



The Research Bureau

Benchmarking Economic Development in Worcester: 2009

Report 09-08

November 24, 2009

MassDevelopment and The Research Bureau: Promoting Economic Development

MassDevelopment is pleased once again to support the work of the Worcester Regional Research Bureau. With its award-winning reports and important programs, the Bureau creates an environment in which the important business issues of the day get the attention that they deserve.

As the state's finance and development authority, MassDevelopment works with partners like the Bureau to make the Commonwealth a better place in which to work and live. By financing projects from Gateway Park to the Hanover Theatre for the Performing Arts to the South Worcester Industrial Park (SWIP) – not to mention additional assistance to the countless colleges, universities, and secondary schools in greater Worcester – MassDevelopment helps to play a key role in revitalizing neighborhoods; supporting important economic development projects in greater Worcester; and fostering the growth of critical industries (like life sciences and manufacturing) that provide job creation, tax base expansion, and professional opportunities to those who live and work in the Worcester region.

Of course, no organization alone can accomplish such an ambitious agenda. In partnership with the Patrick-Murray Administration and the City of Worcester, MassDevelopment participated in three major events in Worcester over the last year.

To celebrate the tenth anniversary of the signing of Massachusetts brownfields legislation in the fall of 2008, MassDevelopment cosponsored a half-day conference at the Worcester Boys and Girls Club, a facility that our agency financed as part of the Gardner-Kilby-Hammond revitalization initiative. The City of Worcester, the Main South CDC, and Clark University have all worked cooperatively with the Boys and Girls Club to make this building an attractive and impressive jewel. The conference featured national, state, and local officials from the business, governmental, and nonprofit communities, all of whom share our vision of transforming sites with environmental challenges into productive real estate with superior economic-development potential.

To commemorate building demolition at SWIP, MassDevelopment last summer participated in a public event with U.S. Rep. McGovern, Lt. Governor Murray, Manager O'Brien, and several committed local leaders who have championed this project for more than fifteen years. MassDevelopment has already invested significant dollars through the Brownfields Redevelopment Fund into this project, and we hope that our assistance will help to transform this blighted area by creating opportunities for pad-ready commercial and industrial development. Look for more positive SWIP-related news to emerge from MassDevelopment in the future.

To bring developers from outside Worcester to see the city for themselves, MassDevelopment and the City of Worcester held a Developers' Conference at the Hanover Theatre last spring. More than 150 people from around the Commonwealth attended this event and learned about how much Worcester has already done and the potential for additional growth in the future.

MassDevelopment looks forward to working with the Bureau and all of you to help to realize this potential.

Sincerely,



Robert L. Culver
President & CEO

Dear Citizen,

This is the ninth 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,



Sandra Dunn, Chairman of the Board



Roberta R. Schaefer, Ph.D., President & CEO



Laura M. Swanson, Project Manager

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 FY09.² 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?

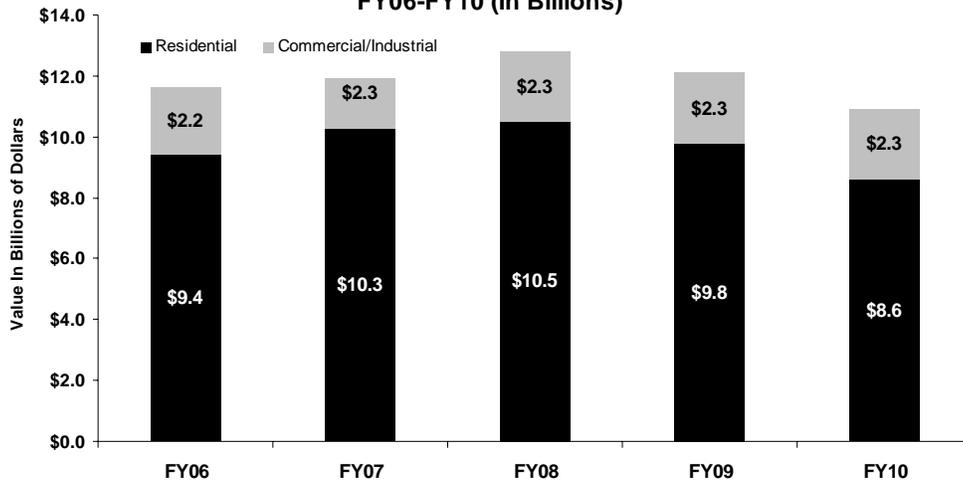
Worcester's total taxable property value of \$12.1 billion in FY09 was \$590 million (4.6%) less than the FY08 value (\$12.7 billion). **Chart 1.1** examines changes in the total value and composition of Worcester's tax base between FY06 and FY10. After previous years in which the tax base grew, FY09 represents the first year that the value has dropped. It is now lower than it was in FY07. Growth had been more modest from FY07 to FY08, with just a 1.3% increase in value, compared to a 17.5% increase between FY04-FY05. The nationwide recession is the primary cause of the recent drop in value. Recently-released figures for FY10 show total property value decreasing by 10% from FY09 to FY10, from \$12.1 billion to \$10.9 billion in FY10.

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**). **Chart 1.2** shows that the rate of growth in total property value has been steadily decreasing since FY06. FY10 was the second year in which there was a decline in residential values (12.5%, leading to a 10% decline for all property), while commercial/industrial values increased slightly by .25% over the previous year.

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 2009 Revenue Components at <http://www.mass.gov/Ador/docs/dls/mdmstuf/MunicipalBudgetedRevenues/Revs09.xls>.

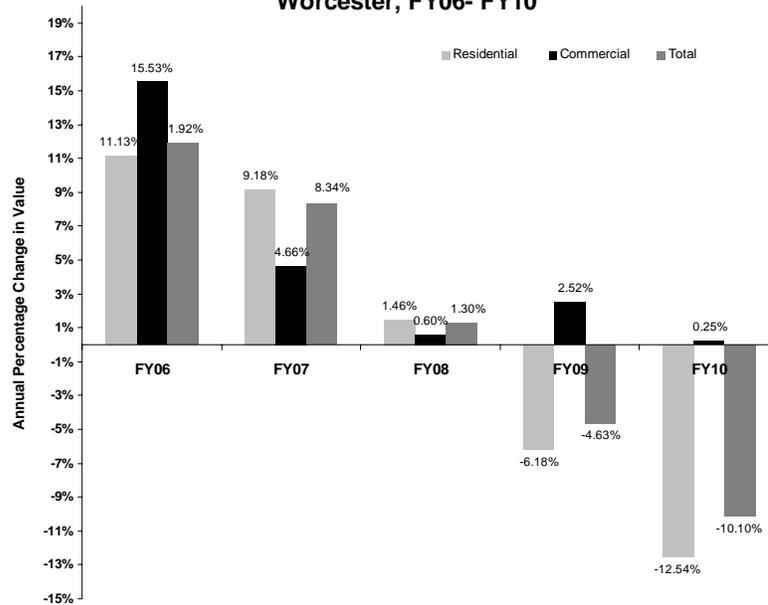
Chart 1.1: Total Assessed Value of all Properties in Worcester, FY06-FY10 (In Billions)



