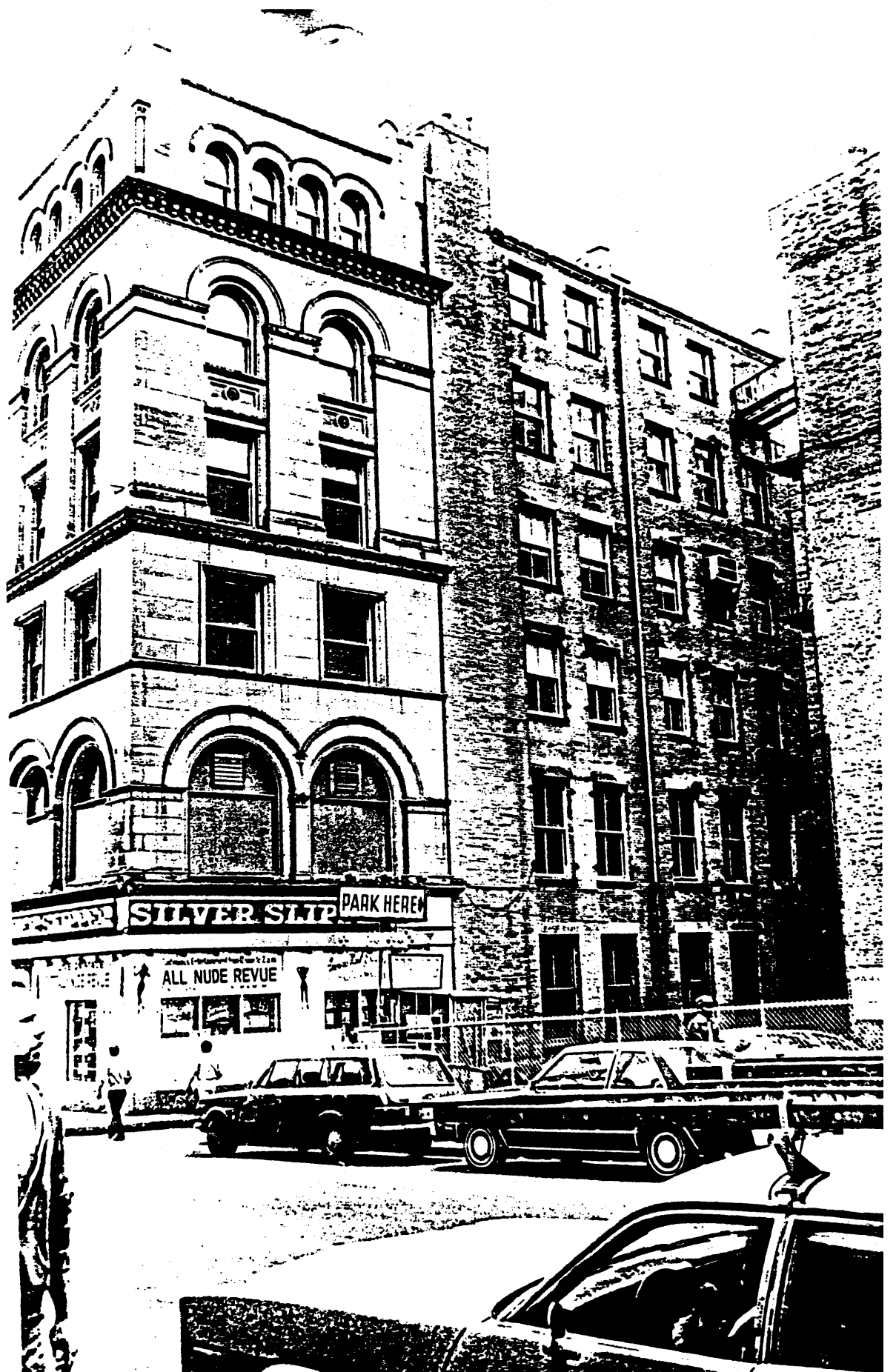
¹³ David Gopen, Ibid.

The entrances to the lounge, the smoke shop and four bookstores are on Boylston Street; the entrance to the Pizza parlor is on the corner at the elbow of Boylston and Washington Streets, while one bookstore is entered on Washington Street.

Three views of the Boylston Building follow: two show the present uses, the third is an artist's rendering of the proposed uses.

In order to get the necessary funds to purchase the Building, the CEDC began to devise a venture development plan.







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CHAPTER III

THE DEAL

Venture Development

In March of 1979, the CEDC requested a grant from the OED/CSA for \$75,000 to acquire options on two buildings in Chinatown--the Boylston Building and the Hudson Building. (CEDC had also requested of the Office of Special Projects at EDA \$3.0 million to purchase and renovate the two buildings.) The strategy set forth at the time was to provide for industrial and office space to accommodate existing area businesses and provide new companies with industrial space. The strategy also was to prevent intrusive development activities upon Chinatown by outside interests. OED funds were to be used for the planned acquisition and rehabilitation of under-utilized space or vacant commercial space. CEDC proposed to apply \$50,000 on the Hudson Building as a deposit to secure an option from the owner, Harry Barron Trust. This building was to be renovated to house small garment manufacturers and other commercial tenants who wanted to relocate or expand. The balance, \$25,000, was to be used to obtain an

option on the Boylston Building. The \$25,000 was to be a refundable deposit upon the passing of papers to this building.¹

Both buildings are advantageously situated and their ownership would allow Chinatown to control scarce land while generating jobs from the extra manufacturing and commercial enterprises. CEDC projected successful utilization of both buildings because the special requirements of many industries were not adequately being met, and with the present developments in the area new commercial space could be amply supported.

On October 11, 1979, OED approved CEDC's request to draw down \$75,000 of its administrative funds to secure options on the two buildings. The authorization stipulated that CEDC must return the funds to the venture capital category when the supplemental grant is received.

Subsequently, CEDC decided it was more feasible to acquire only one parcel and that would be the Boylston Building. This decision was brought about because the Hudson Building was almost 100 percent occupied and CEDC felt it would not be a good candidate for acquisition because any renovations would mean

¹ Interview with Michael O'Bryon, Business Director, CEDC, March 4, 1981.

dislocation and job loss--the opposite of what CEDC was proposing by the acquisition.

CEDC thereafter approached David Gopen of Century Building Trust with an offer to buy the building. An agreed purchase price was quoted as \$1,25 million.

On November 1, 1979, a Purchase and Sales Agreement was entered into between CEDC and Century Building Trust. The down payment was \$25,000, and the closing was set for no later than April 1, 1980.

Because of the many different approvals that had to be received before the closing; e.g. BRA's Comprehensive Economic Development Strategy Committee's approval and Environmental Reviews (as well as money), the closing had to be rescheduled for a later date.

In May of 1980, a second Purchase and Sales Agreement was entered into extending the closing to December 1, 1980. The parties agreed that no further delays would take place or the deal would be forfeited. An additional \$50,000 was put down. The original \$25,000 and the additional \$50,000 became an interest penalty because of the delays.²

² Michael O'Bryon, Ibid.

In order to consummate the deal by December 1, and to have funds for renovation of the building, CEDC put together a model by which it set out a strategy to utilize several governmental mechanisms to leverage the public and private financing it required. These mechanisms are:

1. CSA/OED
2. EDA Special Projects, Department of Commerce
3. National Register of Historic Places, Department of the Interior
4. Massachusetts State Land Bank
5. City of Boston Chapter 121A Tax Agreements
6. Industrial Revenue Bond³

CSA/OED

CEDC proposed to seek \$1.5 million grant from CSA to purchase and renovate the Building (along with other funds from EDA). Leveraging private funds would be difficult since CEDC does not have a track record and the Building is located in the Combat Zone. CEDC believes the project "...will culminate in the eventual elimination of the Combat Zone..."⁴

EDA Special Projects, Department of Commerce

EDA is under the umbrella of the Department of Commerce. CEDC proposed to seek a \$1.5 million grant under "Special Projects" to be used for leveraging other funds to improve the site.

³ CEDC Funding Proposal, Ibid.

⁴ Letter dated January 9, 1980 to Gerrold Mukai from William J. Leong, Executive Director, CEDC.

On October 1, 1979, the CEDC made its initial presentation to the Comprehensive Economic Development Strategies Committee (CEDS) of the BRA. To receive funds under the EDA Special Projects Category, a CDC project must receive a review and evaluation and be recommended by the Committee. The BRA became involved when the CEDC replied to the City's request for projects as part of the CEDS process. The BRA was looking for economic development proposals to submit to EDA. There was money available, but the projects have to come through an areawide committee (CEDS) to be sure they are properly integrated with the City's own planning and investment efforts.⁵

A subcommittee of the CEDS was formed composed of the Director, Office of Federal Relations, City of Boston; Director of Neighborhood Services, City of Boston; President of the Merchants Cooperative Bank; an Urban Planner from a private firm; and the General Manager of the CDC of Boston.

Several criteria are used to evaluate CDC proposals. These criteria are established by the Special Projects office and, additionally, by CEDS arising from its concerns for community economic development.

⁵ Interview with John Willig, Coordinator of the CEDS Committee, BRA, March 20, 1981.

- . Project readiness and feasibility
- . Benefits to the neighborhood's disadvantaged residents
- . Neighborhood need
- . Consistency with the CEDS strategy and City investment policies, and interrelation with public investment
- . Neighborhood support for the project
- . The CDC's ability to successfully develop and manage the project
- . Whether the CDC is a broad based community organization representative of the neighborhood ⁶

CEDS established three categories of projects:

Priority, Preliminary, and Potential community development corporation economic development projects. The CEDS thereafter decided only two projects were worthy of top priority--one of these was the Boylston Building. A priority project has to be: "(1) consistent with CEDS' strategy, (2) provide significant new employment and increased income and/or significant other economic benefits for the disadvantaged residents of the target neighborhood, (3) interrelated with local public investment in a mutually re-enforcing effort, and (4) are in a sufficient state of readiness for implementation."⁷

The CEDS' evaluation of the Boylston Building Project stated:

⁶ BRA, Report of the Comprehensive Economic Development Strategies Committee, February 14, 1980.

⁷ CEDC, Boylston Funding Proposal, Ibid. p. 164.

"This project will create significant new employment for Chinatown residents, facilitate the much needed expansion of Chinatown, provide major resources to the CDC for additional neighborhood economic development projects, leverage significant private investment, and have significant positive impact upon the City's plans for the Combat Zone and Theatre District. This project appears to satisfy EDA's criteria for community development projects."⁸

The project was, therefore, recommended for approval on February 14, 1989, subject to the following conditions:

1. CEDC and its rental agent strictly adhere to CEDC's market and leasing strategy, attached.

2. Profit proceeds be deposited into an EDA auditable account:

- a. Subject to EDA's guidelines and restrictions concerning the use of project income.
- b. To be recycled back into the target neighborhood for additional economic development activities that are consistent with CEDC's approved neighborhood revitalization plan and will directly benefit the neighborhood's disadvantaged residents.
- c. That portion of the profits that is applied to CEDC's administrative expenses shall be used exclusively to increase CEDC's institutional capacity to plan and carry out additional neighborhood revitalization.

3. All Executive Orders and Directives of the Mayor regarding employment and training of Boston's residents shall be adhered to.⁹

⁸ BRA, CEDS Subcommittee for CDC Projects Recommendations, January 30, 1980.

⁹ BRA, CEDS, Ibid.

National Register of Historic Places

CEDC sought eligibility for the Boylston building to be included on the National Register of Historic Places. It first had to get the Boston Landmarks Commission Inventory Form for the Property, a letter from the Massachusetts Historical Society agreeing that the property is eligible, and a letter from the funding agency agreeing that the project is eligible (in this case EDA). This information was sent to the Keeper of the National Register at the HCRS.

In August of 1980, CEDC received notification from the Massachusetts Historic Commission that it concurred to a finding of "no adverse effect," and advising CEDC to send its comments to the Advisory Council for review. The letter also stated that the building seems to meet Criteria A and C of the National Register Criteria for Evaluation. In order to request Advisory Council comments, CEDC would have to request EDA to ask for a Determination of Eligibility from the Secretary of the Interior. When the Project receives National Register designation, it will qualify for a five-year accelerated depreciation schedule.

