



The Research Bureau

Benchmarking Economic Development in Worcester: 2008

Report 08-07

November 24, 2008

MassDevelopment and The Research Bureau: Promoting Economic Development

The entire MassDevelopment team is pleased to sponsor the Worcester Regional Research Bureau's 2008 "Benchmarking Economic Development in Worcester" report. For more than 20 years, The Research Bureau has provided important insights into the economic-development needs and accomplishments of New England's second largest city. For agencies like MassDevelopment, The Research Bureau provides invaluable information that allows us to target our investments in the community and offer support for projects deemed critical by those who live and work in the City of Worcester.

MassDevelopment, the state's finance and development authority, works with a broad range of businesses, nonprofit organizations, and municipalities to support job creation, affordable housing development, and business expansion in the Commonwealth. Our customized financing products and real estate development services are flexible, creative, and solutions-oriented. Our experienced professionals are located in every region of the state and can help solve the most pressing financial and real-estate challenges.

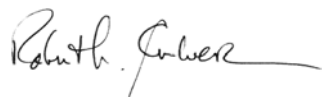
During FY 2008, MassDevelopment partnered with banks, other financial institutions, and cities and towns to finance or manage 265 projects in every region of the state. These projects represent an investment of more than \$3 billion into the Massachusetts economy.

In Central Massachusetts, MassDevelopment has had an active year. Highlights include two separate rounds of Cultural Facility Fund grants that provided more than \$400,000 in total to four Worcester institutions: the EcoTarium, the John Woodman Higgins Armory, the Massachusetts Symphony Orchestra, and the Worcester Historical Museum; \$38 million in a tax-exempt bond and charter school loan guarantee to the Abby Kelly Foster Public Charter School in Worcester for property acquisition and renovation; and a symposium at the Boys & Girls Club of Worcester that featured Lieutenant Governor Timothy Murray and celebrated the tenth anniversary of the signing of the Commonwealth's landmark Brownfields legislation.

The MassDevelopment regional team in Worcester (which includes investment bankers, lenders, and community-development specialists) and our satellite office in Westborough provide complete coverage for all of these and many other activities going on in Central Massachusetts.

We hope that you find this report informative and encourage you to contact MassDevelopment for assistance with your business development opportunities.

Sincerely,



Robert L. Culver
President & CEO

Dear Citizen,

This is the eighth annual Benchmarking Economic Development in Worcester report prepared by The Research Bureau. The report examines trend data for a variety of economic indicators in Worcester, including the City's tax base, tax rates, new construction growth, employment trends, office occupancy rates, and the number of vacant and abandoned properties.

We wish to thank MassDevelopment for its sponsorship of this report. We hope that this report will encourage widespread discussion about Worcester's economic future, serve as a basis for sound priority-setting and decision-making, and promote performance measurement and management practices at the municipal level.

Sincerely,

A handwritten signature in black ink that reads "Brian J. Buckley". The signature is written in a cursive style with a large, stylized initial "B".

Brian J. Buckley, Esq. – Chairman of the Board

INDICATOR 1: TAX BASE

Why is it important?

The tax base is the total assessed value of property within a city or town that is subject to local taxation. A municipality sets tax rates according to its annual revenue requirements and the value of all property assessments within its jurisdiction. The tax base is important because local governments are heavily reliant upon property taxes to fund municipal services such as public safety, public education, public libraries, and street and sidewalk maintenance.¹ Massachusetts' 351 cities and towns received an average of 53% of their total revenue from property taxes in FY08.² The widespread dependence on the property tax to fund municipal services has increased public concern about how- and how fairly- the tax burden is distributed between property-type owners (i.e., commercial-industrial and residential property owners). A tax base that is weighted heavily in the direction of one property type or the other is particularly vulnerable to changes in economic circumstances. In particular, if the composition of a community's tax base shifts heavily towards residential property, homeowners will be faced with higher tax bills in order to make up for tax revenues once generated by commercial-industrial properties.

How does Worcester Perform?

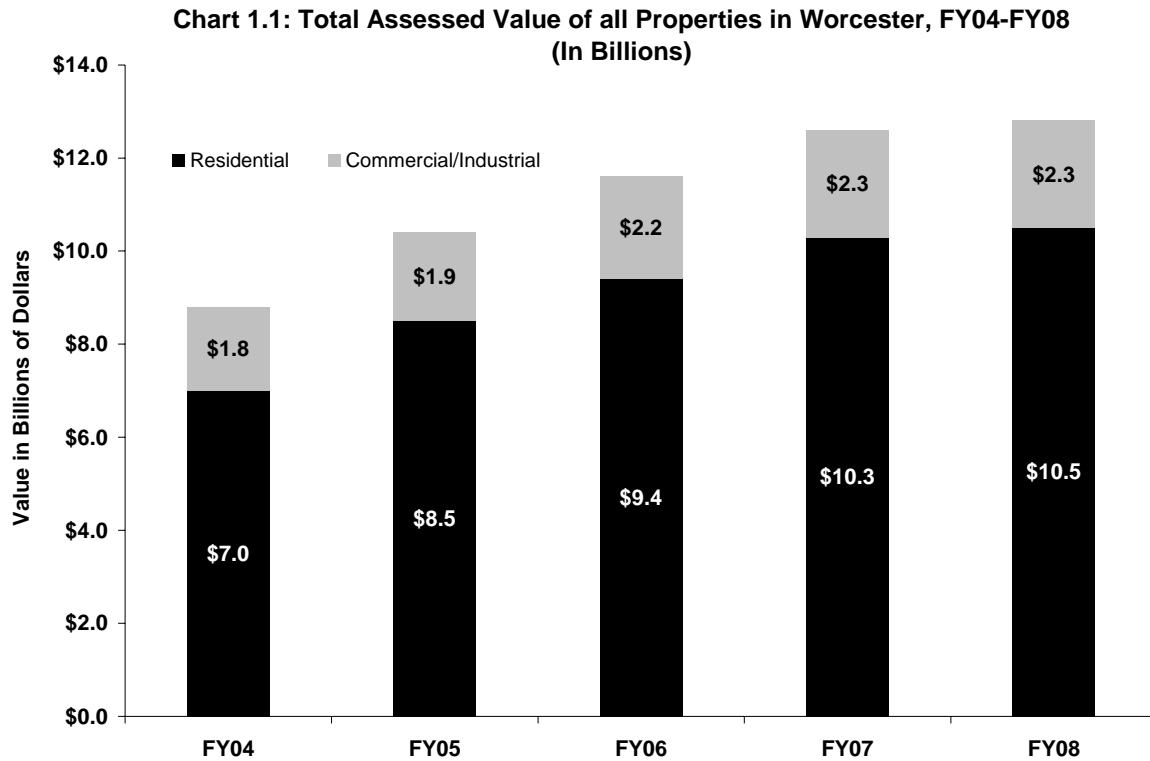
Worcester's total taxable property value of \$12.7 billion in FY08 was \$164 million (1.3%) higher than the FY07 value. **Chart 1.1** examines changes in the total value and composition of Worcester's tax base between FY04 and FY08, a period during which total assessed value increased by 44%. However, growth is becoming more modest, with just a 1.3% increase in value from FY07 to FY08, compared to a 17.5% increase between FY04-FY05. New data from FY09 show that after 12 years of growth, total assessed value dropped 4.63% from FY08 to \$12.1 billion.³

The tax base will expand or decline due to two main factors: changes in market values of existing properties and value added as a result of new construction (discussed further in **Indicator 3: Private Investment**). The City's residential tax base has grown by 48.7% since FY04 (exceeding \$10.4 billion in FY08), and new-construction value represented almost all of residential growth occurring between FY07 to FY08 (\$144 million of the \$150 million of residential growth was in new construction). **Chart 1.2** shows that rate of growth in residential property values has outpaced the commercial and industrial rate of growth in all but one of the past five years. The 49% (\$3.4 billion) overall increase in residential values from FY04 to FY08 exceeded the 27% (\$482 million) increase in commercial-industrial values during the same period.

¹ See CCPM publication 07-06. *Benchmarking Municipal and Neighborhood Services in Worcester: 2007* (available at www.wrrb.org) for a discussion of these and other municipal services provided by the City of Worcester.

² See Massachusetts Department of Revenue, Division of Local Services, Municipal Databank, Fiscal Year 2007 Revenue Components at <http://www.mass.gov/Ador/docs/dls/mdmstuf/MunicipalBudgetedRevenues/Revs07.xls>.

³ Nick Kotsopoulos, "Tax values plunge \$600 million," *Worcester Telegram & Gazette*, November 17, 2008, p. A1.