Source: Department of Revenue, Division of Local Services

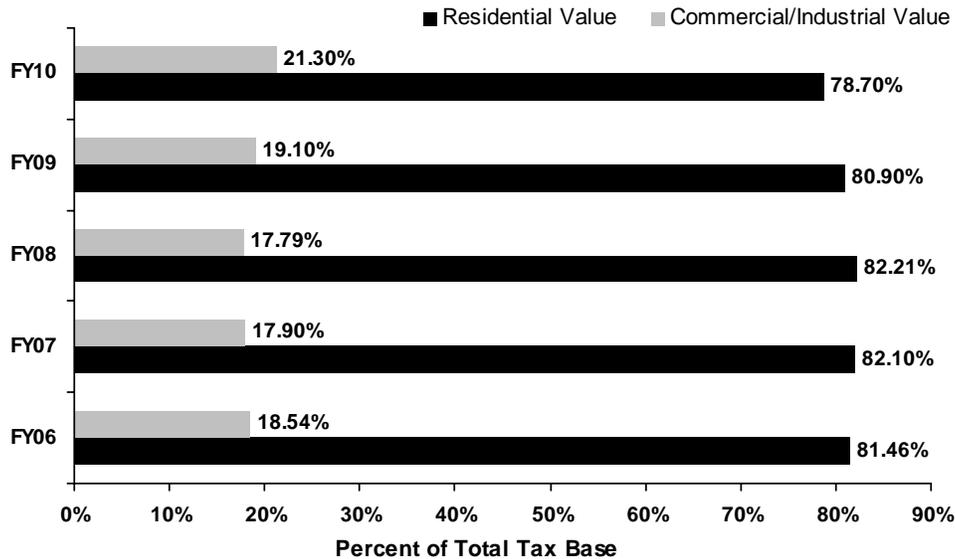
From FY05 to FY08, Worcester’s commercial-industrial property value hovered around 18% of the total value of property in the City, with residential value as a percentage of total value remaining around 82% (see **Chart 1.3**).³ Although FY09 total assessed value decreased from the previous year’s total, it was residential properties that experienced the decrease in value. This resulted in commercial-industrial properties accounting for 19% of the City’s total valuation in FY09. Due to further decreases in residential property values and a slight increase in commercial/industrial property in FY10, residential property now accounts for 78.7% of the City’s total valuation.

Chart 1.2: Annual Growth in Property Values, City of Worcester, FY06- FY10



³ 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 1.3: Distribution of Assessed Valued by Property Type, City of Worcester, FY06-10



Source: Massachusetts Department of Revenue, Division of Local Services

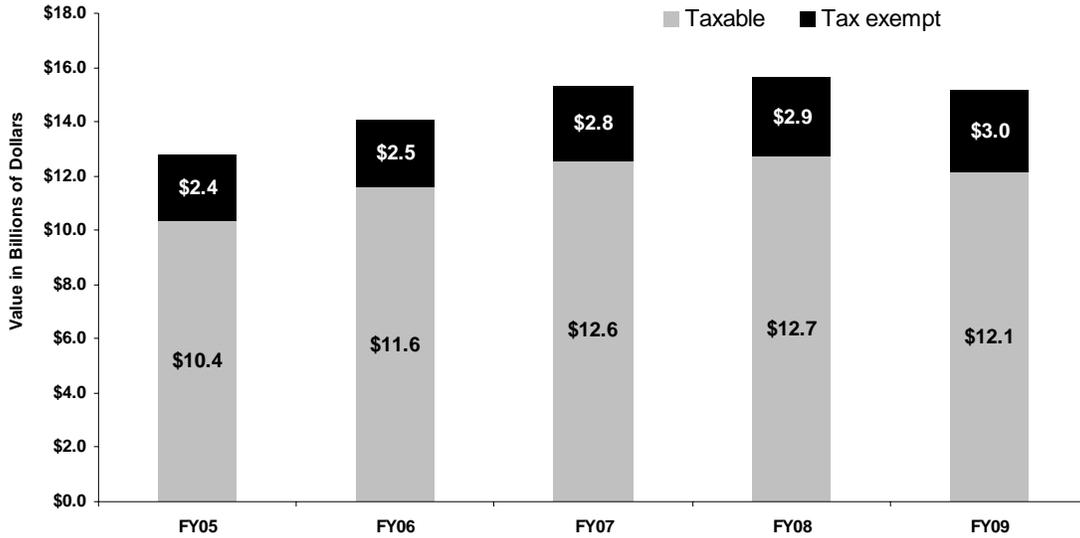
Table 1.1 compares Worcester’s FY09 tax base and its rate of increase since FY05 with those of several other cities in Massachusetts. In past years, the rate of growth of residential values over a 5-year period far exceeded the rate of growth of commercial-industrial values during the same timeframe. However, in FY09, the only city examined where this was the case was Springfield. The remaining cities examined experienced higher rates of growth in commercial and industrial value.

Table 1.1: Assessed Values in Competitive Massachusetts Cities FY09						
<i>In thousands of dollars</i>						
	Residential	% Change FY05-FY09	Commercial/Industrial	% Change FY05-FY09	Total	% Change FY05-FY09
Worcester	\$9,816,042	15.5%	\$2,321,217	24.7%	\$12,137,258	17.2%
Boston	\$57,465,174	22.7%	\$32,921,997	46.7%	\$90,387,171	30.5%
Cambridge	\$14,650,544	5.6%	\$9,225,515	23.4%	\$23,876,059	11.8%
Somerville	\$7,178,108	14.3%	\$1,231,086	26.5%	\$8,409,194	15.9%
Lowell	\$5,925,043	11.7%	\$1,103,380	32.2%	\$7,028,423	14.5%
Springfield	\$5,484,723	21.2%	\$1,756,552	13.1%	\$7,241,275	19.1%

Source: Massachusetts Department of Revenue, Division of Local Services

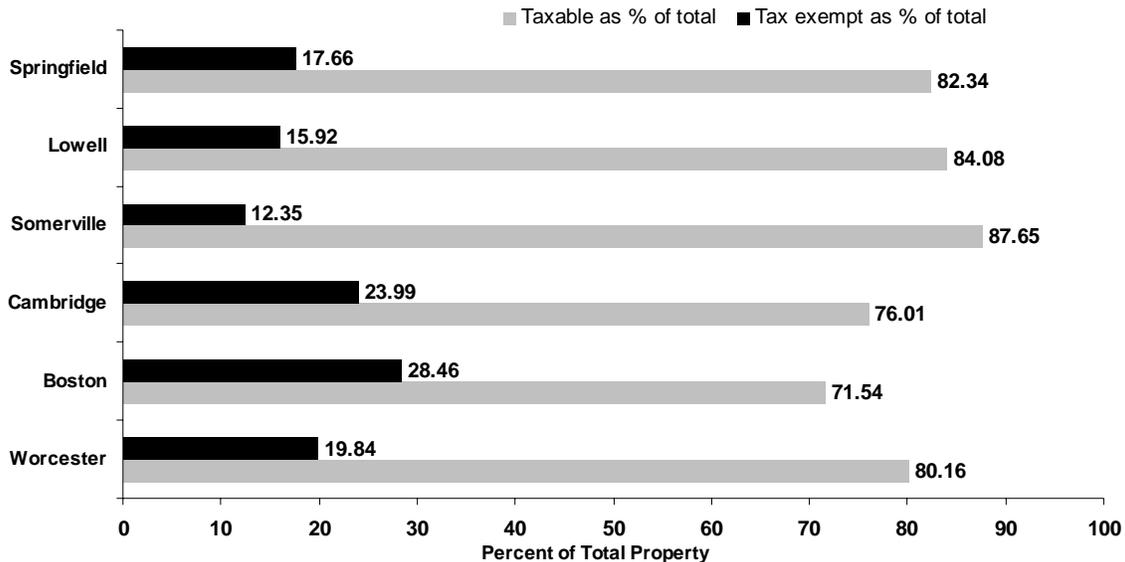
In addition to property that is eligible for taxation, the City of Worcester contains a significant amount of property that is tax-exempt, including colleges and universities, churches, government buildings, and other nonprofit organizations. As shown in **Chart 1.4**, in FY09, \$3 billion in property value was tax-exempt. The value of tax-exempt property as a percentage of total value has increased slightly over the past five years, from 19.1% in FY05 to 19.8% in FY09. **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, FY05-FY09
(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, FY09



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

In FY09, 35% of Worcester’s General Fund revenue was derived from local property taxes, compared to the statewide average of 53%.⁴ This means that Worcester is much more dependent on local aid from the state to fund its municipal services, especially public education, than most communities in the Commonwealth. As previously stated, General Fund expenditures include the major services that municipal governments provide to their citizens. A sound tax base is critical

⁴ This does not take into account Worcester’s \$12 million in excess capacity tax levy.