With the Request for National Register designation, CEDC had to submit plans and specifications for the restoration work proposed.

Originally three firms answered the Request for Estimate to bid on the renovation and restoration work necessary for the determination.

Massachusetts Government Land Bank

In September, 1980, CEDC staff approached the Massachusetts Government Land Bank (Land Bank) for assistance in renovating the Boylston Building which they intended to purchase. This first contact was to explore how the Land Bank could interface with commercial banks and federal funding agencies so that the CEDC could put together a purchase and renovation package. The Land Bank expressed an interest in becoming a partner in the funding process, but because of the location of the Building in the Zone, required CEDC to have financial commitments before it would invest.

The Land Bank is an independent State agency. It provides technical assistance to cities and towns, nonprofit organizations and regional groups seeking

funds for redevelopment projects. Surplus federal and state lands and projects in areas considered blighted and decadent are eligible for financing. The Land Bank has the power to clear, improve, and dispose of certain types of property. It can provide financing for land acquisition, demolition and physical improvements. It can arrange flexible mortgage interest rates. The one drawback is that the Land Bank must own the property while renovations are underway, if the renovations are funded by the Land Bank.¹⁰

The Land Bank has several objectives:

1. Increase the number of available jobs in the state
2. Implement development projects sensitive to local needs
3. Expand the local tax base
4. Fund projects in small, medium, and large cities and towns
5. Revitalize older downtown areas
6. Rehabilitate historic properties
7. Enable productive reuse of surplus state or federal property
8. Encourage private investment through public investment
9. Establish a geographic mix of projects located throughout the state.¹¹

¹⁰ Interview with Howard Davis, Massachusetts Government Land Bank, April 1, 1980.

¹¹ Brochure, The Massachusetts Government Land Bank, Aid for Community Economic Development.

The Land Bank will not provide financial assistance to a project unless there is demonstrated interest and involvement of local officials, the project is financially feasible, and the public will benefit.

In October, 1980, the CEDC again approached the Land Bank. By this time, it had received commitments from local banks and the interest of Wang Laboratories, a high technology computer firm, to lease five floors in the building. Wang was interested in establishing an assembly plant and committed itself to the project. The Wang plant was projected to employ 300-350 people. Wang also proposed to train new employees in a "Twilight Tech" evening program. The CEDC proposed to construct a Chinese arcade on the first floor of the building to contain several small businesses.¹²

Because of the Wang commitment, the recent designation by the state of the Theatre District as a Commercial Area Revitalization District (CARD), the BRA's interest in the building as part of its projected Parcel 31 development, the federal support, and the proximity of the building to the developments going on in the area, the Land Bank became more interested in the project.

¹² Michael O'Bryon, Ibid.

On October 23, 1980, a Preliminary Application for Land Bank Financing was submitted by CEDC.

In its application CEDC estimated development costs, financial commitments and developed a schedule for the project.

Purchase Price	\$ 1,250,000
Lease Buyouts & Soft Costs	250,000
Renovations	4,000,000
12.5 Contingency	500,000
TOTAL	<u>\$ 6,000,000</u>

CEDC estimated that it would need \$1.25 million to acquire the site, and \$250 thousand additional funds for lease buyouts and soft costs. These funds, in part, were sought from the Land Bank (\$1.5 million) and necessary for the Purchase by December 1, 1980. Site improvement costs were estimated as \$4.0 million with \$500 thousand for contingencies. These funds, in part, were sought from CSA/OED and EDA grants (\$3.0 million). CEDC estimated it would begin its development schedule for the site improvement by January 31, 1981, and complete the schedule by October 31, 1981. It also estimated a need for \$1.5 million of private sector funds to be used for site improvements.¹³

On October 29, 1980, the Land Bank staff recommended approval of the CEDC Preliminary Application. The Land Bank Board concurred.

¹³ CEDC, Preliminary Application for Land Bank Financing

The pro forma attached to the application projected a financially feasible project if:

1. Wang leases 67,250 square feet at \$12.00 a square foot and 9,000 square feet at \$3.00 a square foot;
2. Federal grants totaling \$3,000,000 are received and the other \$3,000,000 (\$1,500,000 of which is being requested from the Land Bank and the other \$1,500,000 may be provided through an Industrial Revenue Bond) is obtained at below market interest rate;
3. A 121A Agreement is granted by the City.¹⁴

The Land Bank's preliminary approval outlined four areas of special concern:

1. The term of the Wang lease and the potential of getting a commitment from Wang to purchase the building within a specified period of time;
2. What Wang will utilize the building for and potential access problems;
3. How the tax losses generated by the five-year depreciation schedule will be utilized;
4. Where the CEDC will get the funds to purchase the building by December 1, 1980.¹⁵

In order to qualify for Land Bank consideration CEDC submitted a determination from the BRA that the area had experienced blight. (The Boylston Building is included in Parcel 31 of the Park Plaza Urban Renewal District.)

¹⁴ CEDC, Preliminary Application, Ibid.

¹⁵ Ibid.

In its staff report of January 19, 1980, the Land Bank determined that the area described... "is a decadent area which is detrimental to the health, safety, morale, welfare and sound growth of the City of Boston, based on the deteriorated condition of the building and the fact that the area has experienced a substantial change in business and economic conditions... thus making it improbable that the area will be redeveloped by the ordinary operations of private enterprise."¹⁶

In January, 1981, a meeting was held with the Land Bank staff, the First National Bank, BRA staff, and the CEDC to present clarification and information on the role of the different agencies and the anticipated development by CEDC. The meeting served to assure each of the partners to the development process that, indeed, CEDC had obtained their support so that that project could go forward without any hesitation or uncertainty about commitment in order to package the financial resources it required.

The Boylston Building project is especially suited to seven of the Land Bank's objectives:

¹⁶ Massachusetts Land Bank, Proposed Determination of Decadent or Blighted Open Conditions, Boylston Building, Boston, Massachusetts.

1. The building will employ approximately 75 people on a temporary basis during the construction and renovations, and it will permanently employ approximately 300-350 at Wang Laboratories and approximately 30-50 people in the Chinese Arcade.

2. The building is essentially located to provide the Chinese community with an opportunity to expand its "turf" through ownership and control of the building.

3. The tax assessment for the building will increase by approximately \$23,000.

4. If this building was not purchased, it would have continued its adult entertainment uses thereby creating an eyesore in an otherwise revitalizing area.

5. The Boylston Building is an historic landmark, and has received designation from the National Register for Historic Places.

6. The Boylston Building, with Wang tenancy, will mean the reuse of a large building which has been almost 85 percent vacant for over seven years.

7. The CEDC has managed to encourage one private firm to lease 90 percent of the space thereby strengthening efforts for public investment.

The final Application and Redevelopment Plan submitted to the Land Bank requested a total of \$2,000,000 for land acquisition, relocation and administration. The total costs projected were broken down into:

Purchase, relocation and construction	\$ 2.0
Administration	4.0
TOTAL	<u>\$ 6.0</u>

CEDC was seeking funding costs as follows:

Land Bank	\$ 2.0
CSA/OED Grant	1.0
EDA Grant	2.0
Industrial Revenue Bond	1.0
TOTAL	<u>\$ 6.0</u>

The Land Bank's involvement in the purchase and renovation would consist of purchasing the building from CEDC. It would then resell it to a "wholly owned subsidiary of CEDC" and take back a note and purchase money order for the price paid by the Land Bank for the property plus an allowance for certain agreed costs for a total price of approximately \$2,000,000.¹⁷

The Land Bank's involvement was contingent upon CEDC securing Award Letters from the EDA and CSA committing agency funds to the project.

¹⁷ CEDC, Final Application and Redevelopment Plan, submitted to the Massachusetts Land Bank.

With its Final Application and Redevelopment Plan, CEDC submitted letters from CSA and the Department of Commerce. The CSA letter, in part, states:

Please be advised that the OED is prepared to share in the support of the efforts of the CEDC with an amount not to exceed \$1.0 million. You should understand, however, that the OED cannot disburse funds without evidence that the project is economically feasible. Therefore, CEDC must provide the Program Monitoring and Review Division...a complete and acceptable business package. 18

The letter from the Department of Commerce, in part, states:

The proposed project is well planned and appears to meet EDA and Special Projects Program objectives. You can be assured that we intend to fund this project in an amount of \$2,000,000 from the Special Projects Program public works allocation in fiscal year 1981. EDA's ability to fulfill this intent depends upon appropriations sufficient to meet this commitment, and compliance of the Chinese Economic Development Council's application with all EDA statutory and regulatory requirements. 19

CEDC's Final Application listed the following

Summary of Parcels and Proposed Uses:

Floor	Net Leasable Area, Sq. Ft.	Proposed Use	Sq.Ft. of Proposed Units for each use	Proposed Lease Price
Basement	9,000	Storage	27,000	\$3/S.F.
Ground	9,250	Commercial Shops	64,750	\$7/S.F.
Ground	3,500	Wang Storefront	42,000	\$12/S.F.
2-6	63,750	Light Manufacturing (Wang)	765,000	\$12/S.F.

18 Letter from Gerrold K. Mukai, CSA, dated December 31, 1980.

19 Letter from Curtis R. McClinton, Jr., Department of Commerce, dated November 24, 1980.

Because state funds are being utilized, the Land Bank required CEDC to comply with Chapter 79A of Massachusetts General Laws (MGL) and provide relocation assistance to the tenants.

Theatre District/Chinatown Phase II CARD

In order to qualify for Industrial Revenue Bond financing, the Boylston Building had to be located within an approved Commercial Area Revitalization District (CARD).*

In September, 1980, the BRA submitted an application for Designation of the Theatre District/Chinatown CARD to the City Council in accordance with "The Procedures for Getting CARD Plan Approval" set forth by the Massachusetts Executive Office of Communities and Development (EOCD).

The CARD Plan acknowledged that Chinatown had a need to keep existing blue collar jobs within the community and avoid their displacement by commercial development incentives. The CARD Plan would enable development in the Adult Entertainment District, which is within the CARD. This development could take the form of adaptive reuse of buildings, locating legitimate businesses on the vacant upper floors of buildings in the Zone, thereby effectively reducing the impact of adult entertainment uses within the District.

* See Attachment B

The CARD Plan is specifically geared to implementing "...the theatre/tourist related businesses, expanding housing opportunities and commercial/retail operations particularly in the Washington Street area..."²⁰

The Phase II CARD Plan is consistent with the revitalization activities outlined in the Neighborhood Profile for Chinatown/South Cove, 1979. It is also consistent with present commercial activities such as Park Plaza, Lafayette Place, the Washington Crossing Mall, etc. Four of the eight goals of the CARD Plan will particularly strengthen Chinatown's economy:

- . To reinforce and hasten the transformation already underway in the Adult Entertainment District to a more legitimate commercial and residential area.
- . To attract and encourage new development, particularly in the area of BRA Parcel 31 (bounded by Boylston, Washington, La Grange, and Tremont Streets), that will add new economic vigor to the entire Phase II district.
- . To maximize employment opportunities for Chinatown residents and for those in the performing arts trades.
- . To facilitate commercial and mixed use investment in Chinatown while preventing the displacement of manufacturing jobs via commercial displacement.²¹

²⁰ BRA, Theatre District/Chinatown Phase II CARD

²¹ Ibid.

Benefits of CARD Designation

Business enterprises in approved CARDS are eligible for certain financial incentives, e.g. mortgage insurance, tax-exempt revenue bond financing, and state tax credits in communities with high property taxes. The CARDS are usually older downtown areas such as Chinatown, which are experiencing or being threatened by physical decay. After approval by the state, commercial firms may obtain tax-exempt revenue bond financing from the Massachusetts Industrial Finance Agency (MIFA). Other incentives are also available: tax credits for firms locating or expanding in areas of high property taxes are available through the Urban Job Incentive Program. Corporations in the business of manufacturing are eligible for a tax credit for new investments up to three years. "A credit against state tax liability is available for 3% of the value of depreciable real and tangible property acquired during the year."²² Plant machinery and equipment whether new or used are also eligible but only if it has an expected useful life of at least four years. Tangible property which is rented or lease is eligible if it is rented from local and regional business development corporations.²³

²² Massachusetts EOCD, Urban Investment: A Guide to State and Federal Resources, February 1980.