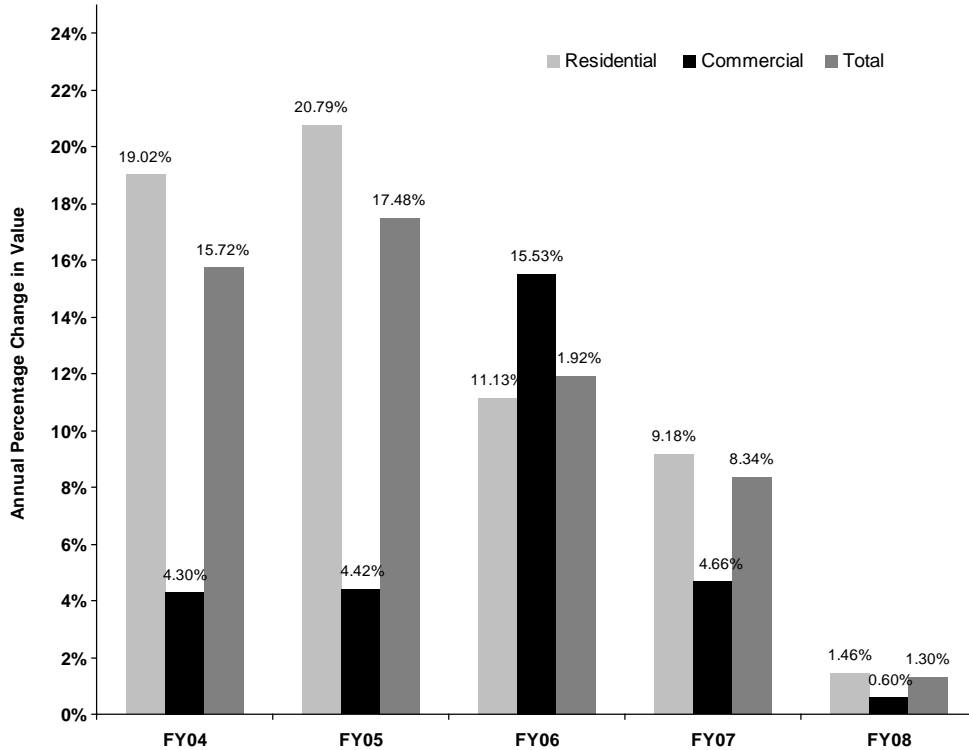


Source: Massachusetts Department of Revenue, Division of Local Services

From FY04 to FY08, Worcester’s commercial-industrial property value decreased from 20.2% to 17.8% of the total value of property in the City, while Worcester’s residential value as a percentage of total value increased from 79.8% to 82.2% (see **Chart 1.3**).⁴ Recently-released data from FY09, however, show that while total assessed value decreased from previous year’s total, it was residential properties that experienced the decrease in value while commercial-industrial properties experienced a slight increase. This resulted in commercial-industrial properties accounting for 19% of the City’s total valuation in FY09. The tax base is being skewed in the direction of residential value, meaning that residential property owners are bearing a greater share of the tax burden. Also, annual growth in property values has been steadily declining since FY05, from 17.5% in FY05 to 1.3% in FY08. Data from the first half of FY09 indicate that residential values dropped sharply (13.4% for triple deckers, 10.4% for condominiums and 5.6% for single-family homes). Only the value of commercial and industrial properties increased slightly, .48% and 2.5%, respectively.

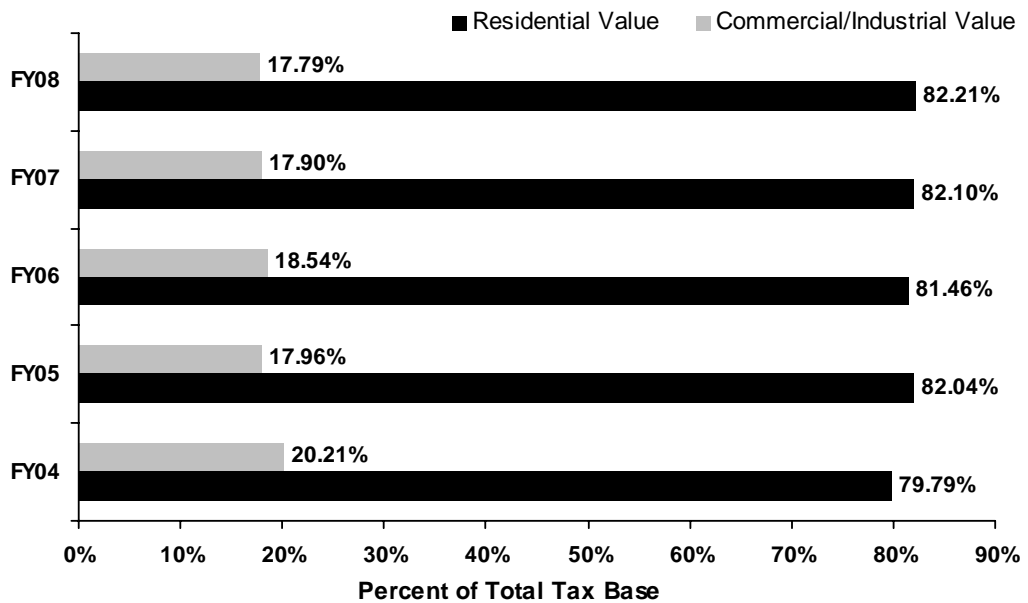
⁴ In FY84 (the year in which Worcester adopted dual classification), residential values and commercial-industrial values comprised 65% and 35% of the total tax base, respectively.

Chart 1.2: Annual Growth in Property Values, City of Worcester, FY04- FY08



Source: Massachusetts Department of Revenue, Division of Local Services

Chart 1.3: Distribution of Assessed Valued by Property Type, City of Worcester, FY04-08



Source: Massachusetts Department of Revenue, Division of Local Services

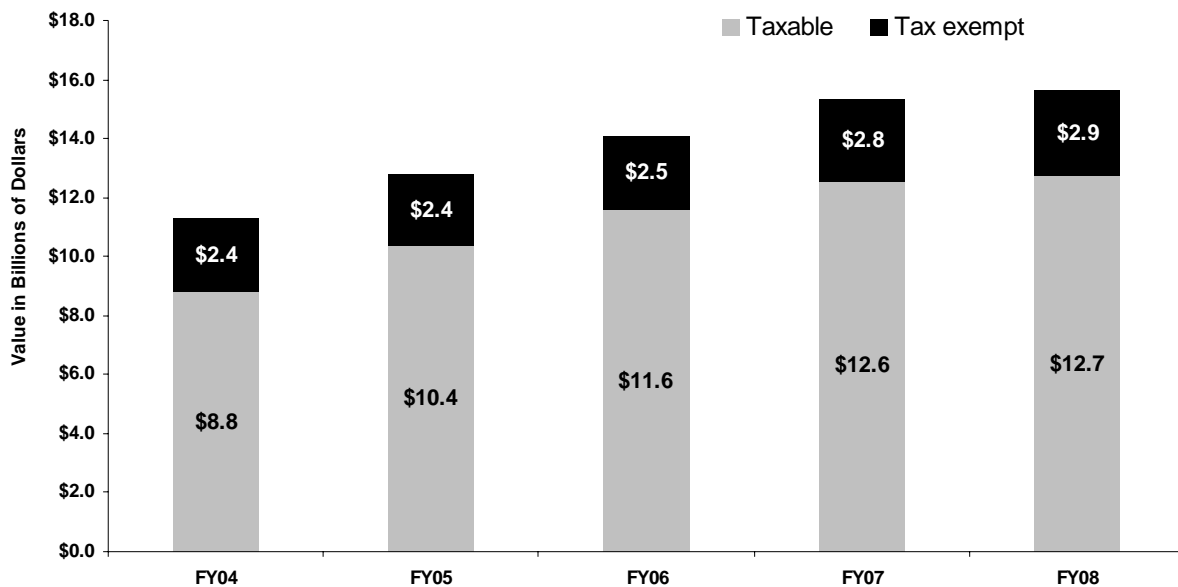
Table 1.1 compares Worcester’s FY08 tax base and its rate of increase since FY04 with those of several other cities in Massachusetts. In past years, the rate of growth of residential values over a 5-year period far exceeded the rate of growth of commercial-industrial values during the same timeframe. However, in FY08, the only cities examined where this was the case were Worcester, Lowell, and Springfield. The three remaining cities examined experienced higher rates of growth in commercial and industrial value. The data also reveal that Worcester had the third-highest rate of increase in residential values and the second-lowest rate of increase in commercial/industrial values of the cities examined.

<i>In thousands of dollars</i>						
	Residential	% Change FY04-FY08	Commercial/Industrial	% Change FY04-FY08	Total	% Change FY04-FY08
Worcester	\$10,462,845	48.7%	\$2,264,149	27.0%	\$12,726,994	44.3%
Boston	\$59,387,385	34.0%	\$30,679,912	40.6%	\$90,067,297	36.2%
Cambridge	\$14,426,864	18.7%	\$9,114,332	28.9%	\$23,541,196	22.4%
Somerville	\$7,343,629	28.5%	\$1,248,701	38.6%	\$8,592,330	29.9%
Lowell	\$6,036,956	98.0%	\$1,770,187	56.2%	\$7,807,143	90.6%
Springfield	\$6,388,928	51.6%	\$1,087,620	21.1%	\$7,476,548	43.4%

Source: Massachusetts Department of Revenue, Division of Local Services

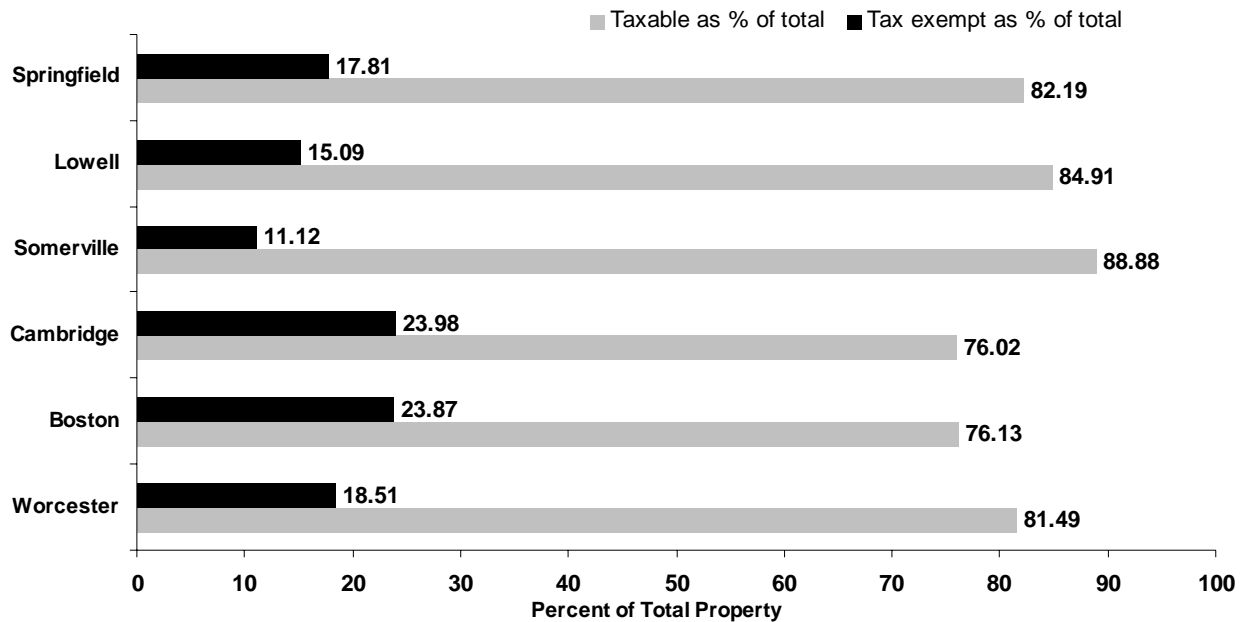
In addition to property that is eligible for taxation, the City of Worcester also contains a significant amount of property that is tax-exempt, including colleges and universities, churches, government buildings, and other nonprofit organizations. As shown in **Chart 1.4**, in FY08, almost \$2.9 billion in property value was tax-exempt. The value of tax-exempt property as a percentage of total value has declined over the past five years, however, from 21.7% in FY04 to 18.5% in FY08. **Chart 1.5** shows the distribution of taxable and tax-exempt property for Worcester and other cities in Massachusetts.