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 recession along with the slowdown in the housing market have adversely affected growth in property values. Meanwhile, the City, like many communities across the Commonwealth, continues to experience significant fiscal pressure as growth in expenditures, primarily salaries and benefits, such as health insurance, pensions, and the Quinn Bill, regularly outpace revenue growth. While it is important to expand the City's 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 in 2007 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). They must also consider cost savings which could result from divesting the City of real estate management responsibilities that require taxpayer subsidies but are unrelated to its core mission, such as Union Station and Worcester Regional Airport.⁶ (MassPort is scheduled to take over the airport by June 30, 2010.)

As noted above, currently about 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 commercial-industrial tax base is the solution to easing that burden. One way this could be achieved is with H. 2702, "An act to promote economic development in gateway cities," a bill currently under consideration by the state Legislature. This legislation aims to provide Worcester and other Gateway Cities (former industrial cities) with an array of new tax incentives, better tailored to their particular needs. For example, the bill would help Worcester stimulate more interest in its many old buildings by lifting the cap on historic tax credits. It would also provide tax incentives for constructing market-rate housing. Since Worcester has plenty of affordable housing (14%, well above the 10% benchmark), it is redundant to require developers to include affordable housing in their projects as most programs currently do. The bill would also provide corporate income tax credits for job creation. This could be helpful to "knowledge sector" businesses that just need office space, for which existing tax incentives for capital improvements such as the Tax-Increment Financing ("TIF") and District Improvement Financing ("DIF") programs, hold no appeal.

⁵ The significance of a strong tax base is also discussed in *Benchmarking Municipal Finance in Worcester 2009: Factors Affecting the City's Bond Rating*, Report 09-04, July 27, 2009, available at www.wrrb.org.

⁶ For further discussion of potential areas of cost savings, see *Worcester's FY10 Budget: Challenges and Opportunities for Reform*, Report 09-03, May 7, 2009, 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 FY10, Worcester's commercial/industrial tax rate was \$33.28; hence taxes on a commercial or industrial property with an assessed value of \$1 million would total \$33,280. 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 and the total assessed value. 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 also 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. (The TIF also enables a business to secure the state's 5% Investment Tax Credit, which is an additional attractive feature of the program.) In 2003, the state also created the District Improvement Financing Program (DIF), under which a municipality borrows 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?

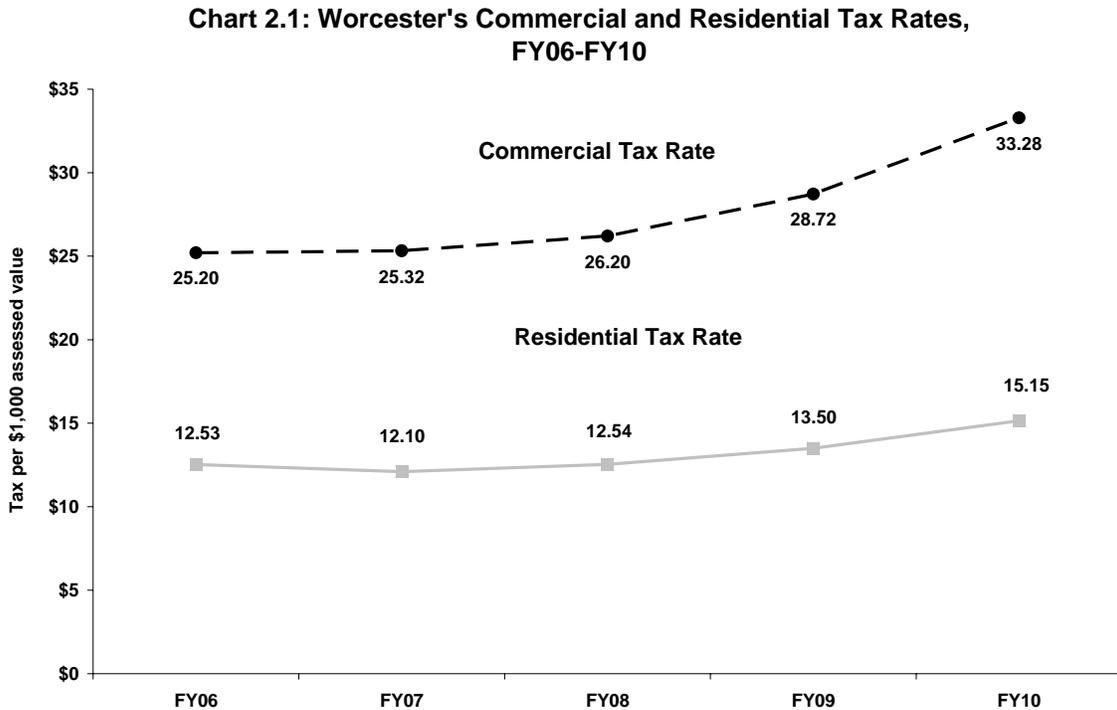
Under Massachusetts General Laws Chapter 59, cities and towns may choose to adopt property tax classification, which allows different classes of property (residential and commercial/industrial) to be taxed at different rates.⁸ The City of Worcester adopted dual

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 FY09, 107 Massachusetts communities (30%) 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 FY06 to FY10 period. Worcester’s commercial-industrial rate has been steadily increasing since FY06, from \$25.20 per \$1,000 of assessed value to \$33.28 in FY10. The residential rate has been experiencing smaller increases since FY07, from \$12.10 per \$1,000 of assessed value in FY07 to \$15.15 in FY10.



Source: Massachusetts Department of Revenue, Division of Local Services

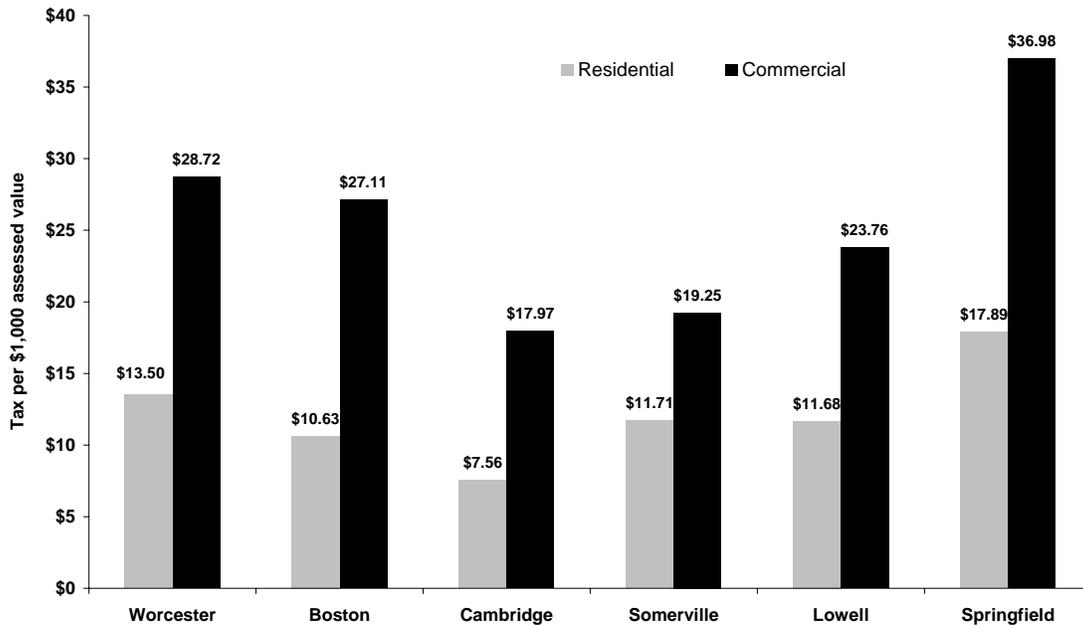
The City is experiencing increases in the residential tax rate as growth in residential property values has slowed significantly and even decreased during FY09 and FY10 (as discussed in **Indicator 1: Tax Base**). According to the Massachusetts Department of Revenue, while the average value of a single-family home in Worcester increased by almost 18% from FY05 to FY08 (from \$211,038 in FY05 to \$248,144 in FY08), the average value of such a home decreased by 5.6% from FY08 to FY09 (from \$248,144 to \$234,201). Recently-released figures for FY10 show the value of a single-family home dropping 12% from FY09 to \$206,517. While values have declined, recent Massachusetts data from the third quarter of 2009 show that single-

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 FY09, the maximum allowable shift for Worcester was 175% 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 (\$28.72) and a residential rate at 82% of the value of the single tax rate (\$13.50).

family home sales actually increased by 6 percent compared to the same quarter last year.¹⁰ Increases in sales could help to increase home values in the future. Also, between FY05 and FY09, the average single-family tax bill in Worcester increased by about 14%, from \$2,781 to \$3,162, and from FY08 to FY09 increased by almost 2%, from \$3,112 to \$3,162.