²³ Ibid.

Under the Urban Job Incentive Program, firms locating or expanding in an urban area with substantial poverty will be provided a state tax credit. To qualify, the firm must be in an approved CARD. The tax credit is applied against the corporate excise tax liability, thus effectively reducing the local property taxes to the statewide average. The credit is paid, wholly by the state so that the locality does not forego any revenue. The business enterprise must provide an approved training program to be eligible.²⁴ Other government financial mechanisms which can be utilized by commercial firms or facilities in a CARD is the regular Small Business Administration (SBA) loan program and the SBA 502 program, HUD 312 commercial rehabilitation loans; EDA business development assistance program, Urban Systems Program, and HUD's Urban Development Action Grant (UDAG) program.

By letter of November 10, 1980, the Secretary of EOCD approved the CARD Plan with the following condition:

The Boston Redevelopment Authority will not authorize certification of any development proposal in the Chinatown subarea (bounded by Essex Street, Southeast Expressway, Kneeland Street, and Harrison Avenue) of the Theatre District/Chinatown

²⁴ EOCD, Urban Investment, Ibid.

Phase II CARD for a period of ninety (90) days, commencing on the date when the CARD receives final approval, so that comprehensive criteria for development can be formulated and agreed upon by a group of Chinatown's residents, business and civic leaders and the Boston Redevelopment Authority. Upon completion of these criteria, all CARD-related proposals in the Chinatown subarea of the Theatre District/Chinatown Phase II CARD shall be reviewed for their conformance with these development criteria.

City of Boston Chapter 121A Tax Agreement

A Chapter 121A Agreement is an important development incentive of the state. It is designed to further development by establishing a negotiated tax agreement to assure the feasibility of financing desirable projects. To be eligible for Chapter 121A, all Boston projects must be approved by the BRA, which administers the program. Because it can be used as a business incentive, it is considered a major financial mechanism to rehabilitate a blighted or deteriorating area--such as the Combat Zone. It also gives the community the leverage to actively participate in planning commercial or housing projects, and is catalytic in encouraging private investment in a community

A Notice of Intent to file for a Chapter 121A Tax Agreement was submitted to the BRA by CEDC. The

application will be submitted on May 1, 1981. Before approval, the BRA must make certain mandatory findings:

- . That blighted open, decadent or sub-standard conditions exist within the proposed project area.
- . That the project is not in contravention of any zoning, subdivision, or building ordinance or bylaw or rules or regulations in effect in the city or town.
- . That the proposed plan does not conflict with the Master Plan.
- . That the project is not detrimental to the best interests of the public or the city or town.
- . That the project is in the best interest of public safety and convenience.
- . That the project is not inconsistent with the most suitable development of the city or town.
- . That the project will constitute a public use and benefit.
- . That the relocation plan (if required) is satisfactory. 25

The BRA would thereafter prepare a Section 6A Contract with CEDC setting down "the duration of the agreement, the schedule of payment above the statutory minimum and incorporate special conditions which have been negotiated with respect to parking,

²⁵ EOCD, Chapter 121A A Handbook for Local Officials

resident employment, exterior design treatment or other aspects of the project."²⁶

Section 10 of Chapter 121A specifies that minimum excise taxes must be paid to the Department of Revenue. Section 6A gives the BRA the right to negotiate a payment above the minimum statutory payment. Since Chapter 121A entities are "limited dividend corporations", they cannot earn more than an 8% return on their investment. If they do earn more, additional payments over and above eligible deductions must be paid to the City. This tax payment would not go above the level of payment that would be required if the project were not entitled to a Chapter 121A Agreement.

The period of the Chapter 121A Agreement is normally 15 years; however, this period can be extended up to a period of 40 years if certain amenities are included in the project: for example, employment of minorities or neighborhood residents, facilities for the handicapped, historic preservation activities such as rehabilitation of historic buildings, and subsidized housing for low and moderate income persons.²⁷

²⁶ Ibid.

²⁷ Ibid.

There is a limitation on the amount of money that can be borrowed if the project receives Chapter 121A approval.

Industrial Revenue Bonds

The BRA applied to the Boston Industrial Finance Authority (BIDFA) to authorize the issuance of a revenue bond on behalf of CEDC for \$1.0 million. By Resolution, the BIDFA ordered the City Council to approve the financing of the project through a bond to be issued by the City. The application was approved on November 4, 1980. BIDFA, on November 7, 1980, requested the Massachusetts Industrial Finance Agency (MIFA) to issue the Industrial Revenue Bond (IRB) for the development of the Boylston Building Project. On November 13, 1980, MIFA approved the Boylston Building Project.

On April 14, 1981, CEDC received a full commitment letter from The First National Bank of Boston for the purchase of the Bond.

The above weaving of public and private funding mechanisms will make it possible to carry out the Boylston Building Project.

As part of its funding strategy, CEDC believed that if Wang Laboratories leased space in the building, it would be in a better position to get the public resources it needed and at the same time it could help several small businesses start up or relocate into the building.

Wang Laboratories

In September, 1980, CEDC staff approached Wang Laboratories, Inc. (Wang) about leasing space in the Building. Shortly thereafter, An Wang, president and founder of the firm, visited the building. On October 9, 1980, Wang by letter to CEDC formally evidenced interest in leasing all of floors two through five plus a portion of the first floor for manufacturing purposes conditioned on CEDC's taking care of the following:

1. The premises are zoned to permit the use of the premises for Wang's intended purposes;
2. You acquire and renovate the building and complete the space to be leased to Wang
3. The terms and conditions of the lease would be acceptable to Wang and generally consistent with the financial presentation which you made to Wang;
4. Wang would receive assurances from the City of Boston of the continuing obligations of the City to maintain the general area of the building and its surroundings in a safe and clean condition, to encourage development of the surrounding area in a first class manner and to maintain real estate taxes (or C. 121A excises) at a level acceptable to Wang both during the lease term and after the exercise by Wang of any application purchase option;
5. Review and approval by Wang of the project budget and construction in order to ensure that costs, and consequently rents, are minimized;

6. Arrangements satisfactory to Wang are made for purchase options from time to time at a price which would recognize the risk and additional expense to Wang inherent in this venture while also recognizing your pivotal role in the transaction, namely a price for your equity (net of the mortgage indebtedness which Wang would pay off or assume) equal to \$2.75 million (or \$1.25 million plus 50% of grants, whichever is lower) plus 10% per year, compounded annually from the date of purchase to the date of exercise, which latter date shall be not later than seven years following purchase.
7. Arrangements satisfactory to Wang are made for securing the exits and entrances of the alley adjoining the building, raising the grade of the alley to permit vehicle access over its full width, reserving only fire escape access for the adjoining owner;
8. Arrangements satisfactory to Wang for approval by Wang of tenants to ensure compatibility with Wang's use, safety and economical operation of the space and for expansion rights into first floor and basement space not leased to Wang.²⁸

Wang was interested in securing a five-year lease with four five-year extension options.

Wang was concerned about the availability of a work force to do the assembly work at the Plant. CEDC estimated that approximately 800 local Chinatown residents were unemployed. Other statistics show there are people available to work if training were provided.

Wang thereafter proposed to establish a training and English skills program in the Boylston Building.

As part of the proposed leasing agreement, Wang would oversee the renovation of the Boylston Building in

²⁸ Letter from Wang Laboratories to CEDC dated October 9, 1980.

line with its plan to set up an assembly plant. The plant would hire 300-350 unskilled or semi-skilled individuals. As part of the training for new employees, Wang would provide English as a Second Language training. Wang would employ bilingual staff to coordinate the job training for Chinatown residents. CEDC has assured Wang that there is a pool of workers ready to be employed. Wang has also begun to recruit in low income neighborhoods outside of Chinatown so that they, too, have an opportunity for employment.

On the whole about 50 jobs will be produced through temporary construction work and 300-350 through the Wang assembly plant.

Chinese Arcade

CEDC proposed that the first floor space of the Boylston Building would be used by the community to establish a Chinese Arcade. The Arcade would house a variety of small businesses or shops established in a manner reminiscent of Faneuil Hall.

After placing an advertisement in Chinese newspapers to survey community interest in the idea, 36 entrepreneurs responded seeking information and filling out questionnaires. The CEDC plans to give preference to businesses which "will create higher quality employment opportunities than those normally available to area residents."²⁹ Financial and technical assistance will be provided if it is needed by the entrepreneurs.

In order to assure residents an opportunity to locate in the Arcade, the rental rate will be set at \$7.00 per square foot. This is substantially lower than the rental rate of the upper floors which is set at \$12.00 per square foot. The basement space will command a rental rate of \$3.00 per square foot. The basement will probably be used for storage by tenants of the Chinese Arcade.

²⁹ Michael O'Bryon, Ibid.

CEDC projects about 140 permanent jobs could accrue because of the Arcade. Conservatively at least half this amount will be produced. The types of businesses that responded to the advertisement were: travel, tailor shops, barber shops, pharmacies, discount store, jewelry imports shop, rare coins, boutiques and oriental goods.

On the whole, the purchase and renovation of the Boylston Building will help CEDC's business development strategy and upgrade the Special Impact Area.

Problems to be Solved

During the planning and development of the Boylston Building Funding Proposal and prior to and after the purchase, there were several obstacles both internal and external to the project's success. Some of these problems and obstacles have been resolved. Others are under negotiation. Some are outside the scope of CEDC's power to influence their resolution.

1. Internal Obstacles

(a) During a very crucial negotiation period with the Project Review Division for Real Estate Projects of CSA/OED, CEDC was requested to do a full market study on the rentability or leasibility of the building. CEDC responded that it was not necessary to do this since one tenant would be renting 92 percent of the space. After many meetings and discussions, CEDC submitted a letter from Wang stating that it intended to lease floors two through five at \$12.00 per square foot. York Realty in a letter dated December 22, 1980, to CEDC stated that it managed approximately 450,000 square feet of rental space in the Greater Chinatown area, that light assembly space analogous to that which Wang will be renting leases for \$7.00 per square foot and that Wang is paying significantly more than the market rate.³⁰ CEDC thereafter

³⁰ Michael O'Bryon, Ibid.

submitted both the Wang and York letters to CSA. The problem was resolved only after CEDC convinced CSA that the Boylston Building was not a real estate project but an economic development project and, therefore, a full market survey was not necessary. This obstacle cost CEDC approximately \$1,500 and staff time. CEDC thereafter received the basic commitment letter from CSA.

The Boylston Building is located in a Special Overlay District created by the City to contain adult entertainment. Because of the regulations which permit adult uses, bookshops and other forms of entertainment must be licensed.*

The adult bookstores located on the first floor of the Boylston Building applied to the City of Boston to get entertainment licenses which are required by law to run coin-operated peep shows. On September 29, 1980, a hearing was held in the matter of Fantasy Book Shop, Inc. (Fantasy). It was presided over by Joanne Prevost, Commissioner, Boston Consumers Council and Richard J. Sinnott, Chief, Licensing Division of the City of Boston. The CEDC did not receive notification of the hearings and, therefore, was not represented. On October 6, 1980, public hearings were held for Lotten

* See Attachment C

Books, Inc. (Lotten) and Journal Books, Inc. (Journal). At these hearings, CEDC, heads of approximately 15 community organizations located in Chinatown, and community residents appeared to oppose the applications. Prevost and Sinnott also presided over these hearings.

On October 15, 1980, the business director of CEDC wrote a letter to Commissioner Prevost stating that the CEDC had a Purchase and Sales Agreement on the Boylston Building and expected to close on December 1, 1980. The letter further stated that the present tenants would be asked to move, and that after the renovations are completed there would be no space available since a major tenant would be leasing the building. Although the BRA was a prime mover in the establishment of the Adult Entertainment District, it also opposed the licensing of peep shows in the adult bookstores located in the Boylston Building on the ground that adult uses would be inconsistent with a proposed use of the building by the CEDC.