Chart 1.4: Taxable and Tax-Exempt Property in Worcester, FY04-FY08
(In Billions)



Source: Massachusetts Department of Revenue, Division of Local Services

Chart 1.5: Distribution of Taxable and Tax-Exempt Property in Selected Massachusetts Cities, FY08



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

In FY08, 34.6% of Worcester’s General Fund Revenue was derived from local property taxes. As previously stated, General Fund expenditures include the major services that municipal governments provide to their citizens. A sound tax base is critical to a government’s ability to fund the services its citizens desire and expect, and a weakening tax base may force municipal leaders to cut municipal services or increase property taxes.⁵

The weakening economy and the slowdown in the housing market have adversely affected growth in property values. Besides this issue, the City, like many communities across the Commonwealth, continues to experience significant fiscal pressure as growth in expenditures, primarily salaries and benefits, regularly outpaces revenue growth. While it is important to expand the City’s tax base (particularly its commercial-industrial tax base) to build the revenue side of the equation, public officials must also continually seek to identify opportunities to reduce the expense side (as the Worcester City Council recently did last year with the adoption of Chapter 32B Section 18 of Massachusetts General Laws, which allows municipalities to require Medicare-eligible retirees age 65 and older to enroll in a Medicare health insurance plan resulting in significant savings to taxpayers). It must also consider cost-savings which could

⁵ The significance of a strong tax base is also discussed in *Benchmarking Municipal Finance in Worcester 2008: Factors Affecting the City’s Bond Rating*, Report 08-05, September 25, 2008, available at www.wrrb.org.

result from divesting the City of services and infrastructure that are not related to its core mission, such as leasing Union Station and Worcester Regional Airport.⁶

As noted above, currently more than 80% of the City's tax base is derived from residential property values. Although the gap between growth in residential and commercial-industrial values has lessened with the cooling off of the housing market, this will do little to alleviate the burden on residential property owners. Expanding the value of the commercial-industrial tax base is the solution to easing that burden.

⁶ For further discussion of potential areas of cost savings, see *Worcester's FY09 Budget: Continuing the Reform Agenda*, Report 08-02, May 8, 2008, available at www.wrrb.org.

INDICATOR 2: COMMERCIAL/INDUSTRIAL AND RESIDENTIAL TAX RATES

Why is it important?

The **tax rate** is the amount a property owner pays per \$1,000 of assessed property value. For example, in FY08, Worcester's commercial/industrial tax rate was \$26.20; hence taxes on a commercial or industrial property with an assessed value of \$1 million would total \$26,200. The tax rate is determined by dividing the dollar amount required for the taxing district (equal to the amount of the General Fund budget) by the total tax base within the district.

Tax levy is the amount of money raised annually through property taxes to support municipal operations. The amount of municipal spending and the availability of other revenues affect the total tax levy that must be collected. Tax rates vary from community to community depending on the level and variety of services provided. Cities tend to have higher tax rates than towns because towns generally have lower infrastructure costs and provide fewer services to their residents. The size and composition of the tax base (discussed in **Indicator 1**) determine the tax levy's distribution among all property owners.

Property taxes are one of many factors that influence decisions about where to live or conduct business. Individuals are often concerned about the quality of schools, housing costs, neighborhood safety, and the availability of jobs in addition to tax rates. Businesses are typically interested in the skill level of the local labor force, wage rates, energy costs, housing costs, infrastructure, availability of office space or land ready for immediate development, and the degree to which municipal officials are perceived as partners in economic development. But tax rates are an important consideration in business siting decisions. One indication of the significance of the tax rate in influencing such decisions is the popularity of tax incentives such as tax increment financing (TIF). In Massachusetts, the TIF program enables municipalities to grant tax abatements to firms which promise to create jobs and invest in a facility. In 2003, the state also created the District Improvement Financing Program (DIF), under which a municipality pays for public infrastructure improvements in support of private development with tax revenues that will be generated from a DIF District.⁷

How does Worcester perform?

Under Massachusetts General Laws Chapter 59, cities and towns may choose to adopt property tax classification, which allows different classes of property (residential and commercial/industrial) to be taxed at different rates.⁸ The City of Worcester adopted dual

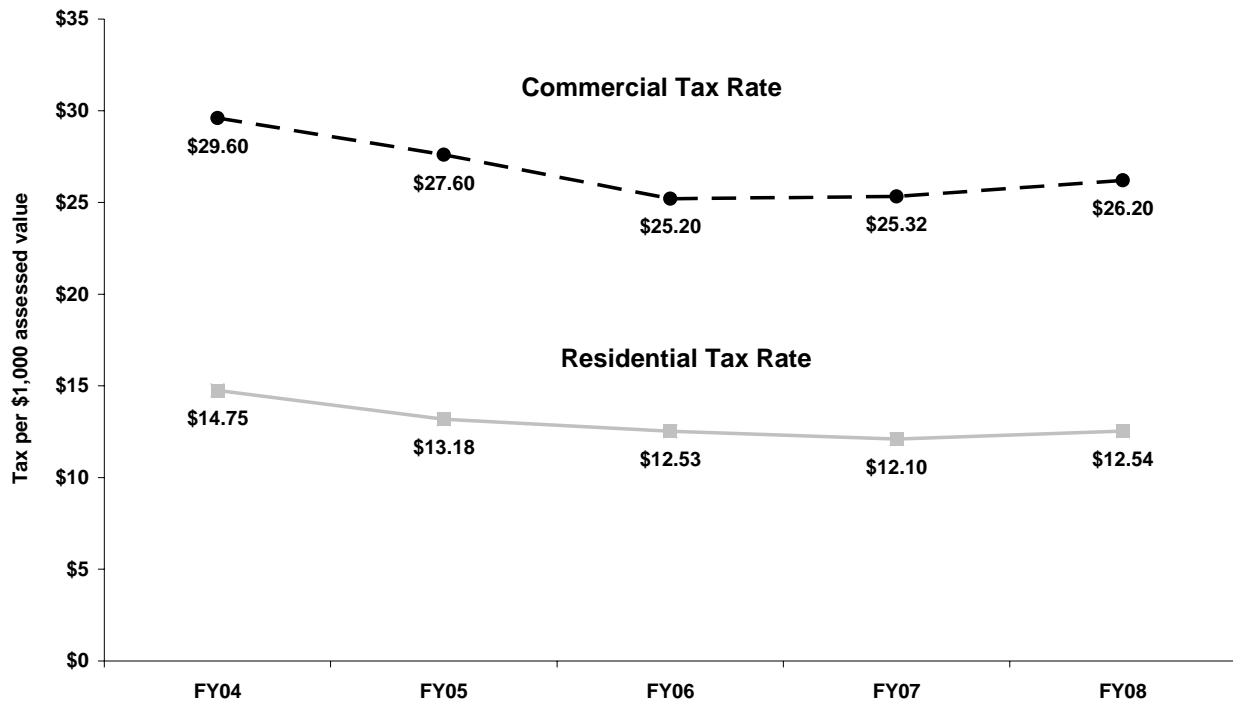
⁷ Worcester's CitySquare project was the first project in the state to receive approval for its DIF District and DIF financing plan.

⁸ According to the Massachusetts Department of Revenue, in FY08, 108 Massachusetts communities (31%) taxed residential and commercial/industrial properties at different rates.

classification in FY84. In almost every case, dual classification shifts the tax burden from residential property owners to commercial and industrial property owners.⁹

Chart 2.1 shows Worcester’s commercial-industrial and residential tax rates for the FY04 to FY08 period. From FY04 to FY06, Worcester’s commercial-industrial tax rate steadily declined from \$29.60 to \$25.20 per \$1,000 of assessed value, and then increased in FY07 and FY08, reaching \$26.20 in FY08. The residential rate had declined from FY04 to FY07, from \$14.75 to \$12.10 per \$1,000 of assessed value, and then rose slightly to \$12.54 in FY08.

Chart 2.1: Worcester's Commercial and Residential Tax Rates, FY04-FY08



Source: Massachusetts Department of Revenue, Division of Local Services

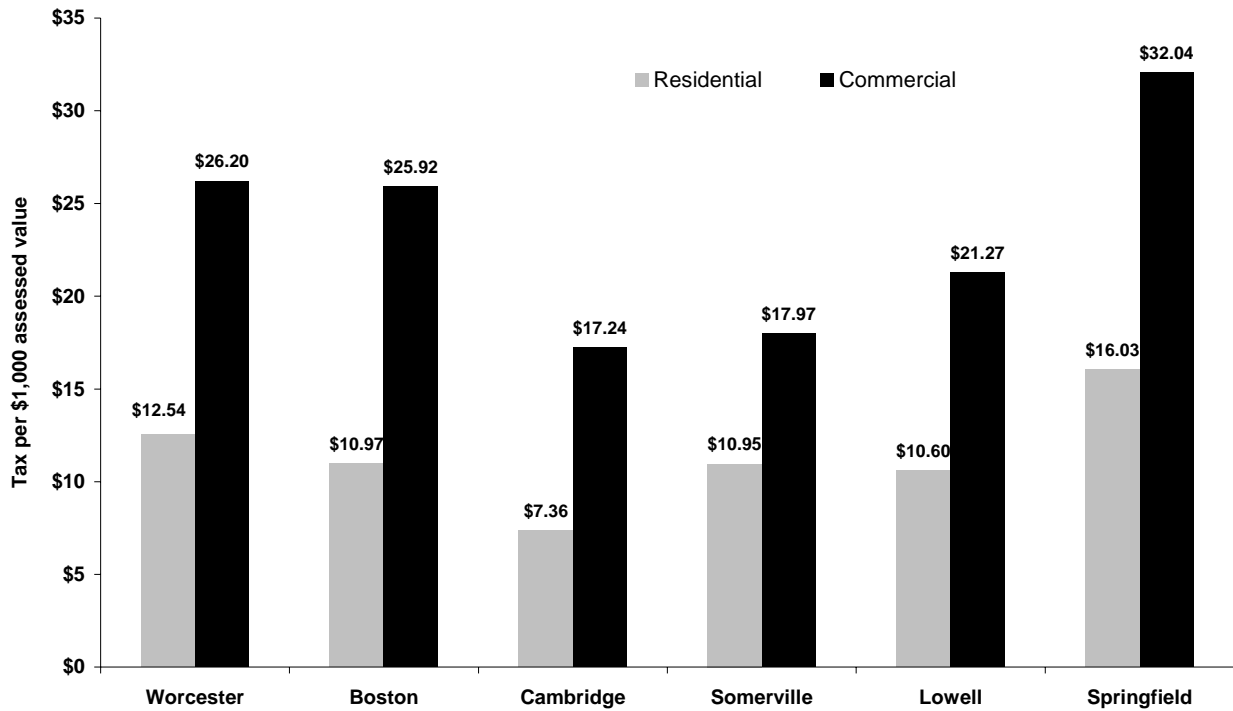
The City will start to experience an increase in the residential tax rate as growth in residential property values has slowed significantly (as discussed in **Indicator 1: Tax Base**). According to the Massachusetts Department of Revenue, while the average value of a single-family home in Worcester increased by 38% from FY04 to FY08 (from \$180,193 in FY04 to \$248,144 in FY08), the average value of a single-family home increased by only .25% from FY07 to FY08 (from \$247,529 to \$248,144). New data for FY09 show the average assessment of a single-family