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: FY09 Tax Rates for Worcester and Massachusetts Comparison Cities



Source: Massachusetts Department of Revenue, Division of Local Services

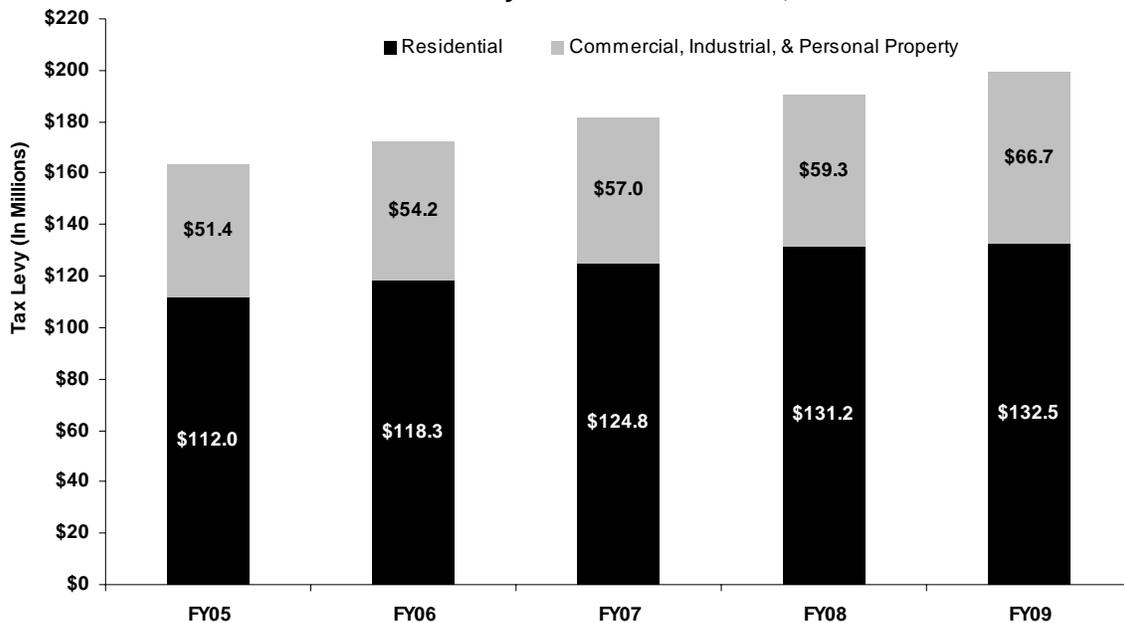
¹⁰ Matthew L. Brown, “Home Sales Up as Prices Continue Fall,” *Worcester Business Journal*, 2009.

Table 2.1: FY09 Residential Tax Rates in Nearby Communities compared to Worcester			Table 2.2: FY09 Commercial Tax Rates in Nearby Communities compared to Worcester		
	Tax Rate	% Change FY05-FY09		Tax Rate	% Change FY05-FY09
Shrewsbury	\$9.68	-0.6%	Shrewsbury	\$9.68	-0.6%
Grafton	\$10.83	4.2%	Grafton	\$10.83	4.2%
Hudson	\$11.34	15.5%	Berlin	\$11.66	-3.8%
Berlin	\$11.66	-3.8%	Upton	\$12.43	23.2%
Upton	\$12.43	23.2%	Harvard	\$13.43	34.2%
Milford	\$12.53	5.9%	Holden	\$13.64	5.1%
Marlborough	\$12.76	-7.4%	Northborough	\$13.76	3.3%
Harvard	\$13.43	34.2%	Ashland	\$13.86	0.9%
Worcester	\$13.50	2.4%	Southborough	\$14.16	11.7%
Holden	\$13.64	5.1%	Boxborough	\$14.84	13.3%
Northborough	\$13.76	3.3%	Hopkinton	\$15.03	22.0%
Ashland	\$13.86	0.9%	Westborough	\$15.50	7.9%
Southborough	\$14.16	11.7%	Bolton	\$15.91	13.9%
Boxborough	\$14.84	13.3%	Milford	\$21.72	-1.0%
Hopkinton	\$15.03	22.0%	Hudson	\$22.49	-1.1%
Westborough	\$15.50	7.9%	Marlborough	\$23.72	-11.1%
Bolton	\$15.91	13.9%	Worcester	\$28.72	4.1%

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 FY05 to FY09. In FY09, the City collected almost \$200 million in property taxes, with 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 values.)

Chart 2.3: Total Tax Levy: Residential and CIP, FY05-FY09



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

In FY09, local property tax levies comprised slightly more than one-third (35%) of Worcester’s total revenues (state aid represented the largest revenue source at 46%, while local receipts, such as motor vehicle excise taxes, constituted 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 increase revenues by expanding the tax base.

To expand the tax base, the City needs to be concerned not just with attracting new businesses to Worcester, but with retaining those that are already here. Among the factors that influence businesses’ location decisions, 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. There are others, however, over which the City has considerable influence, including tax rates. Worcester’s dual tax classification effectively shifts part of the tax burden onto businesses, which can put a city at a disadvantage for attracting and retaining businesses.¹¹ The latest evidence that the split tax rate matters comes from the Mass High Tech Council’s ranking of all 351 Massachusetts cities and towns based on how far they meet the needs of high-tech employers and employees.¹² While Shrewsbury and Grafton, both with single tax rates, ranked number 2 and 4, respectively, in the entire state, neighboring Worcester ranked number 240. It is important to note however, that the Massachusetts Biotechnology Council, a similar organization, rated Worcester as a platinum municipality, based on its zoning practices and infrastructure capacity.¹³

Municipality	2008 Mass Track Ranking	FY09 Commercial/Industrial Tax Rate
Shrewsbury	2	\$9.68
Grafton	4	\$10.83
Douglas	6	\$10.82
Boylston	7	\$12.40
Leominster	8	\$12.03
Uxbridge	10	\$11.53
Worcester	240	\$28.72

Source: Massachusetts Dept. of Revenue and Massachusetts High Technology Council

¹¹ “What’s Up With Downtown Worcester?: Prospects for Revitalization,” The Research Bureau, Report 08-08, December 2008.

¹² According to the Council’s survey, the existence of a split tax rate and the differential between the two rates rank on the top of high-tech business location decisions.

¹³ http://www.massbio.org/economic_development/bioready_communities.