The Division of Licenses determines whether or not to give a license to an entertainment use based on four factors. They take into consideration:

1. Whether or not the use will lead to an unreasonable increase in pedestrian or vehicular traffic;
2. Whether it will lead to an increase in illegal conduct;
3. Whether it will lead to an increase in noise; and

4. Whether it will harm the otherwise legitimate protectable interests of the city. ³¹

On November 13, 1980, Lotten, Fantasy, and Journal were denied licenses by Prevost and Sinnott because they felt that granting the licenses would lead to the creation of a nuisance and otherwise endanger the public health, safety, or order when measured by the criteria of subsections b and d of Section 428.

It was the opinion of the Licensing Division that "contact between peepshow patrons and those persons who would utilize the "Boylston Building" for renovation, business, and training purposes would increase the incidence of illegal and disruptive conduct in the area. Specifically...that the chance of theft, vandalism, assault, and battery would increase. Further, that members of the Chinese community...have a legitimate protectable interest in linking commercial uses and economical development to the community...and that the granting of a license would harm the legitimate protectable interests of the many citizens of Boston who are restoring the area in which the premises are located as a safe, stable, residential/commercial community. The Division found that the anticipated harm is significant and the likelihood of its occurrence is not remote. ³²

³¹ Interview with Arlene LaPenta, Esq., City of Boston Law Department, March 20, 1980.

³² Licensing Division, City of Boston, Opinion, November 13, 1980.

(b) The Court Suit

On November 17, 1980, three of the adult bookstore owners, Fantasy, located at 10 Boylston Street; Lotten, located at 6 Boylston Street; and Journal, located at 14 Boylston Street, filed suit against Kevin White, Joanne Prevost, Michael O'Bryon and William Leong, individually, and in their official capacities; and Commissioner of Police Joseph Jordan, and Regional Administrator of the U.S. Small Business Administration, Stanley C. Weinberg, in their official capacities only. They were also notified that a hearing would be held on November 20, 1980, on the issuance of a Temporary Restraining Order.

Plaintiffs alleged violation of their Constitutional rights, that because peep shows are films they are protected by the First Amendment and the City has no right to prohibit their operation in the Boylston Building. They also alleged Fourteenth Amendment rights violation claiming they are not being treated equally. They claimed the real reason for the denial of the licenses is a scheme on the part of the Mayor, the BRA and the CEDC to get their kind of uses out of the Zone.³³

The bookstores offer books, magazines, films and other items for sale to patrons. Each store has private viewing booths. Films are activated by a coin-operated device inside the booth. Because of the nature.

³³ Arlene LaPenta, Ibid.

of the films and the materials sold, access is restricted to "adults only." Fantasy has been a tenant since October of 1979. Prior to its tenancy, the premises had been rented for similar purposes since 1974. Lotten and Journal both took occupancy in 1977.³⁴

In their Complaint, plaintiffs' claimed that on November 13, 1980, Criminal Complaint No. 11031 was issued in Boston Municipal Court Department against the president of Fantasy. The Complaint alleged license violation under General Laws, Chapter 140, sections 181-2, as amended November 12, 1980. The Complaint was issued by an officer assigned to the Vice Control Unit of the Police Department of Boston. Plaintiffs alleged further that on October 1, 1980, and other occasions defendants (The City of Boston et al) conspired "with one another and with others unknown to the plaintiffs to deprive the plaintiffs of rights guaranteed by the First and Fourteenth Amendments to the Constitution of the United States."³⁵ They believed the conspiracy was to eliminate all adult entertainment uses from the Boylston Building knowing they could not relocate in comparable space and that this conspiracy would continue if they were

³⁴ Arlene LaPenta, Ibid.

³⁵ Complaint, Ibid.

not granted the relief sought.³⁶ They demanded that a Temporary Restraining Order be issued enjoining defendants from interfering with their businesses, pending a hearing in the Court, and also to stop the City from enforcing criminal charges, and CEDC from evicting them. The plaintiffs also sought to stop the defendants from taking any action, "and asked the court to declare that defendants have conspired against them; that the zoning code is unconstitutional since it would restrict adult uses to the Adult Entertainment District, that the court should declare Massachusetts General Law, Chapter 140, sections 181 and 182 as amended by Chapter 358 of the Acts of 1979 are unconstitutional...and infringes upon rights of the plaintiffs guaranteed by First and Fourteenth Amendments; that the court declare Ordinance 14, sections 426-428 of the City of Boston Code is unconstitutional...and that the court award them damages of \$3.0 million with interest, costs and attorney's fees."³⁷

The City of Boston in its Brief stated that the City is not denying plaintiffs their constitutional rights, that they can apply for licenses to operate in another building, and it is not prejudiced against

³⁶ Arlene LaPenta, Ibid.

³⁷ Complaint filed by Plaintiffs, November 17, 1980, in Federal Court.

the entertainment use. Further that the denial is against the particular use in the Boylston Building. The plaintiffs pointed to an article under the Mayor's byline which predicted the end of the Zone as evidence that there was a scheme to drive the adult entertainment uses from the Theatre District.³⁸ The Herald American article in question appeared in October 26, 1980, issue and stated: "The Boylston Building...in the Combat Zone will be rehabilitated for office and commercial uses. This will remove five pornographic outlets from the City." The Mayor thereafter responded by affidavit that he was only making an observation on the future of the City. Joanne Prevost also submitted an affidavit saying that she did not turn down the licenses because of the adult uses and, in fact, other licenses have been turned down based on imminent redevelopment, for example, a license for an arcade in the Kenmore Square area had been denied because that use would have been bad for the particular neighborhood. Further that the same criteria was applied fairly to the bookstores as everyone else, that the bookstores had a chance for a full hearing; that written reasons were given for denying the licenses; and that everyone had a chance to speak or write as to whether they supported the licensing.³⁹

³⁸ Arlene LaPenta, Ibid.

³⁹ Ibid.

On November 20, 1980, a Memorandum and Order denied application of plaintiffs for a Temporary Restraining Order on the ground that they had not shown irreparably harm would accrue to them even if they went without a license and it was later approved, their damages would only come to a loss of money and some inconvenience and, therefore, they weren't entitled to have a decision made at this time. The Judge felt that the CEDC stood a greater chance of being harmed if he took action to prevent the eviction.⁴⁰

In an Amended Complaint filed on December 2, 1980, the defendants alleged that they would suffer "irreparable harm in that there will exist a chilling effect upon their valid exercise of First Amendment rights and...will be subjected to invalid official interferences with the operation of their businesses if the court did not grant the relief they sought."⁴¹

Plaintiffs alleged further that the proposed uses to which CEDC will put the Boylston Building include an illegal non-conforming use and will not include any adult uses;" that the BRA and the Mayor...are planning,

⁴⁰ Arlene LaPenta, Ibid.

⁴¹ Complaint, Ibid.

implementing and effectuating...other projects...which will decrease if not totally eliminate outlets for adult uses in the city."⁴²

Plaintiffs claimed that CEDC could find space in other parts of the city zoned for commercial use, and that the proposed purchase and renovation of the Boylston Building is not a private but a public project because of the indirect and direct federal and state funding and the involvement of the BRA and the City is insuring the success of the project. They asked the court to declare the proposed development a public and not a private project. They further claimed that cooperation of the BRA and CEDC is an overt act in furtherance of the conspiracy.⁴³

On December 4, 1980, CEDC notified the tenants of the Boylston Building that their tenancy-at-will terminated upon transfer of ownership, and that they must vacate by January 3, 1981.

Subsequent to December 4, CEDC learned that under Massachusetts General Laws Chapter 79A it was required to provide relocation assistance to certain tenants. Tenants who apply and satisfy requirements must relocate within 120 days. They are provided assistance to relocate to other space, counseling and moving expenses.

⁴² Complaint, Ibid.

⁴³ Arlene LaPenta, Ibid.

The plaintiffs also sued to obtain a Preliminary Injunction against the defendants. They asked the Judge to stop the City from enforcing its license laws.

On January 16, 1981, Judge D.J. McNaught issued a Statement of Reasons for the Denial of A Preliminary Injunction. The Judge found that "the Ordinance and enabling statute constitute a reasonable restriction on the time, place and manner of the plaintiffs' exercise of First Amendment rights, and that the licensing was directed at the location of commercial entertainment not at its content." He found that plaintiffs are not...faced with irreparable harm since they are continuing the operation of the book-stores. Further that they can relocate in the Combat Zone although they may not find ground floor space. The Judge found there "would be 'harm' to the expectancy of the City that the state statute and municipal ordinances relating to licensing should be enforced, that CEDC would suffer harm because of the uncertainty that would be created with respect to the future use of the building and with possible financing relationships with private and governmental interests..."⁴⁴ He further added that he would not interfere with the police power

⁴⁴ Judge McNaught, Statement of Reasons for Denial of A Preliminary Injunction, dated January 16, 1981.

of the City. He observed that he did not believe the plaintiffs would likely be successful in winning their case especially the charges about alleged conspiracy between the Mayor, the BRA and CEDC.⁴⁵

The Plaintiffs appealed the second decision to the Court of Appeals asking for relief until a decision is made on their earlier charges. The court refused to grant relief on the grounds that the decision would be made in a month as to whether or not they should have obtained preliminary relief, while waiting for the decision on whether or not they have been denied their Constitutional rights.⁴⁶

There were three court actions brought by the plaintiffs:

1. Alleging a conspiracy and denial of their First and Fourteenth Amendment rights. Plaintiffs asked for \$3.0 million damages and a Temporary Restraining Order. The Temporary Restraining Order was denied on November 20, 1980; no date has been set to hear arguments on the Complaint.

2. Preliminary Injunction to stop the City from enforcing the License Laws and CEDC from evicting tenants, and \$3.0 million in damages. This action was denied.

⁴⁵ Judge McNaught, Ibid.

⁴⁶ Plaintiffs' appeal in Appeals Court

3. Plaintiffs appealed the second decision asking for relief until a decision is made on the first action. This action was also denied.

(c) Relocation

On November 21, 1980, the adult bookstores, through their attorney, requested CSA, EDA, commercial banks and lending sources to send information regarding all transactions with CEDC, including minutes of meetings, correspondence, and records.⁴⁷

On November 24, 1980, the attorney wrote to CSA:

1. To correct and clarify certain information which may have been given with respect to applications of the CEDC for the Boylston Building Project concerning existing tenants; and
2. To request that CSA examine the issue of displacement of existing tenants and make appropriate requirements which will protect the interests of those tenants.⁴⁸

The attorney stated that her clients' use of the premises were consistent with the uses allowed in the District. Further that her clients were not apprised of the proposed purchase or proposed evictions prior to the hearings on October 6, 1980.

She informed CSA that some of the federal agencies involved in the funding negotiations have requirements concerning relocation of existing tenants.

The attorney acknowledged that there was space available to relocate, but that space alone was not the

⁴⁷ Letter from Regina V. Quinlan, Esq. to CSA dated November 24, 1980.

⁴⁸, Ibid.

sole requirement for relocation since the bookstores depend on convenient, easy and safe access by pedestrians, and that few customers would walk up several flights in a dilapidated building to go to a bookstore. The attorney requested that CSA review any information about relocation of her clients and that they be given an opportunity to be heard on the relocation issue. She further stated that her clients object to a proposal funded by federal agencies which would cause arbitrary displacement of existing businesses, and further asked that CSA "impose a condition to the granting of funds that the CEDC and the BRA cooperate with existing tenants of the Boylston Building by giving them a reasonable time wherein they can arrange to relocate to other suitable space." ⁴⁹

The Land Bank made a determination that pursuant to its granting of funds that CEDC must provide relocation assistance in accordance with MGL Chapter 79A for it to continue to participate. After meeting with the Land Bank on December 8, 1980, CEDC wrote to the BRA requesting help from its relocation staff. This request was subsequently denied by the BRA.

⁴⁹ Regina V. Quinlan, Ibid.

On December 10, 1980, a meeting was held at EDA and CSA in Washington, D.C. wherein they were informed by CEDC of the events leading to the relocation issue.

Attorneys for CEDC and the bookstores also met during December to discuss the issue of relocation. The bookstores want a place to move and moving expenses from both the CEDC and the BRA.

Because of the monies needed to carry out the relocation activities, the Land Bank agreed to increase the mortgage by the amount needed for relocation expenses.

CEDC thereafter interviewed several private sector consultants. It selected Relocation Associates, Inc. In the meantime, the BRA carried out space availability studies within the Section 34A Zoning District. It gave copies of these studies to the consulting firm.