⁹ While state legislation allows communities to shift the tax burden from one property class to another, the state sets limits on how much of the burden a municipality may shift. In FY08, the maximum allowable shift for Worcester was 175.3% of the single tax rate (the single tax rate is the total tax levy divided by the total assessed value multiplied by one thousand), and the City adopted a commercial-industrial rate at 175% of the value of the single tax rate (\$26.20) and a residential rate at 84% of the value of the single tax rate (\$12.54).

home dropping to \$234,201, or a 5.6% drop from FY08. Between FY04 and FY08, the average single-family tax bill in Worcester increased by about 17%, from \$2,658 to \$3,112, and from FY07 to FY08 increased by 4%, from \$2,995 to \$3,112.

As **Chart 2.2** indicates, Worcester’s commercial and industrial tax rate compares favorably to those of Springfield and Boston. However, Worcester’s residential tax rate was the second highest, after Springfield. Closer to home, Worcester’s commercial and industrial tax rate is less competitive with tax rates in towns along the I-495 corridor (**Table 2.1**), in part because a number of these communities have adopted a single tax rate, although these communities are also likely to provide fewer services than the City of Worcester.

Chart 2.2: FY08 Tax Rates for Worcester and Massachusetts Comparison Cities



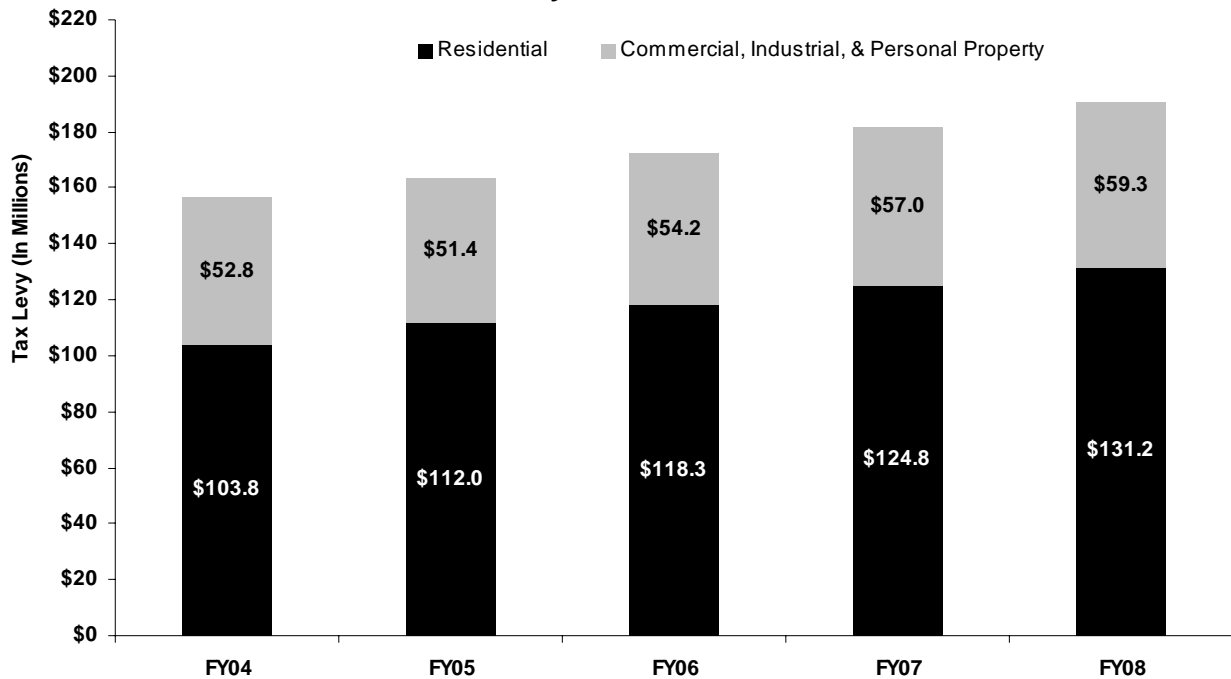
Source: Massachusetts Department of Revenue, Division of Local Services

Table 2.1: FY08 Commercial Tax Rates in Nearby Communities			Table 2.2: FY08 Residential Tax Rates in Nearby Communities		
	Tax Rate	% Change FY04-FY08		Tax Rate	% Change FY04-FY08
Shrewsbury	\$9.14	-7.9%	Shrewsbury	\$9.14	-7.9%
Grafton	\$10.05	-7.0%	Grafton	\$10.05	-7.0%
Upton	\$10.63	-28.0%	Hudson	\$10.38	5.5%
Berlin	\$11.20	-11.0%	Upton	\$10.63	-28.0%
Southborough	\$12.54	-2.0%	Berlin	\$11.20	-11.0%
Holden	\$12.62	-10.2%	Milford	\$11.80	-1.2%
Harvard	\$12.68	9.6%	Worcester	\$12.54	-15.0%
Ashland	\$12.92	-7.8%	Southborough	\$12.54	-2.0%
Northborough	\$13.28	-3.7%	Holden	\$12.62	-10.2%
Boxborough	\$14.14	6.2%	Harvard	\$12.68	9.6%
Hopkinton	\$14.15	9.7%	Marlborough	\$12.72	-1.4%
Westborough	\$14.70	6.0%	Ashland	\$12.92	-7.8%
Bolton	\$15.05	13.7%	Northborough	\$13.28	-3.7%
Milford	\$20.23	-9.2%	Boxborough	\$14.14	6.2%
Hudson	\$21.42	2.1%	Hopkinton	\$14.15	9.7%
Marlborough	\$24.58	2.2%	Westborough	\$14.70	6.0%
Worcester	\$26.20	-11.5%	Bolton	\$15.05	13.7%

Source: Massachusetts Department of Revenue

Chart 2.3 shows that the amount of property tax revenue (tax levy) collected by the City of Worcester increased by 22% over the five-year period from FY04 to FY08. In FY08, the City collected more than \$190 million in property taxes, with more than two-thirds of that paid by residential property owners (as discussed in **Indicator 1**, residential property values represent 82% of the City's total property value).

Chart 2.3: Total Tax Levy: Residential and CIP, FY04-FY08



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

In FY08, local property tax levies comprised slightly more than one-third (34.6%) of Worcester’s total revenues (state aid represented the largest revenue source at 46%, and local receipts, such as motor vehicle excise taxes, represented about 18% of total revenue). While the proportion of revenue derived from property taxes has been fairly constant over the past decade, the burden on homeowners and business owners has been increasing. To lessen the burden on all property owners, public officials must seek ways to cut costs and diversify revenue streams, particularly in light of the recent housing downturn. Suggestions for reducing the cost of operations, detailed in The Research Bureau’s Report 08-02, *Worcester’s FY09 Budget: Continuing the Reform Agenda*, include having the City divest itself of certain facilities which are not part of the City’s core mission of providing public education, public safety, and public infrastructure. Those facilities to be considered for sale or long-term lease include: Worcester Regional Airport, Union Station, Hope Cemetery, and the City’s parking garages. The City must also work to control collective bargaining costs including salaries, health insurance benefits, and disability pensions.¹⁰

¹⁰ Report 08-02 is available online at <http://www.wrb.org>.

INDICATOR 3: AMOUNT OF PRIVATE INVESTMENT

Why is it important?

Private investment, measured here as the value of new growth, reflects a city's ability to attract new development, create new jobs and housing opportunities for residents, and expand the tax base. New growth is the net increase in municipal property values resulting from new construction/new development or the return of exempt property to the tax rolls. New growth can be added to a municipality's levy limit as defined by Proposition 2 1/2 and thereby increases taxing capacity. As discussed in **Indicator 1: Commercial and Residential Tax Base**, Worcester's overall tax base increased by \$164 million (1.3%) from FY07 to FY08. Two factors drove this level of expansion: 1) rising property values in the City, and 2) continued high levels of commercial and residential construction (new growth). This indicator will focus on the portion of the increase that is attributable to commercial-industrial and residential new growth.