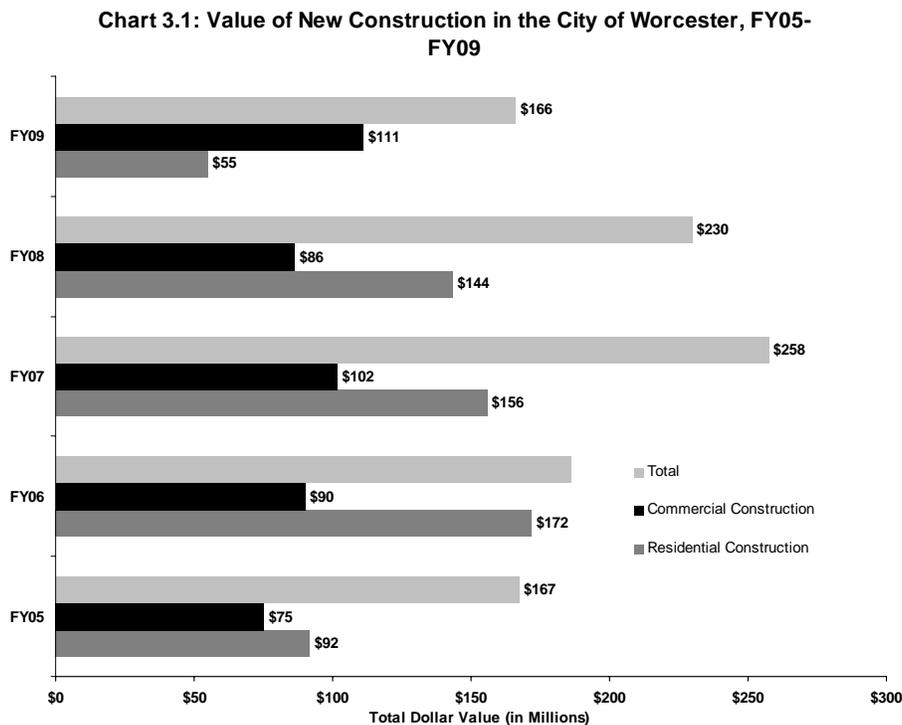
INDICATOR 3: AMOUNT OF PRIVATE INVESTMENT

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 ½, and thereby increases taxing capacity. As discussed in **Indicator 1: Commercial and Residential Tax Base**, Worcester’s overall tax base decreased by \$590 million (4.6%) from FY08 to FY09. Two factors drive the tax base: 1) changing property values in the City, and 2) 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?

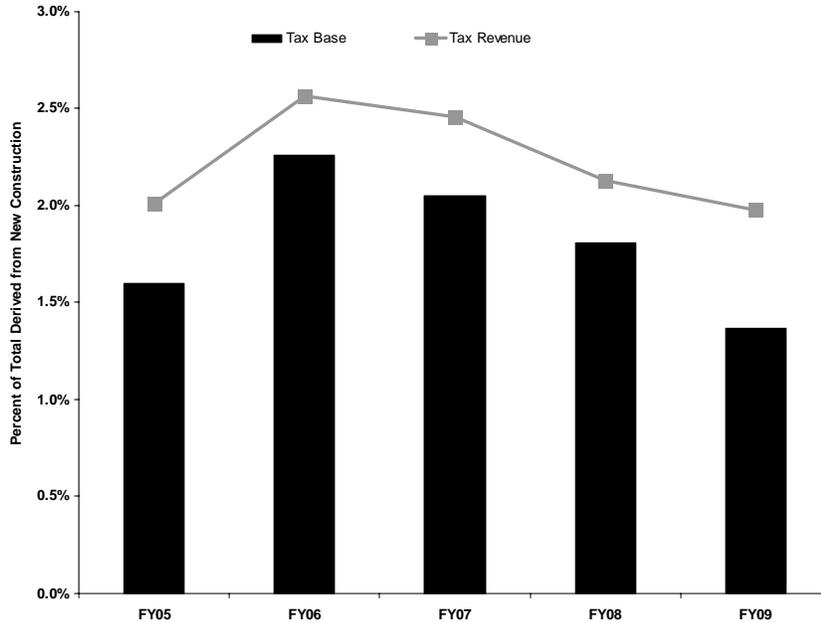
Chart 3.1 shows that the combined value of commercial and residential new growth in Worcester totaled \$166 million in FY09. This figure is a 28% drop from the previous year, when there was almost \$230 million in new growth, and is the lowest it has been since FY04. Although total new growth dropped from FY08, new growth in the commercial/industrial sector actually increased by 28% from FY08, from \$86.3 million to \$111.1 million. From FY08 to FY09, the value of new residential growth in Worcester decreased by 62%, from \$143.5 million to \$55.1 million.



Source: Massachusetts Department of Revenue, Division of Local Services

Chart 3.2 shows the percentage of Worcester’s tax base and tax revenues derived from new construction since FY05.¹⁴ These percentages have been steadily decreasing since FY06. The \$166 million in new construction in FY09 is approximately 1.4% of the value of Worcester’s tax base in the same year, and at the FY09 residential and commercial rates, it would yield about \$3.9 million in new tax revenue.

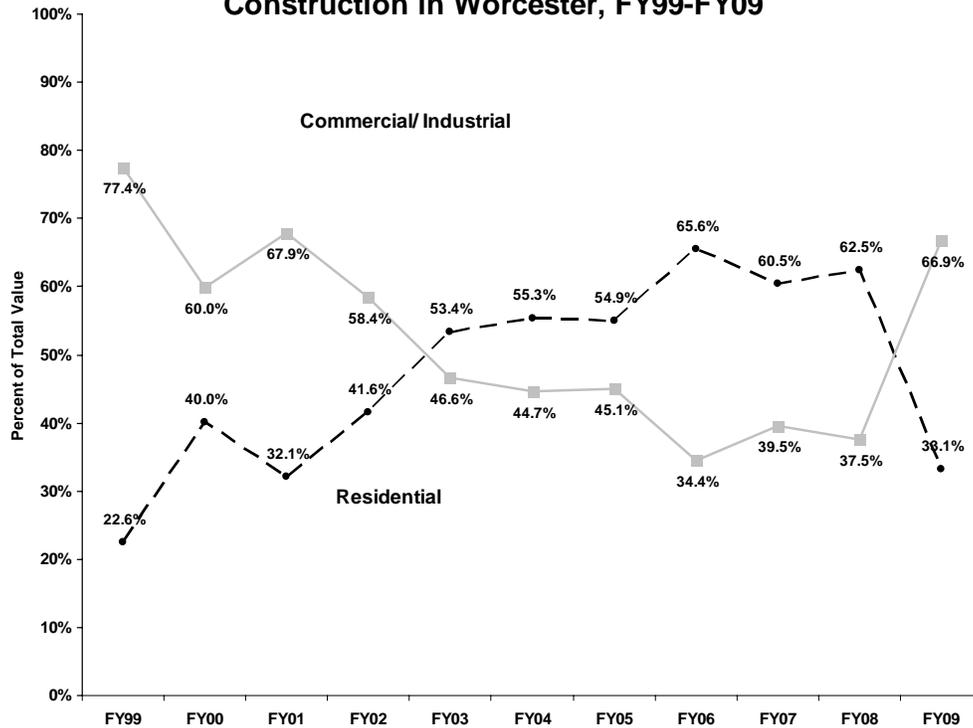
Chart 3.2: Percentage of Worcester's Tax Base and Tax Revenues Derived from New Construction , FY05-FY09



As shown in **Chart 3.3**, from FY99 until FY02 more than half of the value of new growth was generated by investment in commercial and industrial property. In FY99, commercial and industrial growth accounted for 77.4% of the value of all new construction in Worcester. By FY06, commercial and industrial growth lagged far behind residential growth, accounting for just 34.4% of new construction values. This figure rose slightly in FY07 and FY08, but in FY09 commercial and industrial new growth jumped dramatically to 67% of new construction, most likely due to the slowdown of residential construction because of the recession.

¹⁴ 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 3.3: Distribution of the Value of New Construction in Worcester, FY99-FY09



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

The recession and the recent downturn in the housing market have reduced residential new growth and the growth of residential values. However, the commercial/industrial sector experienced an increase in new growth from FY08 to FY09. Worcester’s public officials identify more than \$2.3 billion in proposed and recently completed projects that 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.^{15, 16}

Sustained growth is key to Worcester’s long-term economic vitality, and while growth levels in the City had been consistent until the recent recession, 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 the first two barriers will be critical to attracting continued private investment to Worcester.

¹⁵ See <http://www.worcestermass.org> to learn more about ongoing economic development projects and events in Worcester.

¹⁶ See “What’s Up With Downtown Worcester?: Prospects for Revitalization,” The Research Bureau, Report 08-08, December 2008.