Relocation Associates submitted a Relocation Guide to tenants. The Guide informed them of the availability of a relocation specialist to help in finding new locations and filing for relocation payments. The bookstores were required to submit documented claims of moving and other expenses, or a claim for payment in lieu of expenses.

On February 11, 1981, CEDC sent "Termination of Tenancy and Notice to Vacate Premises," Relocation Plan, and the Business Relocation Guide to the tenants.

The tenants objected that the proposed plan was not filed in a timely manner, and that issuance of Termination Notices were given before the proposed plan had been approved.

The bookstores reiterated that they have special requirements which affect relocation, e.g. adult bookstores can only be accommodated in the Adult Entertainment District, and that although the Relocation consultants were aware of this, it does not appear to have been considered in the proposed plan. The bookstores also stated that since they could only include their coin-operated devices to view films in an adult entertainment district because of the License Laws of the City, licensing requirements should have been considered in the proposed plan. Further that because of the nature of their businesses certain building and fire codes must also be adhered to and that the CEDC plan only included special needs related to licensing of the Lounge. They requested the State Bureau of Relocation to require CEDC to amend its Relocation Plan to include the special needs of their businesses.⁵⁰

By letter dated March 18, 1981, the Director of the Bureau of Relocation informed CEDC "that the conduct

⁵⁰ Regina V. Quinlan, Ibid.

of the relocation program as planned will be sufficient to satisfy Chapter 79A requirements in the event CEDC seeks approval under MGL c. 121A for the Boylston Building Project."⁵¹

One of the tenants, Plain Brown Wrapper, signed a Settlement Agreement. CEDC agreed that Plain Brown Wrapper would pay no rent for the period December 1980 through January 1981, an amount of \$4,250.00; it would be responsible for all utilities, heating, air conditioning, water and sewer for the period December 1, through December 15, 1980; and that it would not be obligated for the period September 1980 through November 1980. In exchange Plain Brown Wrapper agreed to vacate the Boylston Building by April 15, 1981.

The bookstores are continuing to operate until the end of the 120 day period set forth under c. 79A. Even though the peep shows cannot legally screen films since they are not licensed, they continue to do so.

2. External Obstacles

On November 24, 1980, CEDC received a commitment letter from EDA for \$2.0 million.

In December, 1980, the U.S. Department of Commerce authorized CEDC to submit a formal application to EDA for \$2.0 million to rehabilitate the Boylston Building. The application deadline was March 1, 1981.⁵²

⁵¹ Michael O'Bryon, Ibid.

⁵² Ibid.

In early February, 1981, the Regional Director of the U. S. Department of Commerce informed CEDC that as part of the federal administrations economic program, the President would be sending a request to Congress to rescind a large portion of EDA's Fiscal 1981 appropriation and Loan Guaranty Authority. CEDC was further informed that funds remaining in the FY '81 Budget would only be sufficient to fund approved projects, and that the Boylston Building would not be approved.⁵³

Subsequently, all of the EDA Fiscal Year 1981 funds were targeted for rescission.

The entire Boylston Building project is now in jeopardy because of the pending rescissions. The Land Bank in a letter to CEDC expressed its concern over the potential non-funding of the project since its funds are contingent on a final commitment of \$1.0 million in industrial revenue bonds, \$1.0 million from CSA and \$1.0 million from EDA. By law, the Land Bank has six months after approval of the project to either fund, revoke its commitment or extend the final approval date. The Land Bank must make a decision by May 16, 1981. It is waiting for CEDC to pull together enough commitments of funding for the project in order to proceed.

⁵³ Letter to Michael O'Bryon, from John E. Corrigan, Regional Director of Commerce, dated February 20, 1981.

The CEDC has put together an elaborate funding scheme. EDA funding is the keystone upon which other funds are based. Without that first layer, the others cannot be obtained. The CSA money is also in limbo waiting for a decision as to whether that program's Fiscal Year 1981 funds will be rescinded.

While waiting for a decision on the EDA and CSA funding, CEDC is engaging in financial jujitsu. It is attempting to develop other funding alternatives while holding on to the present commitments.

Financial Structure

CEDC originally proposed to finance the
Boylston Building Project through the following mechanisms:

EDA Grant	\$ 2.0
CSA/OED	1.0
IRB	1.0
Land Bank	.5
Commercial Banks	<u>1.5</u>
	\$ 6.0

A Pro Forma Profit and Loss Statement was computed by CEDC for the first five years of the project.⁵⁴
It projected profits and losses for two construction periods: nine months and seventeen months as follows.

⁵⁴ Boylston Building Funding Proposal, Ibid.

PRO FORMA PROFIT AND LOSS

YEAR 1
(12/31/80 - 12/31/81)

Scenario 1

(9 months construction)

Rental Income		480,000
Expenses:		
Utilities (@ \$2.00/Sq. Ft.) (Heat, Light, Power & Sewer)	82,900	
Maintenance		
Cleaning & Trash (\$0.60/Sq.Ft.)	24,900	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>20,000</u>	
	52,500	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>24,020</u>	
	47,020	
Security Personnel	25,000	
Real Estate Taxes (121A 15% of Gross Rent)	72,060	
Construction Interest	135,000	
Mortgage Interest	75,000	
Replacement Reserve	<u>0</u>	
Total Operating Expense		<u>489,480</u>
Net Operating Profit (Loss)		(9,100)
Depreciation		833,000
Net Profit (Loss)		(842,100)

YEAR 1

Scenario II

(17 months construction)

Rental Income		249,120
Expenses:		
Utilities (@ \$2.00/Sq.Ft.) (Heat, Light, Power & Sewer)	40,380	
Maintenance		
Cleaning & Trash (\$0.60/Sq.Ft.)	12,110	
Elevator Maintenance Contract	2,000	
Extermination	2,000	
Maintenance Payroll	<u>10,000</u>	
	26,110	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>12,460</u>	
	35,460	
Security Personnel	15,000	
Real Estate Taxes		
(121A 15% of Gross Rent)	37,370	
Construction Interest	120,000	
Mortgage Interest	0	
Replacement Reserve	<u>0</u>	
Total Operating Expense		<u>274,320</u>
Net Operating Profit (Loss)		(25,200)
Depreciation		833,000
Net Profit (Loss)		(855,200)

PRO FORMA PROFIT AND LOSS

YEAR 2
(12/31/81 - 12/31/82)

Scenario 1

(9 months construction)

Rental Income		895,500
Expenses:		
Utilities (@ \$2.20/Sq.Ft.) (Heat, Light, Power & Sewer)		168,300
Maintenance		
Cleaning & Trash (\$0.60/Sq.Ft.)	45,900	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>22,000</u>	
		75,500
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>44,780</u>	
		67,780
Security Personnel		30,000
Real Estate Taxes (121A 15% of Gross Rent)		134,300
Mortgage Interest		299,500
Replacement Reserve		<u>20,000</u>
Total Operating Expense		<u>795,380</u>
Net Operating Profit (Loss)		100,120
Depreciation		833,000
Net Profit (Loss)		(732,880)

YEAR 2

Scenario II

(17 months construction)

Rental Income		806,250
Expenses:		
Utilities (@ \$2.20/Sq.Ft.) (Heat, Light, Power & Sewer)	151,940	
Maintenance		
Cleaning & Trash (\$0.60/Sq.Ft.)	41,440	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>22,000</u>	
	71,040	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>40,310</u>	
	63,310	
Security Personnel		30,000
Real Estate Taxes (121A 15% of Gross Rent)		120,940
Construction Interest		150,000
Mortgage Interest		125,000
Replacement Reserve		<u>20,000</u>
Total Operating Expense		<u>732,230</u>
Net Operating Profit (Loss)		74,020
Depreciation		833,000
Net Profit (Loss)		(758,980)

PRO FORMA PROFIT AND LOSS

YEAR 3
(12/31/82 - 12/31/83)

Scenario I

(9 months construction)

Rental Income		925,910
Expenses:		
Utilities (@ \$2.42/Sq.Ft.) (Heat, Light, Power & Sewer)	185,100	
Maintenance		
Cleaning & Trash (\$0.70/Sq.Ft.)	53,600	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>23,650</u>	
		84,850
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>45,600</u>	
		68,600
Security Personnel		33,300
Real Estate Taxes (121A 15% of Gross Rent)		136,830
Construction Interest		0
Mortgage Interest		296,700
Replacement Reserve		<u>20,000</u>
Total Operating Expense		<u>825,380</u>
Net Operating Profit (Loss)		100,530
Depreciation		833,000
Net Profit (Loss)		(732,470)

YEAR 3

Scenario II

(17 months construction)

Rental Income		925,910
Expenses:		
Utilities (@\$2.42/Sq.Ft.) (Heat, Light, Power & Sewer)	185,100	
Maintenance		
Cleaning & Trash (\$0.70/Sq.Ft.)	53,600	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>23,650</u>	
		84,850
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>45,600</u>	
		68,600
Security Personnel		33,300
Real Estate Taxes (121A 15% of Gross Rent)		136,830
Construction Interest		0
Mortgage Interest		299,260
Replacement Reserve		<u>20,000</u>
Total Operating Expense		<u>827,940</u>
Net Operating Profit (Loss)		97,970
Depreciation		833,000
Net Profit (Loss)		(735,030)

PRO FORMA PROFIT AND LOSS

YEAR 4
(12/31/83 - 12/31/84)

Scenario I

(9 months construction)

Rental Income		956,320
Expenses:		
Utilities (@ \$2.66/Sq.Ft.) (Heat, Light, Power & Sewer)	203,490	
Maintenance		
Cleaning & Trash (\$0.80/Sq.Ft.)	61,200	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>25,420</u>	
	94,220	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>46,530</u>	
	69,530	
Security Personnel	35,800	
Real Estate Taxes (121A 15% of Gross Rent)	139,590	
Construction Interest	0	
Mortgage Interest	294,550	
Replacement Reserve	<u>20,000</u>	
Total Operating Expense		<u>857,180</u>
Net Operating Profit (Loss)		99,140
Depreciation		833,000
Net Profit (Loss)		(733,860)

YEAR 4

Scenario II

(17 months construction)

Rental Income		956,320
Expenses:		
Utilities (@ \$2.66/Sq.Ft.) (Heat, Light, Power & Sewer)	203,490	
Maintenance		
Cleaning & Trash (\$0.80/Sq.Ft.)	61,200	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>25,420</u>	
	94,220	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>46,530</u>	
	69,530	
Security Personnel	35,800	
Real Estate Taxes (121A 15% of Gross Rent)	139,590	
Construction Interest	0	
Mortgage Interest	297,360	
Replacement Reserve	<u>20,000</u>	
Total Operating Expense		<u>859,990</u>
Net Operating Profit (Loss)		96,330
Depreciation		833,000
Net Profit (Loss)		(736,670)

PRO FORMA PROFIT AND LOSS

YEAR 5
(12/31/84 - 12/31/85)

Scenario I

(9 months construction)

Rental Income		990,550
Expenses:		
Utilities (@ \$2.93/Sq.Ft.) (Heat, Light, Power & Sewer)	224,150	
Maintenance		
Cleaning & Trash (\$0.90/Sq.Ft.)	68,850	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>27,330</u>	
	103,780	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>47,560</u>	
	70,560	
Security Personnel		38,490
Real Estate Taxes (121A 15% of Gross Rent)		142,690
Construction Interest		0
Mortgage Interest		292,210
Replacement Reserve		<u>20,000</u>
Total Operating Expense		<u>891,880</u>
Net Operating Profit (Loss)		98,670
Depreciation		833,000
Net Profit (Loss)		(734,330)

YEAR 5

Scenario II

(17 months construction)

Rental Income		990,550
Expenses:		
Utilities (A \$2.93/Sq.Ft.) (Heat, Light, Power & Sewer)	224,150	
Maintenance		
Cleaning & Trash (\$0.90/Sq.Ft.)	68,850	
Elevator Maintenance Contract	3,600	
Extermination	4,000	
Maintenance Payroll	<u>27,330</u>	
	103,780	
Prof. Services		
Insurance	20,000	
Legal & Accounting	3,000	
Management Fee (5% Gross Rent)	<u>47,560</u>	
	70,560	
Security Personnel	38,490	
Real Estate Taxes (121A 15% of Gross Rent)	142,690	
Construction Interest	0	
Mortgage Interest	295,280	
Replacement Reserve	<u>20,000</u>	
Total Operating Expense		894,950
Net Operating Profit (Loss)		95,600
Depreciation		833,000
Net Profit (Loss)		(737,400)

PRO FORMA CASH FLOW

Scenario I

	Year I	Year 2	Year 3	Year 4	Year 5
Operating Profit (LOSS)	(9,410)	100,120	100,530	99,140	98,670
Principal Payment on Debts	<u>4,700</u>	<u>19,400</u>	<u>22,200</u>	<u>24,350</u>	<u>26,690</u>
Net Cash Surplus (DEFICIT)	(13,800)	80,720	78,330	74,790	71,980

Scenario II

Operating Profit (LOSS)	(25,200)	74,020	97,970	96,330	95,600
Principal Payment on Debts	<u>0</u>	<u>7,900</u>	<u>19,640</u>	<u>21,540</u>	<u>23,620</u>
Net Cash Surplus (DEFICIT)	(25,200)	66,120	78,330	74,790	71,980

Other financial assumptions using the same construction periods are as follows:⁵⁵

⁵⁵ Boylston Building Funding Proposal, Ibid.