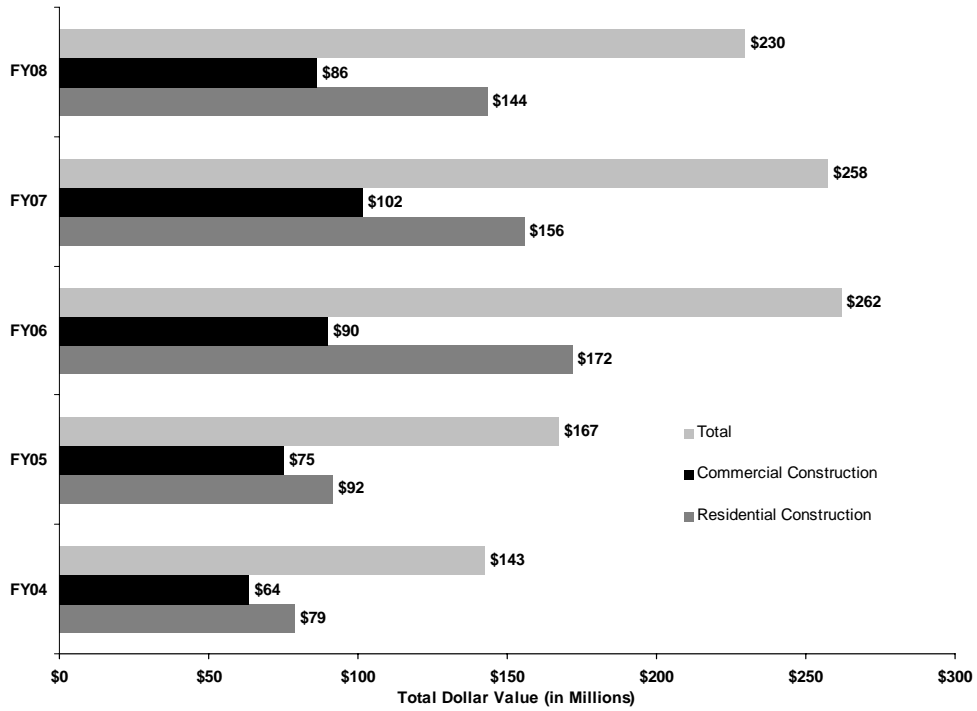
How does Worcester perform?

Chart 3.1 shows that the combined value of commercial and residential new growth in Worcester totaled \$230 million in FY08. While below the previous year's figure (about 11% less), it was about 60% higher than the FY04 value. From FY07 to FY08, the value of new commercial and industrial growth in Worcester decreased by 15%, from \$101.8 million to \$86.3 million. Although the City experienced strong new growth levels in the residential sector with \$144 million of private investment occurring in FY08, the rate of residential growth has slowed, with about \$12 million less invested in FY08 compared to FY07.

Chart 3.2 shows the percentage of Worcester's tax base and tax revenues derived from new construction since FY04.¹¹ While no clear trend has emerged over this period, these proportions have typically fluctuated by less than half a percentage point from year to year. The \$230 million in new construction in FY08 is approximately 1.8% of the value of Worcester's tax base in the same year, and at the FY08 residential and commercial rates, it would yield about \$4.1 million in new tax revenue.

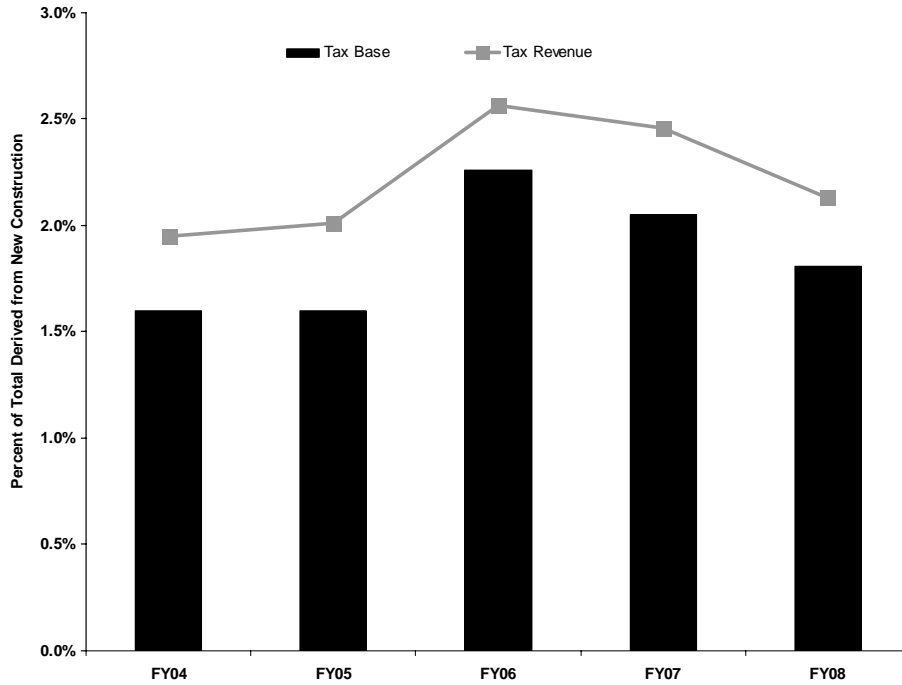
¹¹ To encourage economic development and new growth, communities may offer tax incentives which effectively lower or defer property taxes for a specified period of time. The calculation of the percentage of revenue derived from new construction depicted in Chart 3.3 reflects the maximum percentage that could be derived from new construction, i.e., omitting tax incentives which would reduce tax revenues.

Chart 3.1: Value of New Construction in the City of Worcester, FY04-FY08



Source: Massachusetts Department of Revenue, Division of Local Services

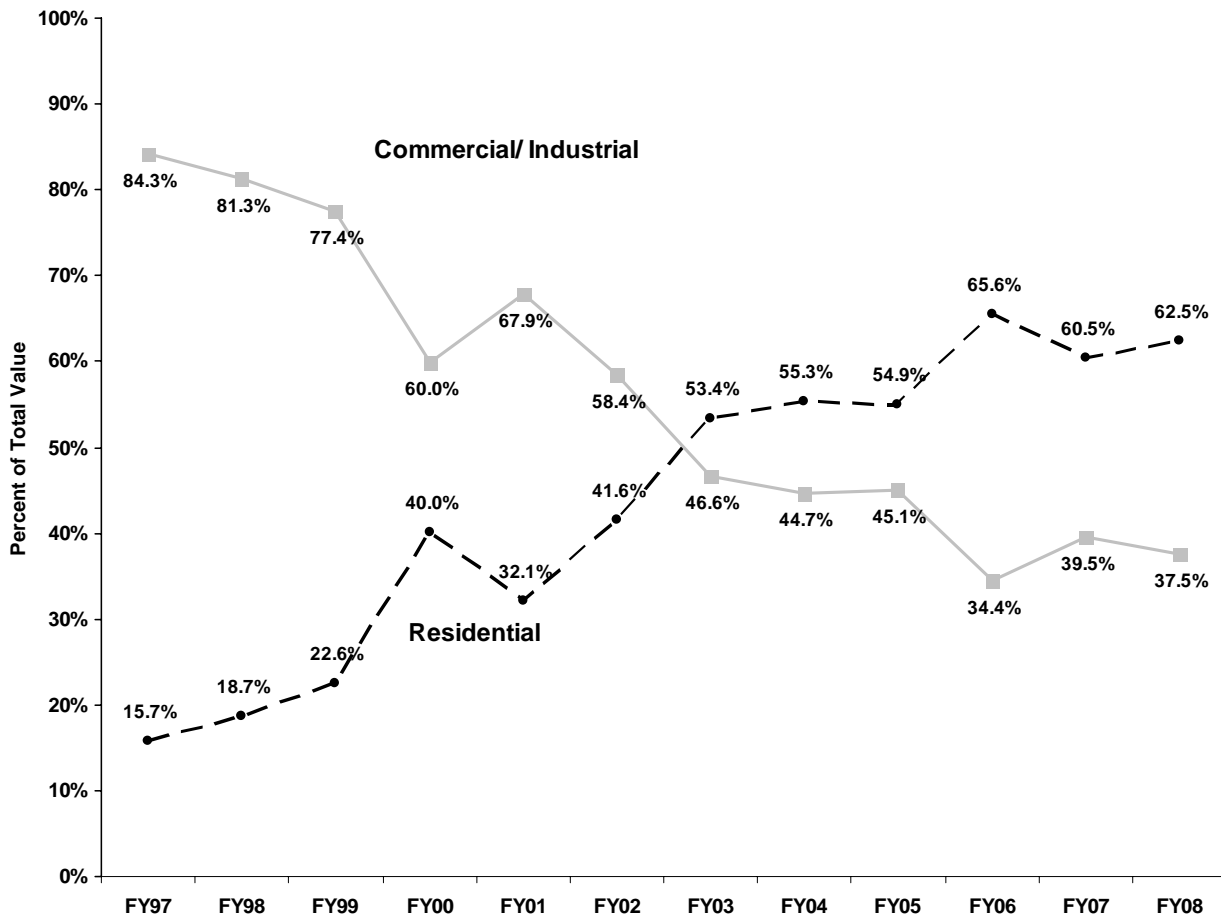
Chart 3.2: Percentage of Worcester's Tax Base and Tax Revenues Derived from New Construction, FY04-FY08



Source: Massachusetts Department of Revenue, Division of Local Services

As shown in **Chart 3.3**, from FY97 until FY02, more than half of the value of new growth was generated by investment in commercial and industrial property. In FY97, commercial and industrial growth accounted for 84.3% (\$65 million) of the value of all new construction in Worcester. However, by FY06, commercial and industrial growth lagged far behind residential growth, accounting for just 34.4% of new construction values. Although new growth values in FY08 were still skewed toward residential new growth values (representing 62.5% of the total), the gap between commercial-industrial and residential new growth values has lessened somewhat since FY06.

Chart 3.3: Distribution of the Value of New Construction in Worcester, FY97-FY08



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

As noted in **Indicator 1**, Worcester’s tax base, fueled by a combination of increasing values and new growth, has expanded over the past several years, although, more recently, the rate of expansion has slowed. Although investment in the residential sector has far outpaced commercial and industrial growth in recent years, the recent downturn in the housing market may reduce residential new growth in the near future.

Worcester's public officials expect that more than \$1 billion in planned and proposed public and private projects on the horizon will contribute either directly (private investment) or indirectly (public investments that have encouraged further private investment) to strengthening Worcester's economy in the near and long term.¹²

Sustained growth is key to Worcester's long-term economic vitality, and while growth levels in the City have been consistent, future efforts to attract private investment to the area may be stymied by higher tax rates in comparison to those of the surrounding municipalities; continued shifts of the tax burden to the commercial/industrial sector; the lack of availability of land for new housing and industry compared to the surrounding communities, and the general slowdown of the economy that the nation is experiencing. Eliminating or reducing these barriers to the first two will be critical to attracting continued private investment to Worcester.

¹² See <http://www.worcestermass.org> to learn more about ongoing economic development projects and events in Worcester.

INDICATOR 4: EMPLOYMENT AND LABOR FORCE GROWTH

Why is it important?