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. While the current recession has constrained the growth of the local economy, it is important to continue efforts in economic development, including job growth.

How does Worcester perform?

As **Table 4.1** illustrates, from 2002 to 2008, average monthly employment in Worcester fluctuated from a high of 98,955 in 2006 to a low of 97,647 in 2005. From 2006 to 2008, the City lost 816 jobs, or a .82% decrease. In Worcester County, the greatest job growth occurred between 2005 and 2007, with an increase of 4,483 jobs. In 2008 the County experienced a job loss of .58% from 2007, or 1,863 jobs (the same percentage of jobs was lost in the City over the same time period). While data from 2008 show a loss of jobs from the previous years, data from 2009 may show even greater declines due to the recession.

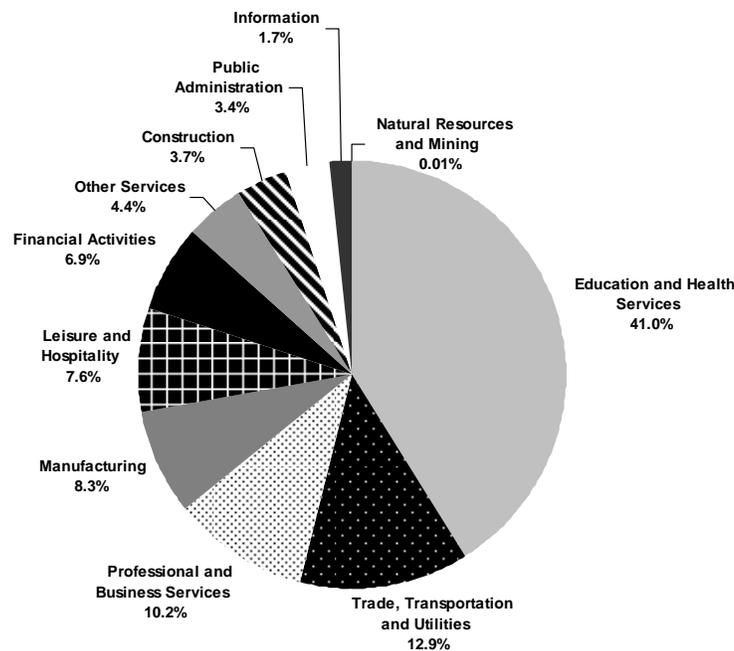
	City of Worcester		Worcester County	
	Average Monthly Employment (#)	Annual Percentage Change	Average Monthly Employment (#)	Annual Percentage Change
2002	98,584	-2.37%	316,503	-1.41%
2003	98,073	-0.52%	315,037	-0.46%
2004	98,434	0.37%	317,251	0.70%
2005	97,647	-0.80%	316,849	-0.13%
2006	98,955	1.34%	319,669	0.89%
2007	98,710	-0.25%	321,332	0.52%
2008	98,139	-0.58%	319,469	-0.58%

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 2008, 88% of Worcester’s jobs were in the service sector, with the remaining 12% in the goods-producing sector.^{17,18} In 2008, 41% of the jobs in Worcester were in the education and health-services fields (a one-percentage-point increase from 2007 and an 8 percent increase overall since 2004).

Table 4.2 shows 2008 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 9.6% since 2004. This table also shows that the County’s manufacturing job base further eroded between 2004 and 2008, with job losses totaling 4.2% in Worcester (353 manufacturing jobs) and 5.6% (2,404 manufacturing jobs) countywide.¹⁹ Both the City of Worcester and Worcester County have lost a significant number of financial jobs, with the City experiencing an 8% decrease since 2004 and the County experiencing a 6% decrease. However, the number of public administration positions has increased in both the City (8.8%) and the County (7.6%) since 2004.

Chart 4.1: Employment by Industry, City of Worcester, 2008



Source: Massachusetts Department of Workforce Development

¹⁷ 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>).

¹⁸ Mining, construction, and manufacturing industries comprise the goods-producing sector.

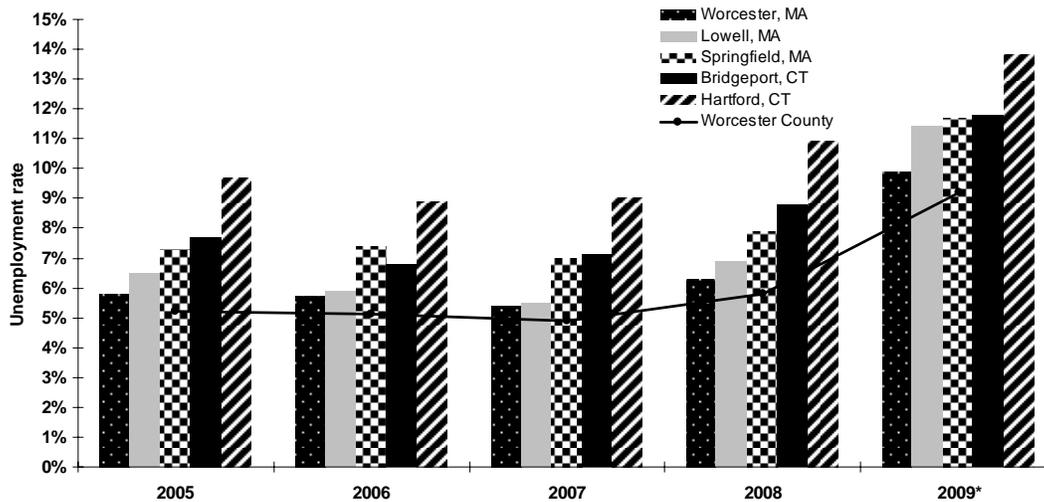
¹⁹ The loss of manufacturing jobs has not necessarily resulted in decreased manufacturing capacity or output. Historically, manufacturing has relied on labor-intensive methods of goods production. In recent decades, industry has shifted to capital-intensive production methods (especially in the high-tech 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 2004-2008	Average Monthly Employment (#)	Percent Change 2004-2008
Education and Health Services	40,239	8.0%	91,036	9.6%
Trade, Transportation and Utilities	12,636	-7.1%	63,531	0.7%
Professional and Business Services	9,976	-12.2%	34,455	-6.5%
Manufacturing	8,110	-4.2%	40,378	-5.6%
Leisure and Hospitality	7,489	-0.1%	29,137	1.6%
Financial Activities	6,724	-7.5%	15,710	-6.1%
Other Services	4,274	-6.4%	11,547	-0.4%
Construction	3,660	-2.4%	14,536	-8.6%
Public Administration	3,311	8.8%	12,883	7.6%
Information	1,714	7.9%	5,532	-4.4%
Natural Resources and Mining	6	-79.3%	724	-10.9%

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, increased from 5.4% in 2007 to 6.3% in 2008.²⁰ However, 2009 preliminary data, which reflects the monthly average unemployment for January – September, show the unemployment rate rising to 9.9% in Worcester, and also rising in the four other cities examined.²¹ From 2005 through 2009 the unemployment rate for the City of Worcester was, on average, about half a percentage point higher than the countywide rate. Since 2005, 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, 2004-2009*



²⁰ 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.

²¹ Cities were chosen to provide a regional comparison.

Worcester’s labor force, or the total number of residents age 16 and older who are employed or looking for work remained almost equal in 2007 and 2008 (about 60.5%), but preliminary data from 2009 show an increase in the labor force (61.4%) (Table 4.3).²² Countywide, the labor force decreased slightly from 400,875 in 2006 to 399,455 in 2008, but preliminary data from 2009 show an increase to 404,310.

	City of Worcester		Worcester County	
	Labor Force (#)	Labor Force Participation Rate	Labor Force (#)	Labor Force Participation Rate
2005	82,705	60.7%	397,667	68.7%
2006	83,000	60.9%	400,875	69.3%
2007	82,364	60.4%	400,009	69.1%
2008	82,375	60.5%	399,455	69.0%
2009*	83,694	61.4%	404,310	69.9%

*January-Sept 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 rate was about 70% compared to 61.4% in the City.

What does this mean for Worcester?