Boylston Building
Scenario I

Financial Assumptions

1. Rental Income: Rental income for the first year is a function of the available rentable area as a result of a phased-in construction schedule. The entire project is expected to be completed within 9 months. The completion schedule of construction is projected as follows:

Construction Schedule

Month (End of)	3	4.5	6	7.5	9
Floor Completion*	Basement, Street Fl., 1 Upper Fl.	Second Upper Floor	Third Upper Floor	Fourth Upper Floor	Fifth Upper Floor

* Except for the Street Floor and Basement which must be completed within the first 3 months of construction, the sequence of completion of upper floors can be flexible.

YEAR 1 RENTAL PROJECTION

Floor	Rentable Area	Annual Rental Rate	Annual Rent Total	Months of Occupancy	Rent for Year
Basement	9,000 S.F.	\$3.00	\$27,000	9 months	\$20,250
Street Fl.					
Wang Lab	3,500	12.00	42,000	9 months	31,500
Others	8,785	7.00	61,495	9 months	46,120
<u>Vacancy</u>	<u>465</u> (5%)				
Total	12,750				
2nd Floor	12,750	12.00	153,000	9 months	114,750
3rd Floor	12,750	12.00	153,000	7.5 months	95,630
4th Floor	12,750	12.00	153,000	6 months	76,500
5th Floor	12,750	12.00	153,000	4.5 months	57,380
6th Floor	12,750	12.00	135,000	3 months	38,250
Total Year 1 Rental					<u>\$480,380</u>

YEAR 2 RENTAL PROJECTION

<u>Floor</u>	<u>Rentable Area</u>	<u>Annual Rental Rate</u>	<u>Annual Rent Total</u>	<u>Months of Occupancy</u>	<u>Rent for Year</u>
Basement	9,000 S.F.	\$3.00	\$27,000	12 months	\$27,000
Street Floor					
Wang Lab	3,500	12.00	42,000	12 months	42,000
Others	8,785	7.00	61,500	12 months	61,500
Vacancy Factor	<u>465</u>				
Total St. Fl.	12,750				
5 Upper Floors	63,750	12.00	765,000	12 months	765,000

Total Year 2 Rental \$895,500

Years 3, 4, and 5 rental estimates will be based on Year 2 projection plus an annual escalation for all operating cost services, maintenance and security personnel. Such cost increases for year 3, 4, and 5 are projected as follows:

<u>Year</u>	<u>Total Cost Increase</u>	<u>Adjusted Rental Rate (per square foot)</u>	
		<u>Wang</u>	<u>Others</u>
3	\$29,400	\$12.40	\$7.40
4	\$30,230	\$12.80	\$7.80
5	\$32,870	\$13.25	\$8.25

Current discussion with Wang indicates that annual rental adjustments pegged to operating cost increases will take effect beginning Year 3. Basement is excluded from rental adjustments.

All rental figures are projected based on Wang Laboratories' intention of leasing 5 upper floors and 3,500 square feet of the first floor. A vacancy factor of 5% (465 sq. ft.) is assumed for the remaining 9,250 square feet of the first floor which will be reserved for community businesses. It is reasonable to assert that a vacancy factor for the rest of the building is unnecessary in view of Wang's commitment.

2. Utilities: Utilities include heat, electricity, and sewer. For the first year, a figure of \$2.00 per square foot is used. For the second, third, fourth and fifth year, an increase of 10% per year is assumed. Basement is excluded from rate base.

3. Cleaning and Trash: A cleaning contract will be entered into for the first two years at a rate of \$0.60 per square foot occupied. For the third, fourth, and fifth year, a rate of \$0.70, \$0.80, and \$0.90 per square foot, respectively, is used. Basement is excluded from rate base.
4. Elevator Maintenance: An elevator maintenance contract will be entered into for a fixed yearly rate of \$3,600 over a five year term.
5. Extermination: An extermination service contract will be entered into for a yearly rate of \$4,000 over a five year term.
6. Maintenance Pay Roll: A full-time maintenance person will be hired at an annual salary of \$20,000 including fringe benefits. An annual salary increase of 7.5% is assumed.
7. Insurance: Include fire, theft, and liability. Cost estimate obtained from agents.
8. Management Fee: 5% of gross rental receipt is assumed.
9. Security Personnel: Two full time security guards will be hired at an annual salary including benefits of \$15,000 each. A ten-month budget is assumed for the first year. A 7.5% salary increase is budgeted for the third, fourth and fifth year.
10. Real Estate Taxes: Under the provision of the City of Boston's 121A Tax Agreement, a project need pay only 23% of gross rental receipt in real estate taxes. For a not-for-profit corporation, it can be as low as 15% of gross rent. It is so assumed in this projection.
11. Construction Interest: A construction loan of \$1,500,000 will be assumed at the third month of construction for a six-month duration. An additional construction loan of the same amount will be taken out at the sixth month of construction for a three-month duration. Both loans will be assumed at an annual interest rate of 12%. Total interest payment on construction loans will be \$135,000.

12. Mortgage Interest: Two mortgages will be assumed-- \$1,500,000 from the State Land Bank for 30 years at an annual percentage rate (APR) of 8.5%; and, \$1,500,000 from private sector Industrial Revenue Bond for 30 years at 11.% APR.

Total interest expense on permanent mortgages for the first year will be \$75,000; for the second year, \$299,500; and, for the third year, \$296,700.

13. Replacement Reserve: A reserve equal to 1/2% of total construction cost (\$4,000,000) is budgeted for replacements. No such reserve is necessary for the first year.

14. Depreciation: A historical preservation project is eligible for an accelerated depreciation schedule of 5 years. The building shell will be depreciated for 30 years.

	<u>Depreciation</u> <u>Basis</u>	<u>Depreciation</u> <u>Schedule</u>	<u>Yearly</u> <u>Rate</u>	<u>Annual</u> <u>Depreciation</u> <u>Expenses</u>
Improvement	\$4,000,000	5 years	20%	\$800,000
Building	990,000	30 years	3.33%	<u>33,000</u>
	Total annual Depreciation Expenses:			<u>\$833,000</u>

Boylston Building

Scenario II

Financial Assumptions

1. Rental Income: Rental income for the first year is a function of the available rental area as a result of a phased-in construction schedule. The entire project is expected to be totally completed within 17 months. The completion schedule of construction is projected as follows:

Construction Schedule

Month (End of)	5	8	11	14	17
Floor Completion*	Basement, Street Fl., 1 Upper Fl.	Second Upper Floor	Third Upper Floor	Fourth Upper Floor	Fifth Upper Floor

* Except for the Street Floor and Basement which must be completed within the first 5 months of construction, the sequence of completion on upper floors can be flexible.

YEAR 1 RENTAL PROJECTION

Floor	Rentable Area	Annual Rental Rate	Annual Rent Total	Months of Occupancy	Rent for Year
Basement Street Fl.	9,000 S.F.	\$3.00/SF	\$27,000	7 months	\$15,750
Wang Lab	3,500	12.00	42,000	7 months	24,500
Others	8,785	7.00	61,500	7 months	35,870
Vacancy	465 (5%)				
Total	12,750				
2nd Floor	12,750	12.00	153,000	7 months	89,250
3rd Floor	12,750	12.00	153,000	4 months	51,000
4th Floor	12,750	12.00	153,000	1 month	12,750
5th Floor	12,750	12.00	153,000	0 months	0
6th Floor	12,750	12.00	153,000	0 months	0

Total Year 1 Rental

\$249,120

YEAR 2 RENTAL PROJECTION

Floor	Rentable Area	Annual Rental Rate	Annual Rent Total	Months of Occupancy	Rent for Year
Basement*	9,000 S.F.	\$3.00/SF	\$27,000	12 months	\$27,000
Street Fl.					
Wang Lab	3,500	12.00	42,000	12 months	42,000
Others	8,785	7.00	61,500	12 months	61,500
<u>Vacancy</u>	<u>465</u>				
Total	12,750				
2nd Floor	12,750	12.00	153,000	12 months	153,000
3rd Floor	12,750	12.00	153,000	12 months	153,000
4th Floor	12,750	12.00	153,000	12 months	153,000
5th Floor	12,750	12.00	153,000	10 months	127,500
6th Floor	12,750	12.00	153,000	7 months	89,250

Total Year 2 Rental \$806,250

YEAR 3 RENTAL PROJECTION

Floor	Rentable Area	Annual Rental Rate	Annual Rent Total	Months of Occupancy	Rent for Year
Basement	9,000 S.F.	\$3.00	\$27,000	12 months	\$27,000
Street Floor					
Wang Lab	3,500	12.40	42,770	12 months	43,400
Others	8,785	7.40	63,430	12 months	65,010
<u>Vacancy Factor</u>	<u>465</u>				
Total St. Fl.	12,750				
5 Upper Floors	63,750	12.40	779,030	12 months	790,500

Total Year 3 Rental \$925,910

Years 3, 4, and 5 rental estimates will be based on Year 2 projection plus an annual escalation for cost increases in utilities (power, light, and heat), trash services, maintenance and security personnel. Such cost increase for year 3, 4, and 5 are projected as follows:

Year	Total Cost Increase	Adjusted Rental Rate (per square foot)	
		Wang	Others
3	\$29,400	\$12.40	\$4.40
4	30,230	12.80	7.80
5	32,870	13.25	8.25

Current discussion with Wang indicates that annual rental adjustments pegged to operating cost increases will take effect beginning Year 3. Basement is excluded from rental adjustments.

All rental figures are projected based on Wang Laboratories' intention of leasing 5 upper floors and 3,500 square feet of the first floor. A vacancy factor of 5% (465 sq. ft.) is assumed for the remaining 9,250 square feet of the first floor which will be reserved for community businesses. It is reasonable to assert that a vacancy factor for the rest of the building is unnecessary in view of Wang's commitment.

2. Utilities: Utilities include heat, electricity and sewer. For the first year, a figure of \$2.00 per square foot is used. For the second, third, fourth and fifth year, an increase of 10% is assumed. Basement is excluded from rate base.
3. Cleaning and Trash: A cleaning contract will be entered into for the first two years at a rate of \$0.60 per square foot occupied. For the third, fourth, and fifth year, a rate of \$0.70, \$0.80, and \$0.90 per square foot, respectively, is used. Basement is excluded from rate base.
4. Elevator Maintenance: An elevator maintenance contract will be entered into for a fixed yearly rate of \$2,000 for the first year and \$3,600 per year for the second and third, fourth, and fifth year.
5. Extermination: An extermination service contract will be entered into for a yearly rate of \$2,000 for the first year and \$4,000 per year for years 2, 3, 4, and 5.