Low unemployment, high labor force participation, and job growth are key indicators of the health and stability of a local economy. Higher unemployment rates may reflect fewer employment opportunities for workers and/or the need for employment and training services to better match employees and employers. Labor force participation is a measure of individuals' willingness to work outside the home. Job growth reveals how much an economy is expanding, and the distribution of workers across various industries is a measure of economic and employment diversity.

How does Worcester perform?

As **Table 4.1** illustrates, from 2001 to 2007, Worcester lost more than 2,200 jobs. During this eight-year period, 2005 saw the lowest average monthly employment at 97,647, and between 2006 and 2007 there was a slight .25% decrease (from 98,955 to 98,710, respectively). In Worcester County, the greatest job losses occurred between 2001 and 2003, with average monthly employment declining by just over 6,000 jobs countywide (a 1.9% decline). However, in 2007 the county experienced its highest average monthly employment since 2001 at 321,332. Employment in the county has been steadily rising since 2005, and between 2006 and 2007 employment increased slightly by .5%.

City of Worcester		Worcester County		
Average Monthly Employment (#)	Annual Percentage Change	Average Monthly Employment (#)	Annual Percentage Change	
2001	100,977	-0.39%	321,043	-0.03%
2002	98,584	-2.37%	316,503	-1.41%
2003	98,073	-0.52%	315,037	-0.46%
2004	98,434	0.37%	317,251	0.70%
2005	97,647	-0.80%	316,849	-0.13%
2006	98,955	1.34%	319,669	0.89%
2007	98,710	-0.25%	321,332	0.52%

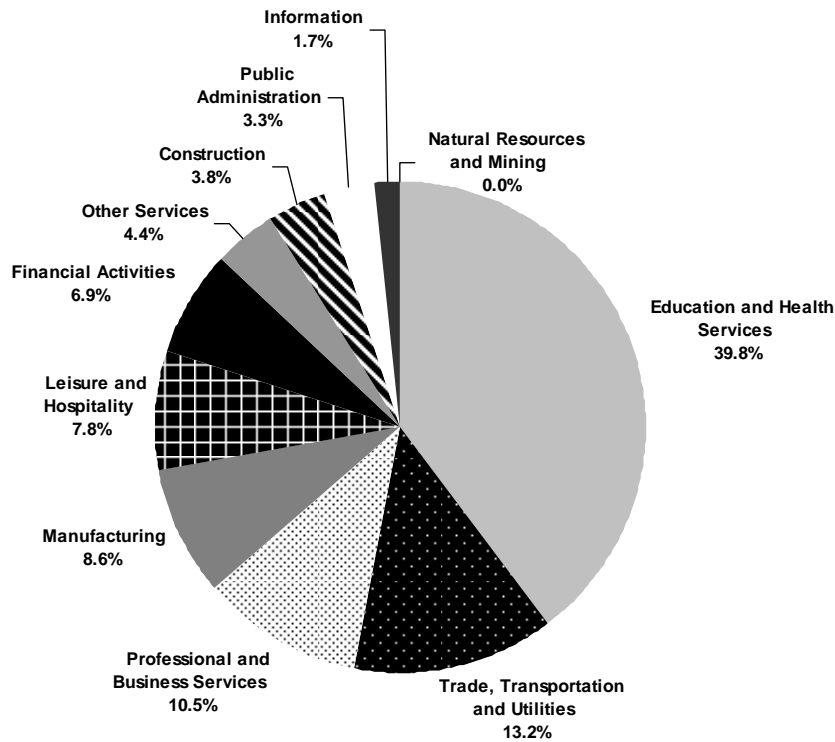
Source: Massachusetts Department of Workforce Development

Chart 4.1 shows the percentage of the labor force employed in various sectors of the economy in the City of Worcester. In 2007, 88% of Worcester's jobs were in the service sector, with the

remaining 12% in the goods-producing sector.^{13,14} In 2007, 40% of the jobs in Worcester were in the education and health-services fields (a one percentage point increase from 2006 and a 7 percent increase overall since 2003).

Table 4.2 shows 2007 average monthly employment by industry for both the City of Worcester and Worcester County. The proportion of jobs countywide in the education and health-services sectors has increased by 8% since 2003. This table also shows that the County’s manufacturing job base further eroded between 2003 and 2006, with job losses totaling 5.7% in Worcester (493 manufacturing jobs) and 7.2% (3,209 manufacturing jobs) countywide.¹⁵ However, from 2006 to 2007 in both the City and the County there was a small uptick in manufacturing jobs (a 3% increase in the City and a .7% increase in the County). Both the City of Worcester and Worcester County have lost a fair number of financial jobs, with the City experiencing an 11% decrease since 2003 and the County experiencing a 4% decrease.

Chart 4.1: Employment by Industry, City of Worcester, 2007



Source: Massachusetts Department of Workforce Development

¹³ The service sector is composed of the following industries: Trade, Transportation, and Utilities; Information; Financial Activities; Professional and Business Services; Education and Health Services; Leisure and Hospitality; Other Services; and Public Administration (Massachusetts Department of Labor, <http://www.mass.gov/dol>).

¹⁴ Mining, construction, and manufacturing industries comprise the goods-producing sector.

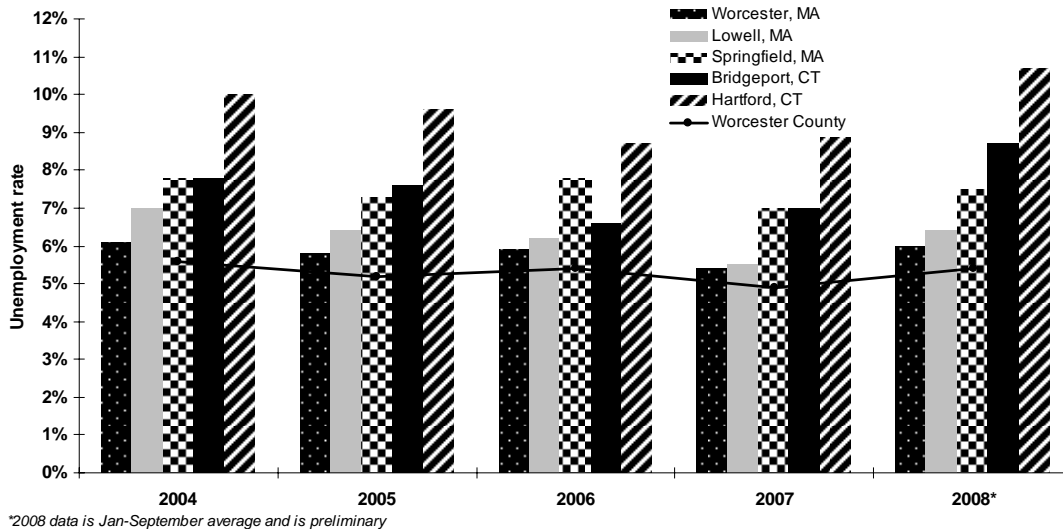
¹⁵ The loss of manufacturing jobs has not necessarily resulted in decreased manufacturing capacity or output. Historically, manufacturing has relied on labor-intensive methods of goods production. In recent decades, industry has shifted to capital-intensive production methods (especially in the high-tech sectors), and as a result, manufacturing output has risen despite declining employment in this sector.

	City of Worcester		Worcester County	
	Average Monthly Employment (#)	Percent Change 2003-2007	Average Monthly Employment (#)	Percent Change 2003-2007
Education and Health Services	39,308	7.0%	88,850	8.0%
Trade, Transportation and Utilities	13,069	-5.7%	63,704	0.7%
Professional and Business Services	10,372	-4.4%	35,803	2.2%
Manufacturing	8,459	-2.8%	41,651	-6.6%
Leisure and Hospitality	7,697	3.9%	29,248	4.4%
Financial Activities	6,835	-10.9%	16,099	-4.1%
Other Services	4,332	-2.4%	11,652	5.1%
Construction	3,728	2.4%	15,250	1.2%
Public Administration	3,241	4.6%	12,690	3.5%
Information	1,654	-0.2%	5,614	-4.6%
Natural Resources and Mining	16	-23.8%	772	-5.4%

Source: Massachusetts Department of Workforce Development

As shown in **Chart 4.2**, Worcester’s average annual unemployment rate, or the number of unemployed residents per 100 persons in the labor force, decreased slightly from 5.9% in 2006 to 5.4% in 2007.¹⁶ However, 2008 preliminary data, which reflects the monthly average unemployment for January – September, show the unemployment rate rising to 6.0% in Worcester, and also rising in the four other cities examined. From 2004 through 2008 the unemployment rate for the City of Worcester was, on average, about half a percentage point higher than the countywide rate. Since 2004, however, Worcester’s unemployment rates have been below those of Lowell, Springfield, Hartford, and Bridgeport.

Chart 4.2: Unemployment Trends for Northeastern Cities and Worcester County, 2004-2008*



*2008 data is Jan-September average and is preliminary
 Source: Bureau of Labor Statistics, Local Area Unemployment Statistics

¹⁶ Job growth and employment-by-sector data are based on the number of jobs in a defined geographic area, and do not distinguish between jobs held by residents and non-residents of that particular locality. In contrast, unemployment data based on the Local Area Unemployment Statistics (LAUS) data series are based on the individual’s place of residence, thus reflecting the proportion of Worcester City residents who are unemployed.

Worcester’s labor force, or the total number of residents age 16 and older who are employed or looking for work, decreased by about 1% from 83,451 individuals in 2006 to 82,530 in 2007 (Table 4.3).¹⁷ In 2007, the City had the lowest labor force participation rate during the five-year period from 2003 to 2007. Countywide, the labor force also decreased slightly from 400,768 in 2006 to 399,379 in 2007. According to Census Bureau population estimates, both the City of Worcester and Worcester County have experienced annual increases in population since 2000.¹⁸

	City of Worcester		Worcester County	
	Labor Force (#)	Labor Force Participation Rate	Labor Force (#)	Labor Force Participation Rate
2003	84,184	61.8%	401,453	69.4%
2004	84,074	61.7%	400,729	69.2%
2005	82,762	61.3%	395,133	68.8%
2006	83,451	61.2%	400,768	69.3%
2007	82,530	60.6%	399,379	69.0%
2008*	82,448	60.5%	398,507	68.9%

*January-September average, *preliminary*
 Data source: Bureau of Labor Statistics, Local Area Unemployment Statistics; Labor Force Participation Rates calculated by WRRB using US Census Bureau 2000 population data

Compared to the City of Worcester, Worcester County has historically had a higher labor force participation rate. In 2007, the County’s labor force participation rate was 69% compared to 60.6% in the City.