Over the past two years, Worcester’s average monthly employment has decreased slightly. Data from 2009 will most likely show a larger decrease in the number of jobs available. At the same time, preliminary data from 2009 show a slight increase in participation in the labor force, or the number of people employed or actively seeking employment. While the unemployment rate increased from 5.4% to 6.3% from 2007 to 2008, preliminary data from January –September of 2009 show a huge jump in unemployment to about 10%.

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 those less skilled. 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. The education sector, which has seen increases in the number of jobs over the year, may also continue to grow, as college enrollments, especially at 2-year institutions, continue to rise.

²² 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.

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, 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 come at the expense of nearby urban areas, as many American cities and their downtowns have been making a comeback.²³

How does Worcester perform?

During the summer of 2009, 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 was occupied.²⁴ For each of the 81 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 rental rates, parking availability, and other comments about the space.^{25,26}

Downtown Worcester's Central Business District contains 4.46 million square feet of office space, of which 82% was occupied as of August, 2009.^{27,28} As shown in **Table 5.1**, office occupancy dropped by more than six percentage points from 2008 to 2009, from 88.4% to 81.8%, or the lowest it has been since The Research Bureau began collecting these data in 2002.

Class "A" buildings (considered "premier space," either newly constructed buildings or office space that has undergone extensive renovation) account for about 1.4 million square feet, or almost one-third, of total office space.²⁹ While the total office occupancy rate decreased sharply

²³ Alan Ehrenhalt, "Trading Places," *The New Republic*. August 13, 2008,

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

²⁴ Every effort has been made to ensure the accuracy of the data collected; however, they are point-in-time and subject to change.

²⁵ While medical office space is counted as office space in this survey, not included are medical practice space, government buildings, and retail space.

²⁶ The full report, *Downtown Worcester Office Occupancy: 2009 Survey*, is available online at <http://www.wrrb.org>.

²⁷ 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 or vice versa).

²⁸ 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.

²⁹ 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

between 2008 and 2009, Class A occupancy increased slightly, from 88.9% in 2008 to 90.3% in 2009. The 42 Class “B” buildings (older renovated buildings considered to be in fair to good condition) comprised about half of downtown office space, or almost 2.3 million square feet, of which 75.9% was occupied, a sharp decrease from 2008. Finally, the 780,000 square feet of Class “C” space (older unrenovated buildings offering “functional space”) had an occupancy rate of 84%, a decrease from 2008 (87%). Class B space thus had the lowest occupancy rate by far of the three classes. This was true in 2006 and 2007 as well. (In 2005 and 2008, Class C space had the lowest occupancy rate.)

Table 5.1: Occupancy Rates for Downtown Office Space, 2005-2009

		2005	2006	2007	2008	2009	Change '05-'09
Class A	Total Office Space	1,695,889	1,987,253	1,896,417	1,323,231	1,411,572	-16.8%
	Occupied Space	1,507,585	1,810,043	1,666,917	1,176,503	1,274,529	-15.5%
	Occupancy Rate	88.9%	91.1%	87.9%	88.9%	90.3%	
Class B	Total Office Space	2,082,157	1,667,653	2,243,490	2,480,504	2,274,064	9.2%
	Occupied Space	1,856,772	1,462,126	1,943,623	2,197,624	1,726,269	-7.0%
	Occupancy Rate	89.2%	87.7%	86.6%	88.6%	75.9%	
Class C	Total Office Space	918,665	985,335	859,918	948,386	776,147	-15.5%
	Occupied Space	799,304	875,335	755,694	826,174	650,855	-18.6%
	Occupancy Rate	87.0%	88.8%	87.9%	87.1%	83.9%	
Total	Total Office Space	4,696,705	4,645,674	4,999,825	4,752,121	4,461,783	-5.0%
	Occupied Space	4,168,133	4,155,237	4,366,234	4,200,301	3,669,709	-12.0%
	Occupancy Rate	88.7%	89.4%	87.3%	88.4%	81.8%	

As shown in **Table 5.2**, in 2009 60% of the office buildings in the downtown area contain available vacant space. Among these, 27 buildings have vacancies of 10,000 square feet or less, thirteen have between 10,001 and 25,000 square feet of available space, and nine 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 (547,795 square feet, or 67.6 %).

Association provides additional detail about building classification at <http://www.BOMA.org>. A building’s 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).

In 2009, property owners and agents provided information on lease rates for half of the properties included in the survey, reporting square foot lease rates ranging from \$6 per square foot to \$24. While rental rates remained stagnant between 2005 and 2008, there appears to have been a slight decrease in rates in 2009. Nationwide, as reported by Colliers International, rental rates for office space have been decreasing of late, with a significant rate decrease in the Boston market.³⁰

Table 5.2: Distribution of Vacancies by Size and Building Class

	Number of Buildings with	Total Space Vacant
Class A		
1-10,000 Sq. Ft	5	25,993
10,001 -25,000 Sq. Ft.	2	31,640
>25,000 Sq. Ft.	2	79,420
<i>Total</i>	9	137,053
Class B		
1-10,000 Sq. Ft	14	63,353
10,001 -25,000 Sq. Ft.	7	100,697
>25,000 Sq. Ft.	6	383,745
<i>Total</i>	27	547,795
Class C		
1-10,000 Sq. Ft	8	29,524
10,001 -25,000 Sq. Ft.	4	66,200
>25,000 Sq. Ft.	1	29,568
<i>Total</i>	13	125,292
Total (A, B, C)		
1-10,000 Sq. Ft	27	118,870
10,001 -25,000 Sq. Ft.	13	198,537
>25,000 Sq. Ft.	9	492,733
<i>Total</i>	49	810,140

What does this mean for Worcester?

Downtown Worcester’s overall office occupancy rate significantly decreased from 88% in 2008 to 82% in 2009. Some of these vacancies may be the direct result of the recession. Other buildings have continued to have high vacancy rates, which may be a result of the quality of the space and of its management. Also, 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 indicate that demand, while holding steady, has 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, which are similar to those in the Boston area, and the rents that the local real estate market can support, which are much lower than Boston’s.

³⁰ Colliers International, “North America Office Real Estate Highlights.” (<http://www.colliers.com/Corporate/MarketReports/UnitedStates/>).

In 2009, there were 810,140 square feet of vacant office space available in Worcester's Central Business District, which could potentially support almost 4,050 additional workers in the downtown area.³¹ 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**. The City does have considerable influence over some of these, 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.^{32,33}

³¹ This is based on the standard of allocating 200 square feet of office space per worker.

³² 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).

³³ 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*.

INDICATOR 6: VACANT AND ABANDONED BUILDINGS

Why is it important?