6. Maintenance Pay Roll: A full-time maintenance person will be hired at an annual salary of \$20,000 including fringe benefits. He/She will be hired for 6 months only in year 1. An annual salary increase of 7.5% is assumed.
7. Insurance: Include fire, theft, and liability. Cost estimate obtained from agents.
8. Management Fee: 5% of gross rental receipt is assumed.
9. Security Personnel: Two full time security guards will be hired at an annual salary including benefits of \$15,000 each. A six-month budget is assumed for the first year. A 7.5% salary increase is budgeted for the third, fourth, and fifth year.
10. Real Estate Taxes: Under the provision of the City of Boston's 121A Tax Agreement, a project need pay only 23% of gross rental receipt in real estate taxes. For a not-for-profit corporation, it can be as low as 15% of gross rent. It is so assumed in this projection.
11. Construction Interest: A construction loan of \$1,500,000 will be assumed at the beginning of the sixth month of construction for a twelve-month duration. An additional construction loan of the same amount will be taken out at the beginning of the eleventh month of construction for a six month duration. Both loans will be assumed at an annual interest rate of 12%. Total first year interest payment on construction loans will be \$120,000; for the second year, \$150,000.
12. Mortgage Interest: Two mortgages will be assumed-- \$1,500,000 from the State Land Bank for 30 years at an annual percentage rate (APR) of 8.5%; and, \$1,500,000 from private sector Industrial Revenue Bond for 30 years at 11.5% APR. 11: There will be no mortgage interest expense during the first year.

Total interest expense on permanent mortgages for the second year will be \$75,000; for the third year \$125,000; and, for the fourth year, \$299,260.

13. Replacement Reserve: A reserve equal to 1/2% of total construction cost (\$4,000,000) is budgeted for replacements. No such reserve is necessary for the first year.

14. Depreciation: A historical preservation project is eligible for an accelerated depreciation schedule of 5 years. The building shell will be depreciated for 30 years.

	<u>Depreciation Basis</u>	<u>Depreciation Schedule</u>	<u>Yearly Rate</u>	<u>Annual Depreciation Expenses</u>
Improvement	4,000,000	5 years	20%	\$800,000
Building Shell	<u>990,000</u>	<u>30 years</u>	<u>3.33%</u>	<u>\$ 33,000</u>
Total Annual Depreciation Expense:				<u>\$833,000</u>

In October, 1980, CEDC received an expression of interest from the First National Bank of Boston (The First). The First was interested in pursuing a construction loan and the purchase of industrial revenue bonds for the project. The First would invest \$1.0 million and agreed to act as the lead lender in a \$3.0 million bank syndication deal.⁵⁶

CEDC also received a letter dated October 15, 1980 from State Street Bank and Trust Company (State Street Bank) stating its willingness to participate subject to:

1. Receipt of or commitments for \$3,000,000 in Federal grant funds that would be applied first in the acquisition and renovation of this building.
2. A lease executed by Wang Laboratories, Inc. for not less than 90% of the available rental space in the building. This lease to be in a form and substance satisfactory to the Bank.
3. Presentation by you of financial information and renovation budgets, plans and specifications satisfactory to the Bank.
4. Presentation of a negotiated purchase option executed by Wang and satisfactory to the Bank.
5. Negotiation of terms and conditions of the proposed financing that are compatible with the Bank's credit policies.⁵⁷

⁵⁶ Letter from John P. Shea, Vice President, The First National Bank of Boston, October 24, 1980.

⁵⁷ Letter from Charles L. Short, Jr. State Street Bank and Trust Company, October 15, 1980.

On April 1, 1981, The First made a commitment to grant a first construction loan to the CEDC of \$6.0 million. The loan will be backed by a promissory note for a term of one year with monthly interest rates of $\frac{1}{2}$ % over the base rate. The interest rate would be adjusted with any change in the base rate. The First would have a first mortgage lien on the Building. Before the bank would close on the construction loan, it requires CEDC to submit unconditional commitments of:

\$1.0 grant from CSA

\$2.0 grant from EDA

\$2.0 Land Acquisition loan from the

Massachusetts' Land Bank

\$1.0 Industrial Revenue Bond⁵⁸

The Land Bank has agreed subject to CEDC's securing the necessary formal financial commitments of the EDA and CSA monies, to loan CEDC \$2.0 million towards the construction/renovation costs in the form of a mortgage permanent debt. (This increased amount was negotiated after CEDC necessitated relocation costs and higher construction costs.) The construction loan will be evidenced by a 15 year note at 9% interest.

The financial structure of the Boylston Building Project is continually changing except that the basis of all the loans are contingent on the EDA Grant.

⁵⁸ Letter from John P. Shea, Ibid.

CHAPTER IV

SUMMARY AND CONCLUSIONS

This case study is an example of how things get done in order for community development to occur. Much of the prior description of the events leading up to and following the purchase was accomplished through a high level of expertise and the ability to take advantage of opportunity when it occurs. The CEDC proposed to carry this venture forward at an opportune time in terms of availability of the building and the Boston Redevelopment Authority's desire to encourage development in the Combat Zone. The BRA helped to facilitate the project because it was based on substantial public and private benefits. This was not the usual urban commercial revitalization venture. The CEDC is a nonprofit entity, a community development corporation, working in and for an Asian community.

The Boylston Building project offers significant employment and training to the disadvantaged residents of Chinatown and the City of Boston. The BRA saw its role in this project as an opportunity to assist in the continuing revitalization of the Theatre District. By helping CEDC it was also helping constrict the adult uses which are legal in the Combat Zone. It was

also an opportunity to reuse an existing building, to preserve an historic building, and to foster a higher level of economic activity in this area.

The BRA anticipates that the Boylston Building will begin a trend towards adaptive reuse of under-utilized buildings in the Theatre District, some of which are eligible for National Register designation. There are various projects on the BRA drawing board, including the refurbishing and reuse of many former legitimate theatres in the area. If upgrading and renovation begins in the Zone, an effort will be made by the BRA to bridge the distance between the theatre nodes which now exists in the district. (There are at least five different theatre nodes in the Theatre District along upper and lower Washington Street, Boylston Street and Tremont Street.) The Boylston Building's renovation will be the beginning of a renaissance.

Until last year, the Land Bank was not regulated to assist cities and towns and nonprofit agencies in development. Under new legislation adopted in February 1980, the Land Bank's capability has been expanded. It can now provide redevelopment financing to uplift areas

such as Chinatown. The Land Bank funds will be used in the renovation of the Building. CEDC was seeking funds for acquisition and renovation shortly after the Land Bank increased its mandate. This was an opportune time for the CEDC project.

Although CEDC was encouraged by federal agencies to submit a request for grant funds, many sign-offs and supports had to be in place before the project could progress to the funding stages. Without the help of the BRA, the Land Bank, and the federal agency personnel, CEDC might have spent much more time and energy in pulling the project together.

Both Senators Kennedy and Tsongas are active supporters of the project. At many crucial points before the closing, Senator Tsongas, personally, and through his assistant, provided political "punch" without which CEDC would not have been able to break through the red tape and get the project into the bureaucratic machinery.

The Boylston Building can bring many benefits to the Chinese Community--jobs, business opportunities, language skills, and a sense of pride in having a major commercial venture initiated by the community housed in the community.

Although the availability and quality of workers is a significant factor when an industry is ready to expand into a community, CEDC stressed a ready and willing labor force, but did not overestimate its skills. Instead CEDC offered Wang the opportunity to bring jobs and training to the Chinese community.

CEDC brought Wang into the development picture when all the other funding supports were in place. Had Wang been asked earlier, he would probably have responded negatively given the risk of locating in the Combat Zone. However, CEDC exhibited foresight in saving its entre to Wang until after the preliminary feelers returned with positive reactions to the proposed development. Although the Land Bank was interested at the first meeting, it too reacted with greater interest upon hearing of the Wang commitment. Wang was the "big gun" that CEDC needed to bring the Land Bank into the financing fold.

Federal agencies have long advocated a public/private partnership for urban and community development. The Boylston Building is utilizing the many incentives available for revitalization in areas that are blighted or distressed. Because the building is in a

CARD, it can utilize Industrial Revenue Bond financing to secure the construction loan at points below the commercial lending rate. Together with the 121A tax agreement, the Land Bank funds, and Wang's leasing agreement, the Boylston Building should become a feasible project.

The Mayor of Boston has been attempting to get Wang to relocate in Boston along with other high technology firms. If the Boylston Building project is successful and Wang remains in Boston, other manufacturing plants may seek space to locate here. This will bring many jobs and dollars into Boston.

The two most important aspects of this whole deal is Wang and the Public/private partnership. Wang is the "glue" that is holding all the pieces of the Boylston Building deal in place while CEDC is awaiting federal, state, commercial bank, or private funding.

The CEDC could not have expedited this partnership without the technical expertise of its business director. He was hired at a critical point in September, 1980, because of his knowledge to coordinate and fit together the funding. CEDC like most CDC's are not very knowledgeable about how to negotiate complex funding mechanisms because most of their time is spent not as developers but as catalysts to spur business development

in their communities. CEDC is stockpiling the knowledge it is gathering from this experience so that it can put together other community development projects.

One advantage to CEDC of the Boylston Building leasing is that it can forego profits for the benefit of the community. In fact, its incorporation as a nonprofit CDC insures that profits from this and other ventures (and possible future sale of the property) will be utilized for the benefit of the Chinese community. As part of EDA's grant to CEDC, it must deposit any profits into an EDA auditable account just for this purpose.

Foregoing profits can also be a disadvantage. Because CEDC plans to keep the rental rate in the Chinese Arcade low, it will thus receive less profits from these leases. This means less money for CEDC to invest in other community ventures. However, the businesses in the Arcade will bring a higher cash flow into Chinatown because they will attract tourists and residents to spend in their shops. The economic income and purchasing power of the Chinatown residents should increase substantially if the employees of the Arcade and Wang patronize the shops and businesses of the Arcade and Chinatown.

In a deal such as the Boylston Building, each member of the partnership should benefit, some more so than others. The following are costs and benefits to the partnership and/or the level of government they represent.

<u>Public/Private Partnership</u>	<u>Costs</u>	<u></u>
City of Boston	Dollars in staff time	<ul style="list-style-type: none">. Increased taxes from Boylston Building. Increased taxes from surrounding area businesses. Uplifting of Theatre District. Jobs for Boston. High technology firm located in Boston. Dollars spent by employees of Wang, Arcade and Chinese community. Wang - magnet for other technology firms. Sales taxes
Massachusetts Land Bank	\$2,000,000	<ul style="list-style-type: none">. State taxes from employment. Interest on loan. Taxes from Wang and Chinese Arcade. Opportunity to carry out expanded mandate
Federal Government CSA/EDA	\$3,000,000	<ul style="list-style-type: none">. Federal taxes from employment. Federal taxes from firms
Commercial Banks	\$3,000,000	<ul style="list-style-type: none">. Interest on Investment. Chance to invest in an urban area (The First is under pressure from community groups) with substantially no risk

- | | | |
|---------|--|---|
| Chinese | <ul style="list-style-type: none">. Dollars in staff time | <ul style="list-style-type: none">. Jobs. Increased cash flow. Opening up land area to Chinatown residents. Decreasing space available to Adult Entertainment uses |
| CEDC | <ul style="list-style-type: none">. In order to carry out the project, must give up the opportunity to control and own a major manufacturing plant and possibly a building | <ul style="list-style-type: none">. Increased knowledge. Track record. Ability to carry out part of its development strategy. Cash flow |
| Wang | <ul style="list-style-type: none">. Dollars in staff time | <ul style="list-style-type: none">. Control of Boylston Building. Government subsidies. New plant. More esteem/prestige. low tax rate (IRB). State tax credit (CARD) |

The Boylston Building Project is replicable by other CDC's. There are two factors operating one within the other without the control of CEDC which placed it in a position to take advantage of this deal: the first is that CEDC has carried out all of the necessary prerequisites (community studies, hired competent staff, and developed political savvy), and were ready to develop a community project--all it needed was the "right" project, secondly, the BRA was planning to upgrade the Combat Zone. Since one of the two parcels that CEDC believed would be suitable for its development strategy is in the Combat Zone, an opportunity existed for CEDC to seek BRA help in facilitating

the purchase of the Boylston Building. This was an opportunity that CEDC was ready to seize.