What does this mean for Worcester?

From 2006 to 2007, Worcester showed steady employment, with average monthly employment decreasing just slightly. However, there are almost 3,000 fewer jobs in Worcester in 2007 than there were in 2001. At the same time, participation in the labor force is experiencing a slight but steady decline, yet in 2007 the unemployment rate in the City was the lowest it had been in five years. However, preliminary data from the first part of 2008 show unemployment rising and a slight drop in the labor force. The most recent data from September indicate that unemployment has now risen to 6.7% in the city of Worcester. These factors will be important to follow over the next couple years as the national economy slows.

¹⁷ The labor force participation rate indicates the proportion of the available working age population that is willing and able to work and is either employed or actively seeking employment. This rate represents an economy’s labor supply, and is calculated by dividing the total number of employed and unemployed persons by the total non-institutionalized population age 16 and over.

¹⁸ The Population Estimates Program of the U.S. Census Bureau publishes population estimates each year. Estimates for July 1, 2005, show population growth in both the City of Worcester and Worcester County when compared to Census 2000 population data. The City’s population increased 1.8% from 172,648 residents in 2000 to 175,898 residents in 2005, and the County saw a 4.3% population increase (from 750,963 to 783,262 residents) over the same period.

The City of Worcester can expect that the health care industry will continue to grow due to efforts to expand health care coverage and improve access. At the same time, there will be greater demand for health care services from an aging population. Many of the new jobs created in the health care industry will require an associate's degree or higher. According to the Massachusetts Department of Labor and Workforce Development, statewide, jobs for more skilled workers will increase faster than jobs for less skilled workers. The demand for skilled workers will arise not only from job growth, as industry expands, but also to fill jobs being vacated by retiring baby boomers. In fact, in its report *Massachusetts Employment Projects Through 2014*, the Department of Labor and Workforce Development stated that "for every new job created by economic growth, there will be three jobs resulting from replacement needs."¹⁹

Efforts to attract jobs to the area would likely be bolstered by better utilization of the area's transportation network. In October 2008, five additional daily trains were added between Boston and Worcester. Increasing both the inbound and outbound commuter rail service between the Worcester, Framingham, and Boston line during peak commuting hours could make Worcester a more attractive site for employers looking to locate outside the metro Boston area, as well as making Worcester a more attractive place to live for individuals working in the Boston and MetroWest areas.²⁰ The combination of a declining employment base with an increasing population, expanding residential tax base, and increasing numbers of workers commuting to jobs in outlying communities, confirms the trend noted in these reports over the last number of years that Worcester has become a bedroom community for the Boston and MetroWest areas.

¹⁹ The report is available online at <http://lmi2.detma.org/Lmi/pdf/MEP2014.pdf>

²⁰ See Mayor Timothy Murray's February 2005 report *Commuter Rail West of Boston: the Demand and the Dilemma* available at http://www.ci.worcester.ma.us/may/white_papers/commuter_rail.pdf for further discussion of the need for expanded commuter rail service in Worcester.

INDICATOR 5: DOWNTOWN OFFICE OCCUPANCY RATE

Why is it important?

Office occupancy rates are a key indicator of a downtown area's economic vitality. Typically, areas with high office occupancy rates also have strong business and retail economies, while low or declining occupancy rates may signal business and retail flight and an ensuing weakening of a downtown core. For many decades now, the suburbs and "exurbs" have outpaced central cities in terms of both job and population growth, to the detriment of many of our nation's once vital cores. However, in more recent years, this growth has not necessarily been at the expense of nearby urban areas, as many American cities and their downtowns have been making a comeback.²¹

How does Worcester perform?

During the summer of 2008, Research Bureau staff gathered information from property owners, leasing agents, and online data sources to determine the total amount of office space in Worcester's Central Business District (CBD) and the proportion of that space that is currently occupied.²² For each of the 88 properties identified as containing some amount of office space in the CBD, the following information was collected: the total amount of office space in the building, the amount of office space that was vacant and/or available at the time of the survey, current lease rates, parking availability, and other comments about the space.^{23,24}

Downtown Worcester's Central Business District contains 4.75 million square feet of office space, of which 88.4% was occupied as of August, 2008.^{25,26} As shown in **Table 5.1**, office occupancy in the CBD increased slightly from 87.3% in 2007 to 88.4% in 2008. Class "A" buildings (considered "premier space," either newly constructed buildings or office space that has undergone extensive renovation) account for about 1.3 million square feet (28%) of office space.²⁷ The occupancy rate for Class "A" office space increased one percentage point from

²¹ Alan Ehrenhalt, "Trading Places," *The New Republic*. August 13, 2008,

<http://www.tnr.com/politics/story.html?id=264510ca-2170-49cd-bad5-a0be122ac1a9>.

²² Every effort has been made to ensure the accuracy of the data collected; however, they are point-in-time and subject to change.

²³ While medical office space is counted as office space in this survey, not included are medical practice space, government buildings, and retail space.

²⁴ The full report, *Downtown Worcester Office Occupancy: 2008 Survey*, is available online at <http://www.wrrb.org>.

²⁵ Total space has changed from year to year because building usage can change over time (e.g., several buildings that were formerly office space have been converted to residential space in recent years, and office space may have become retail and vice versa).

²⁶ The occupancy rate is determined by dividing the total amount of occupied office space by the total square footage of office space in the CBD. The vacancy rate represents the amount of space that is vacant and available for lease divided by the total square footage of office space in the CBD.

²⁷ Office space is grouped into three classes, representing a subjective quality rating of buildings which indicates the competitive ability of each building to attract similar types of tenants. The Building Owners and Managers Association provides additional detail about building classification at <http://www.BOMA.org>. A building's

87.9% in 2007 to 88.9% in 2008. The 48 Class “B” buildings (older renovated buildings considered to be in fair to good condition) comprised more than half (52%) of downtown office space, or almost 2.5 million square feet, of which 88.6% was occupied, a two percentage point increase from 2007. Finally, the 950,000 square feet of Class “C” space (older unrenovated buildings offering “functional space”) had an occupancy rate of 87.1%, a slight decrease from 2007 (87.9%). Class C space had the lowest occupancy rate of the three classes, which had also been the trend in 2004 and 2005. In 2006 and 2007, Class B space had the lowest occupancy rate. While the overall 2008 occupancy rate increased from 2007, it has not reached what it had been in the three prior years.

		2004	2005	2006	2007	2008	Change '04-'08
Class A	Total Office Space	1,792,033	1,695,889	1,987,253	1,896,417	1,323,231	-26.2%
	Occupied Space	1,586,186	1,507,585	1,810,043	1,666,917	1,176,503	-25.8%
	Occupancy Rate	88.5%	88.9%	91.1%	87.9%	88.9%	
Class B	Total Office Space	1,436,083	2,082,157	1,667,653	2,243,490	2,480,504	72.7%
	Occupied Space	1,325,158	1,856,772	1,462,126	1,943,623	2,197,624	65.8%
	Occupancy Rate	92.3%	89.2%	87.7%	86.6%	88.6%	
Class C	Total Office Space	1,392,614	918,665	985,335	859,918	948,386	-31.9%
	Occupied Space	1,185,524	799,304	875,335	755,694	826,174	-30.3%
	Occupancy Rate	85.1%	87.0%	88.8%	87.9%	87.1%	
Total	Total Office Space	4,620,730	4,696,705	4,645,674	4,999,825	4,752,121	2.8%
	Occupied Space	4,096,868	4,168,133	4,155,237	4,366,234	4,200,301	2.5%
	Occupancy Rate	88.7%	88.7%	89.4%	87.3%	88.4%	

As shown in **Table 5.2**, in 2008 36% of the office buildings in the downtown area contain available vacant space (in 2007 this number was higher at 43%). Among these, 15 buildings have vacancies of 10,000 square feet or less, ten have between 10,001 and 25,000 square feet of available space, and seven buildings contain more than 25,000 square feet of vacant office space. Class “B” space (older renovated buildings considered to be in fair to good condition) represents the greatest proportion of vacant space (282,880 square feet, or 51.3 %).

In 2008, property owners and agents provided information on lease rates for almost half (48%) of the properties included in the survey, reporting square foot lease rates ranging from \$6 per square foot to \$30 per square foot.

classification may change from one category to another over time (e.g., following renovation, space that had been class “C” space may be listed as class “A” space).

Table 5.2: Distribution of Vacancies by Size and Building Class		
	Number of Buildings with Vacancies	Total Space Vacant
Class A		
1-10,000 Sq. Ft.	3	23,100
10,001 -25,000 Sq. Ft.	0	0
>25,000 Sq. Ft.	3	123,628
<i>Total</i>	6	146,728
Class B		
1-10,000 Sq. Ft.	9	61,900
10,001 -25,000 Sq. Ft.	5	64,833
>25,000 Sq. Ft.	3	156,147
<i>Total</i>	17	282,880
Class C		
1-10,000 Sq. Ft.	3	21,250
10,001 -25,000 Sq. Ft.	5	68,189
>25,000 Sq. Ft.	1	32,773
<i>Total</i>	9	122,212
Total (A, B, C)		
1-10,000 Sq. Ft.	15	106,250
10,001 -25,000 Sq. Ft.	10	133,022
>25,000 Sq. Ft.	7	312,548
<i>Total</i>	32	551,820

What does this mean for Worcester?

Since 2004, downtown Worcester has experienced only slight year-to-year changes in its office occupancy rate. The fact that no new office building has been constructed in the City since 1990 (Chestnut Place) and rental rates have not increased in a number of years, indicates that demand, while holding steady, has really not increased. This lack of demand may account for the difficulty that CitySquare has had in attracting tenants for its planned project. New office construction in Worcester is difficult because of the “development gap” between the costs of construction and the rents which the local real estate market can support.

In 2008, there were 551,820 square feet of vacant office space available in Worcester’s Central Business District, which could potentially support almost 2,800 additional workers in the downtown area.²⁸ Is there anything the City can do to attract more tenants to the CBD? There are many factors that influence those decisions as noted in **Indicator 2**. There are some (e.g., proximity to a major city like Boston, or the availability of undeveloped land) that are beyond the influence of City leaders. However, the City does have considerable influence over others such as tax rates (see **Indicator 2**), water and sewer systems, transportation networks, the permitting process, public safety and the cleanliness and attractiveness of downtown.^{29,30}

²⁸ This is based on the standard of allocating 200 square feet of office space per worker.

²⁹ See CCPM report 07-06, *Benchmarking Municipal and Neighborhood Services in Worcester: 2007* (available at <http://www.wrrb.org>) for further discussion of the performance of several municipal agencies (including the Department of Public Works and Parks and the Department of Health and Human Service’s Division of Code Enforcement).

INDICATOR 6: VACANT, ABANDONED, AND FORECLOSED PROPERTIES

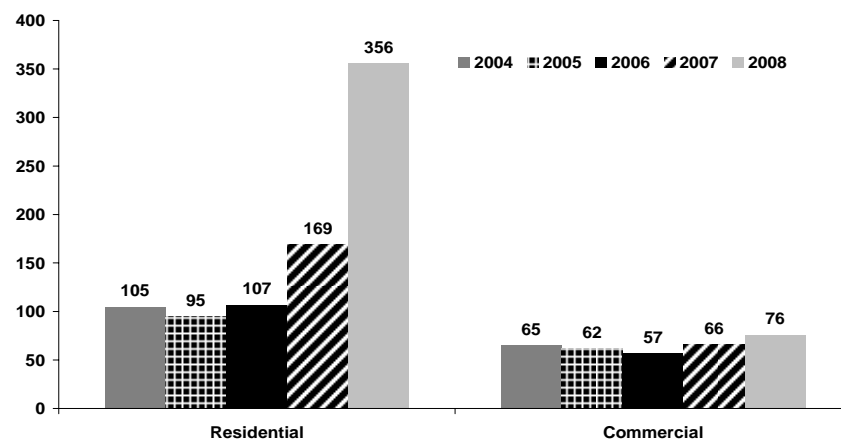
Why is it important?

The housing foreclosure crisis has pushed the issue of vacant and abandoned buildings to the forefront of the City’s agenda. The deleterious social and economic effects of these vacancies are well documented: they decrease the values of surrounding properties, reduce municipal tax revenues, pose serious fire safety hazards, and may become havens for crime. A single vacant building can create perceptions of an unsafe and decaying neighborhood and ultimately trigger neighborhood disinvestment and destabilization. Redeveloping such buildings may prove to be a key component of various neighborhood revitalization efforts, since these properties are potential sites for new affordable housing or locations for new businesses. The return of these properties to productive use will help the City reclaim lost revenue, stem future tax losses, and enhance the overall economic vitality of its neighborhoods.

How does Worcester perform?

Comparing point-in-time data from 2004 to 2008, the total number of vacant residential and commercial buildings in Worcester has risen by 154.1%, from 170 to 432.³¹ As shown in **Chart 6.1**, in November, 2008, there were 356 vacant residential buildings (251 more than in 2004) and 76 vacant commercial buildings (11 more compared to 2004) in the City. From 2007 to 2008 alone, the number of residential vacant buildings increased by 111%, from 169 to 356 respectively, an increase almost certainly related to the downturn in the economy.³² The assessed value of the 432 vacant properties in 2008 totaled \$148 million.

Chart 6.1: Number of Vacant Properties, City of Worcester, 2004-2008



*These data reflect a point-in-time count of vacant properties.
Source: City of Worcester Office of the Treasurer and Collector

³⁰ For a further discussion of these issues related to Downtown Worcester, see Research Bureau report # 08-08, *What’s Up with Downtown Worcester?: Prospects for Revitalization* (to be released later in 2008). See also results of The Research Bureau’s ComNET survey of downtown to be released shortly.

³¹ The data presented here reflect a single point in time as the database of abandoned properties, maintained by the Office of the Treasurer and Collector, is regularly updated as properties move on and off the list.

³² The number of vacant residential buildings includes fourteen triple deckers that each have three separate units.

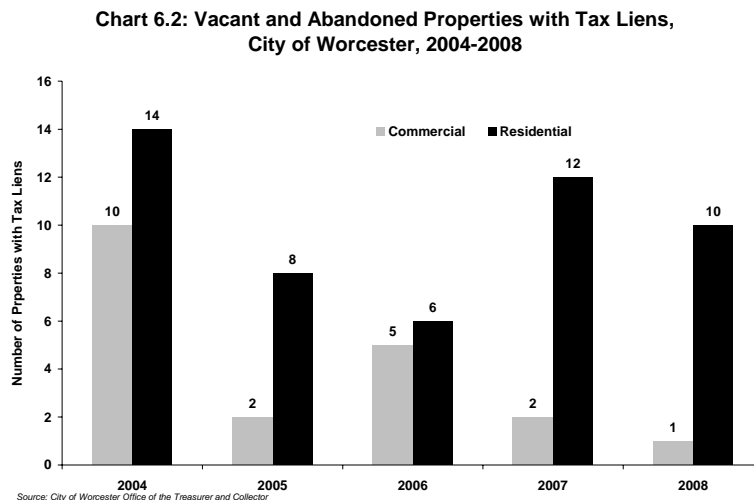
In addition to these vacant properties, there are 1640 properties in the City of Worcester in varying states of foreclosure, as of November 2008.³³ Of these, almost one-in-four (24%) were REO-owned, or properties that were back in the possession of the lender (bank, mortgage company, etc.).

As of November, 2008, about 11% of vacant properties either owed FY08 taxes or had a tax lien placed against the property. As shown in **Table 6.1**, residential properties were more likely to have delinquent taxes. In 2007, almost one-third (30%) of vacant properties owed taxes or had a tax lien placed against the property.

	Residential	Commercial/ Industrial	Total
Number of Vacant & Abandoned Properties	384	76	460
Assessed Value (FY08)	\$88,234,800	\$59,819,200	\$148,054,000
Delinquency - FY08 Taxes	36 (10.1%)	4 (5.3%)	40 (9.3%)
Properties with Tax Liens	10 (2.8%)	1 (1.3%)	11 (2.5%)
Total Value of Tax Liens	\$74,896	\$1,836	\$76,732

Source: City of Worcester Office of the Treasurer and Collector (data as of November, 2008)

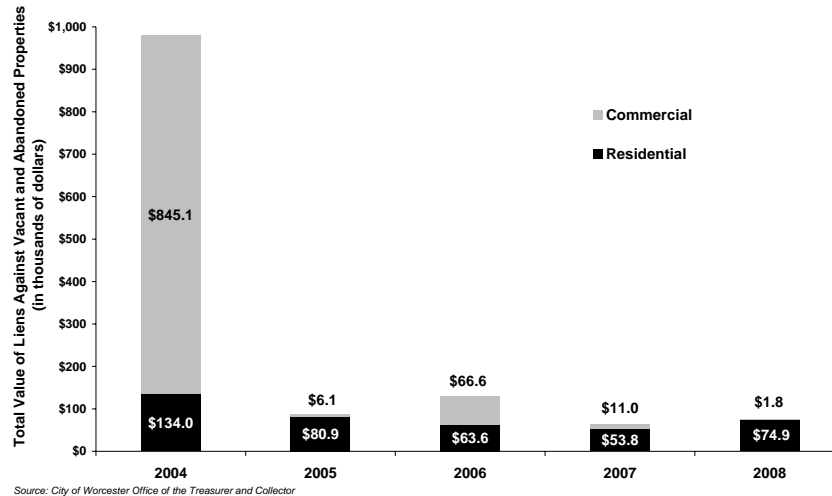
In July, 2004, tax liens totaling almost \$1 million had been placed against 24 vacant or abandoned properties in the City.³⁴ However, by July 2005, the total value of tax liens placed against 10 properties fell to a total of \$87,003. Tax liens totaling \$76,732 in November 2008 were 18% higher than they were in 2007 (\$64,827). According to the City Treasurer’s Office, foreclosures and brownfield abatement efforts led to the payment of more than \$800,000 in back taxes owed to the City. **Charts 6.2** and **6.3** show trends for both the number and value of tax liens by property type.



³³ The varying states of foreclosure are: REO-ownership transferred to lender, foreclosure auction – auction status, foreclosure auction – public notice, and petition to foreclose.

³⁴ This dollar figure represents the cumulative total of all back taxes for which the City has perfected a tax lien against said property.

Chart 6.3: Property Tax Liens Against Vacant and Abandoned Properties in the City of Worcester, 2004-2008



What does this mean for Worcester?

From 2007 to 2008, the number of vacant residential properties more than doubled, while the number of vacant commercial/industrial properties remained fairly stable. In addition, 1640 properties in Worcester are in some state of foreclosure. However, the number of these properties with delinquent taxes is fairly small, and a smaller percentage of these properties have delinquent taxes than in prior years. Analysis of the vacant property listings obtained from the City of Worcester for each of the years from 2004 to 2008 reveals that almost one-third (30.3%) of the commercial properties and 6.8% of the residential properties vacant in 2008 have been vacant since 2004.

Some of the structures that are currently vacant are in the process of being renovated or rehabilitated, and will undoubtedly be reoccupied in the future. Other properties have been completely abandoned by owners, who may have felt these properties had little or no productive value. The return of these abandoned properties to productive use is much less certain because typically, the longer a building is abandoned, the more likely it is to suffer serious damage from neglect and/or vandalism, and therefore the greater the investment required to repair it.

In order to reduce the number of foreclosed properties on the market, the City Manager introduced “Buy Worcester Now,” a new public/private partnership that strives to promote home ownership in the City by offering potential buyers a number of incentives. They include the following: below-market interest rates, no or low down payments, lower or no monthly mortgage insurance payments, protection to cover the borrower in the case of temporary unemployment, waived or discounted attorney fees, and 30-year fixed-rate payments as well as other incentives.³⁵ Area banks and credit unions that are participating in the program have so far pledged more than \$90 million in “Buy Worcester Now” mortgage loans.³⁶

³⁵ <http://www.buyworcesternow.com>

³⁶ Ibid.

Mission Statement:

The Research Bureau serves the public interest of the Greater Worcester region by conducting independent, non-partisan research and analysis of public policy issues to promote informed public debate and decision-making.



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