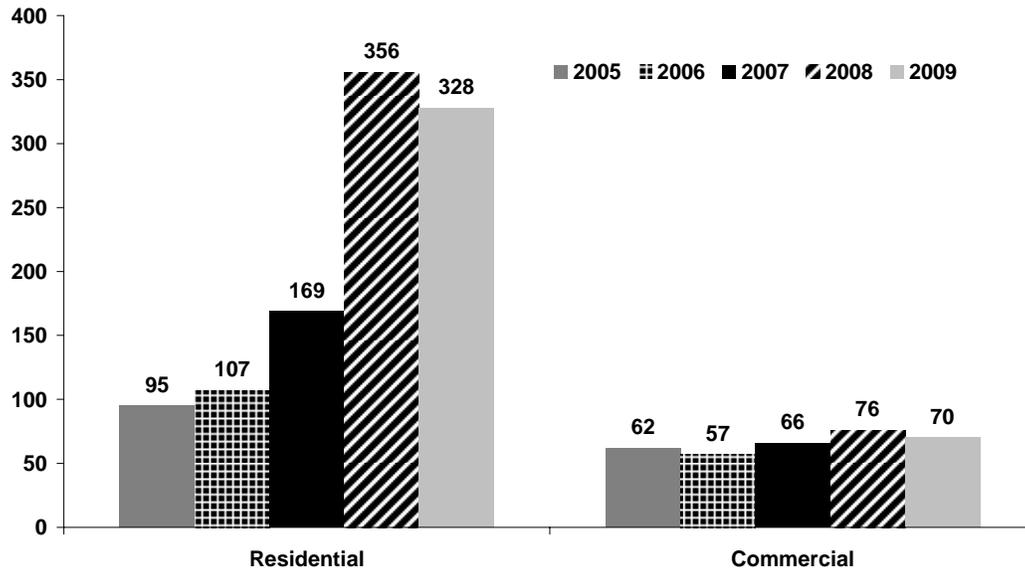
The housing foreclosure crisis has pushed the issue of vacant and abandoned buildings to the forefront of the City's agenda. The deleterious social and economic effects of these vacancies are well documented: they decrease the values of surrounding properties, reduce municipal tax revenues, pose serious 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 2005 to 2009, the total number of vacant residential and commercial buildings in Worcester has risen by 153.5%, from 157 to 398.³⁴ As shown in **Chart 6.1**, in November, 2009, there were 328 vacant residential buildings and 70 vacant commercial buildings in the City. From 2007 to 2008, 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. However, from 2008 to 2009, the number of residential vacant and abandoned buildings slightly decreased, from 356 in 2008 to 328 in 2009, a decrease of 8%. From 2005 to 2009, the number of commercial vacant and abandoned buildings increased somewhat, from 62 buildings in 2005 to 70 in 2009. However, from 2008 to 2009, there was a decrease of 8% in the number of vacant commercial buildings (6 buildings).

³⁴ 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.

Chart 6.1: Number of Vacant Properties, City of Worcester, 2005-2009



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

In addition to these vacant properties, there were 828 properties with foreclosure petitions (the first step in the process), and another 330 properties with foreclosure deeds (the final step in the foreclosure process) in the City of Worcester from January – August 2009.

As of November, 2009, about 15% of vacant properties either owed FY09 taxes or had a tax lien placed against the property. This is a slight increase from 2008, when 11% of properties had delinquent taxes or a tax lien, but is a decrease from 2007, when almost one-third (30%) of vacant properties owed taxes or had a tax lien placed against the property. As shown in **Table 6.1**, commercial properties were more likely to have delinquent taxes in 2009.

Table 6.1: Assessed Value & Tax Status of Vacant & Abandoned Properties, City of Worcester

	Residential	Commercial/ Industrial	Total
Number of Vacant & Abandoned Properties	328	70	398
Assessed Value (FY09)	\$66,097,800	\$44,845,300	\$110,943,100
Delinquency - FY09 Taxes	35 (10.7%)	9 (12.9%)	44 (11.1%)
Properties with Tax Liens	8 (2.4%)	6 (8.6%)	14 (3.5%)
Total Value of Tax Liens	\$17,253	\$95,786	\$113,039

Source: City of Worcester Office of the Treasurer and Collector (data as of November, 2009)

In July, 2004, tax liens totaling almost \$1 million had been placed against 24 vacant or abandoned properties in the City.³⁵ However, by July 2005, the total value of tax liens placed against 10 properties fell to a total of \$87,003.³⁶ Tax liens totaling \$113,039 in November, 2009, were 47% higher than they were in 2008 (\$76,732), but are still 13% lower than in 2006. **Charts 6.2 and 6.3** show trends for both the number and value of tax liens by property type.

Chart 6.2: Vacant and Abandoned Properties with Tax Liens, City of Worcester, 2005-2009

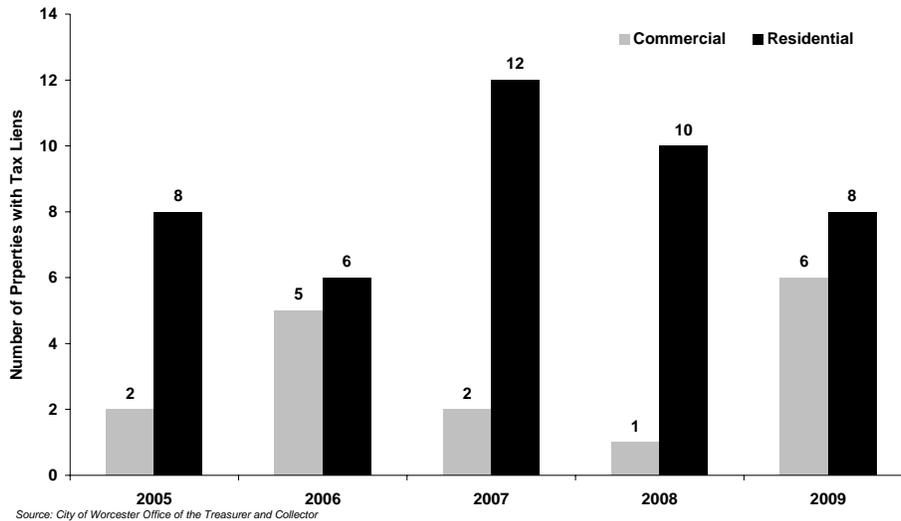
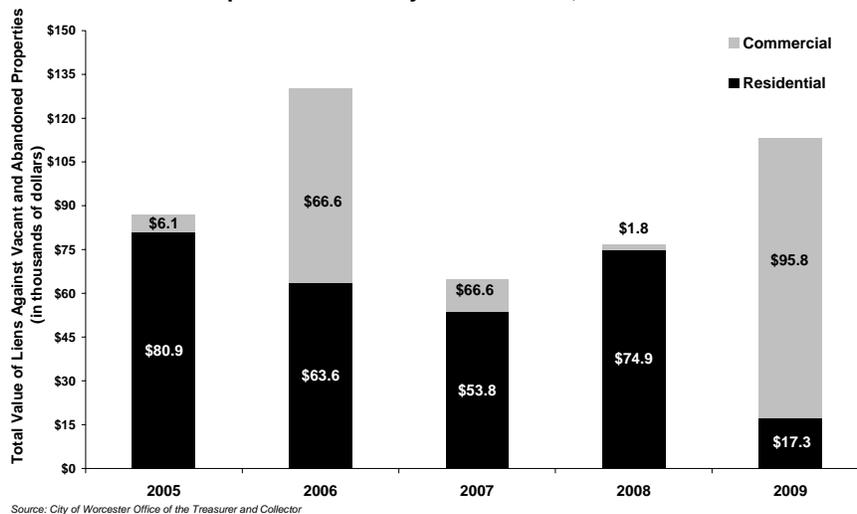


Chart 6.3: Property Tax Liens Against Vacant and Abandoned Properties in the City of Worcester, 2005-2009



³⁵ This dollar figure represents the cumulative total of all back taxes for which the City has perfected a tax lien against said property.

³⁶ 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.

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. The number of vacant residential properties decreased slightly from 2008 to 2009. However, the number of these properties with delinquent taxes is fairly small. Analysis of the vacant property listings obtained from the City of Worcester for each of the years from 2005 to 2009 reveals that 27% of the commercial properties and 8.5% of the residential properties vacant in 2009 have been vacant since 2005.

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. 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, in July 2008, the City Manager launched “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.³⁷ 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.³⁸ More than 240 homes in Worcester have been purchased through the program. In addition, in September 2009, the City, in partnership with area agencies and private lenders, launched the Neighborhood Stabilization Program to help stimulate private investment in Worcester neighborhoods that were most deeply affected by the housing crisis. A total of \$12 million in Federal and State funding is being used to purchase and rehabilitate vacant and foreclosed properties, demolish chronic problem properties, upgrade current properties, and transition the People in Peril shelter to a referral-only shelter.

³⁷ <http://www.buyworcesternow.com>

³⁸ Ibid.

The Research Bureau

PRESENTS

Worcester's Business Climate: Hot or Cold?

Speakers: J. Christopher Collins, Esq.
Senior Vice President & General Counsel
UNUM

Timothy McGourthy
Economic Development Director
City of Worcester

Christopher Steele, President
CWS Consulting Group, LLC

Moderator: Michael Mulrain, CFO
Polar Beverages

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The Research Bureau

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