The Boylston Building project is unique. But what makes it unique for Chinatown is Wang. Wang is Chinese. Wang is the president of one of the most successful computer firms in the United States. Wang (I believe) has a social conscience and, therefore, was ripe for CEDC to approach to lease the building thereby helping the Chinese community. Wang also has a keen business sense. The Boylston Building project is a financially good investment for Wang.

Even though the case is unique, other CED's can place themselves in a similar position as CEDC by building skilled staffs, political know-how and understanding the areas of development germane to their SIA's. They can also learn about financial mechanisms which exist and take advantage of them in planning economic development projects.

The public/private partnership courted and won by CEDC can also be utilized by other CDC's. If CDC's are aware and knowledgeable, and economic development opportunities occur, then they too will be in a position to make those opportunities work for them.

The Boylston Building Project if successful will demonstrate the efficacy of a public/private partnership in the community economic development of Chinatown.

EPILOGUE

Because of the proposed EDA and CSA funding recissions for Fiscal 1981, the CEDC has had to seek other sources of financial support. With the continuing help of the BRA, a proposal has been put forth by CEDC to utilize funds from an Urban Development Action Grant (UDAG). The UDAG proposal has been prepared and submitted by the City. The City wants to loan CEDC \$2.0 million, but CEDC wants some form of grant from the City.

Without EDA or substitute funding, the CEDC is in jeopardy of losing the Land Bank money and the Industrial Revenue Bond financing. Both are contingent on prior grants.

The Land Bank originally planned to buy the Boylston Building, renovate it and then sell it back to CEDC. It has discovered a way to circumvent having to renovate the building. Instead it will buy the building at a cost of \$2.0 million and sell it right back to CEDC for \$2.0 million--paying off The First's present mortgage and placing the balance of the funds in escrow for relocation and renovation costs. The Land Bank would like to buy the building before June 30, 1981--this fiscal year. However, CEDC does not know if it

will have the other commitments solidified from the federal agencies. CEDC needs the grant money before the project can proceed. There is already a six-month delay with the construction and renovation because of the federal financial holdup.

There will probably be a change in the Wang commitment. Wang will enter into a financing lease (basically an installment sale) wherein the entire building would be leased. CEDC would then sublease the first floor from Wang, and then sublease to the Arcade tenants at a rate above what will be paid to Wang. CEDC would thus receive some cash flow from the building. Wang will pay all debt service, all real estate taxes, and all operating costs of the project. In the lease commitment, Wang will agree to purchase the building in 7.5 years for a price to be agreed upon and would assume the residual of the debt. The purchase price would be somewhere in the \$4-5 million price range. This kind of agreement would allow Wang to take depreciation on the renovations and receive credit on State Excise Taxes through the Urban Jobs Incentive Program.

Although Wang's costs per square foot would increase in the last half of the lease, it would average out to be about \$12.00 per square foot--the same as under the previously discussed lease arrangement.

Boston has lost its bond rating. This could have dire affect on the interest rate when the industrial revenue bond is floated by MIFA. This higher interest rate would affect the cost of the loan by CEDC.

Because of the proposed recissions, CEDC must place itself in a position to be self-sufficient. It is, therefore, imperative that CEDC receive some front end monies out of the Boylston Building Project. This can be accomplished by receiving the UDAG and entering into the financing lease with Wang. CEDC would be free of the responsibility of managing the Boylston Building and would be able to spend time seeking other development projects.

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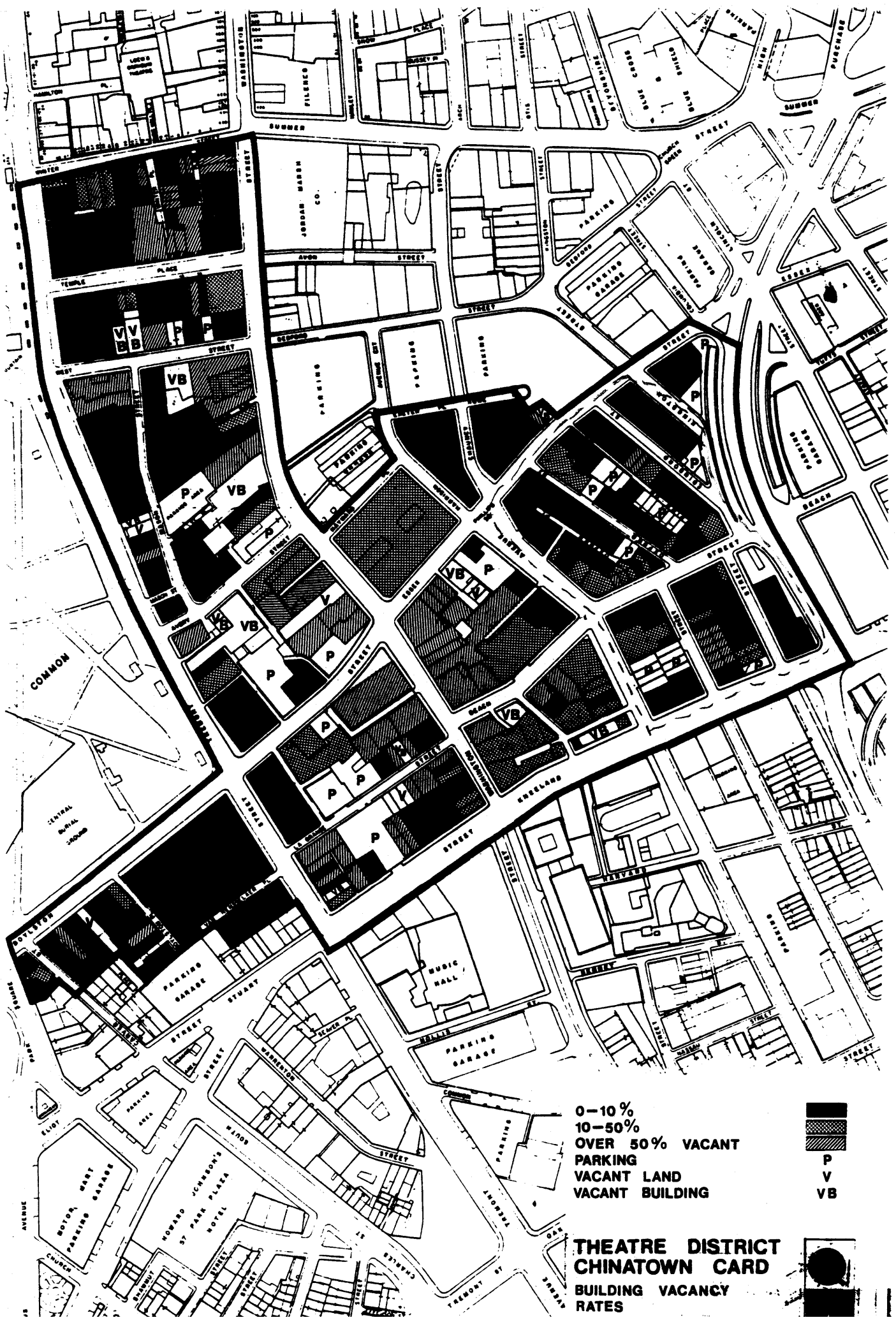


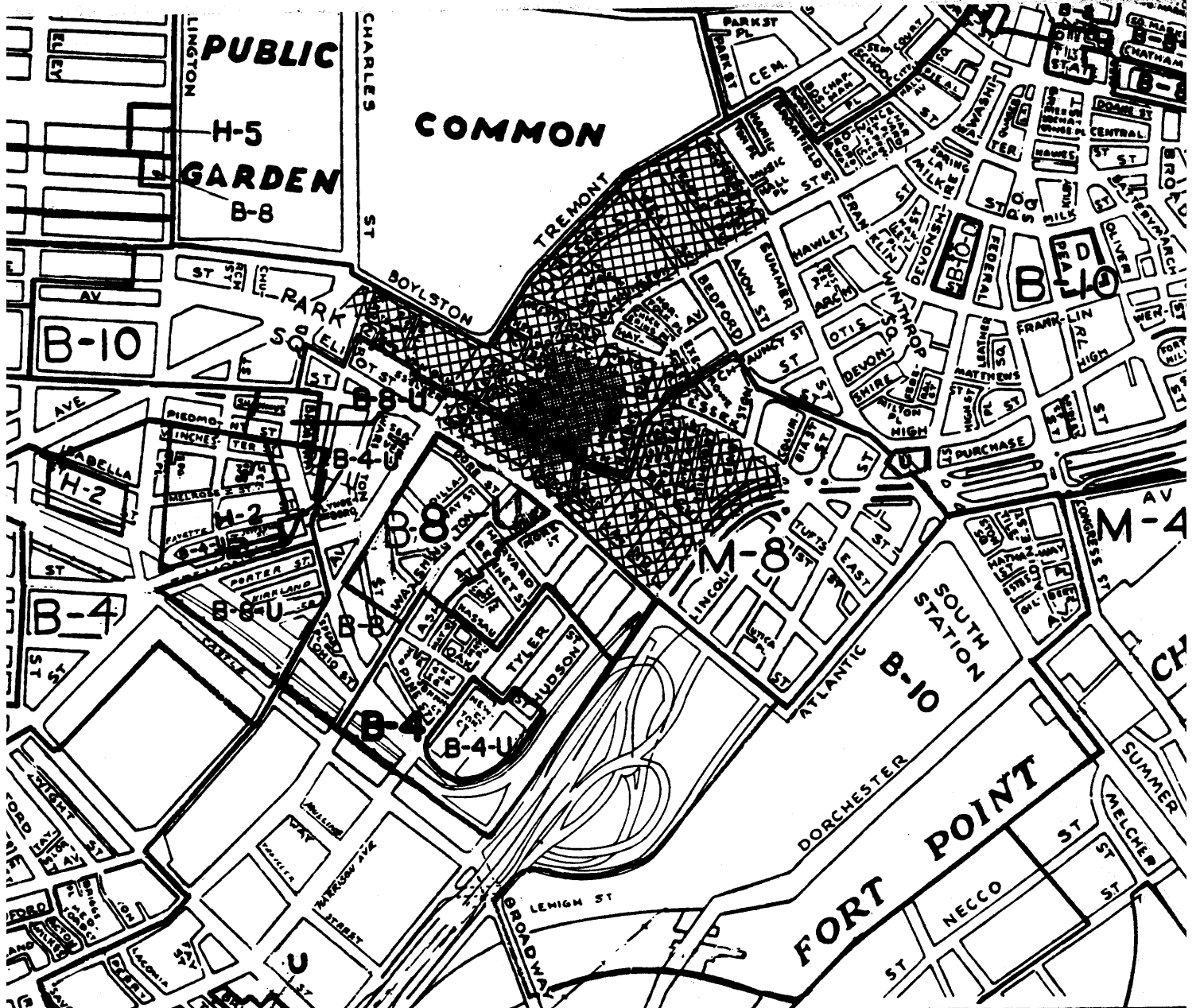
CHINATOWN SUBAREA 
 Boylston Building BB*
THEATRE DISTRICT
CHINATOWN CARD
PROPOSED BOUNDARIES 

0-10%
 10-50%
 OVER 50% VACANT
 PARKING
 VACANT LAND
 VACANT BUILDING



**THEATRE DISTRICT
 CHINATOWN CARD**
 BUILDING VACANCY
 RATES





ZONING DISTRICTS
MAP I BOSTON PROPER

RESIDENCE DISTRICTS		BUSINESS DISTRICTS		INDUSTRIAL DISTRICTS	
USE	MAX. FAR	USE	FAR	USE	MAX. FAR
S	3 5	L	5	M	1 2 4 8
R	5 8		2	I	2
H	1 2 3 4 5	B	1 2 4 8 10	W	2
	SINGLE FAMILY		LOCAL RETAIL & SERVICE STORES		LIGHT MANUFACTURING
	TWO FAMILY		RETAIL BUSINESS & OFFICES		GENERAL MANUFACTURING
	3 FAMILY, APTS				WATERFRONT INDUSTRY
	APARTMENTS				

ZONING DISTRICT BOUNDARY
 RESTRICTED PARKING DISTRICT BOUNDARY
 THEATRE DISTRICT / CHINATOWN CAPADULT ENTERTAINMENT OVERLAY DISTRICT
 PREPARED BY THE BOSTON ZONING COMMISSION
 Scale in Feet: