The Research Bureau

Benchmarking Economic Development in Worcester: 2007

October 2007

CCPM: 07-05

Center for Community Performance Measurement

The Research Bureau

Benchmarking Economic Development in Worcester: 2007

Contents

MassDevelopment and The Research Bureau: Promoting Economic Development

The entire MassDevelopment team is pleased to sponsor the Worcester Regional Research Bureau's 2007 "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.

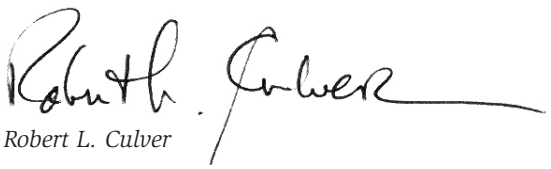
In Central Massachusetts, MassDevelopment arranged financing for 192 projects totaling more than $700 million in investments over the past four years. As an example, earlier this year the agency announced one of its first above ground asbestos remediation grants to an important project in Worcester. Specifically, Main South CDC will use $350,000 awarded under this program to develop 109 affordable and market-rate condominiums as part of the Gardner Kilby Hammond neighborhood revitalization initiative. Also, the Agency just closed on two critical financing transactions for the new Hanover Center for the Performing Arts in downtown Worcester that will assist in helping to complete the renovations to this new 2,300 seat cultural facility in early 2008.

In addition to the MassDevelopment regional team in Worcester (which includes investment bankers, lenders and community development specialists), the agency also opened a new satellite office in Westborough this past year to provide better coverage for all of the development activities going on in Central Massachusetts.

Since FY2004, MassDevelopment has partnered with banks, other financial institutions and cities and towns to finance or manage nearly 800 projects in every region of the state. These projects represent an investment of more than $6 billion into the Massachusetts economy and include marquee redevelopment efforts such as the Bristol Myers Squib project at Devens, 100 Cambridge Street in Boston and Village Hill in Northampton. These undertakings are supporting the creation of almost 6,800 new housing units and nearly 40,000 permanent and construction-related jobs in the Commonwealth.

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

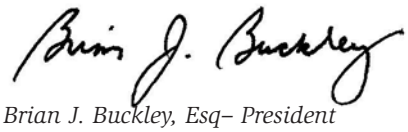
President & CEO

Dear Citizen,

This is the seventh annual "Benchmarking Economic Development in Worcester" report prepared by The Research Bureau's Center for Community Performance Measurement (CCPM). 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 thank the Sloan Foundation for its continued support of the CCPM, which was established in 2001 to measure and benchmark municipal and community performance in the areas of economic development, public education, municipal and neighborhood services, public safety, and youth services. We also 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,



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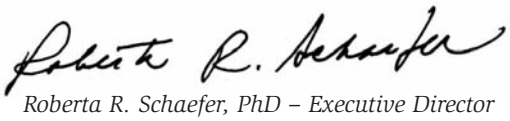

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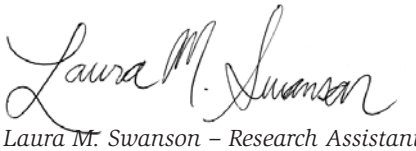


Laura M. Swanson – Research Assistant

Tax Base

Why is it important?

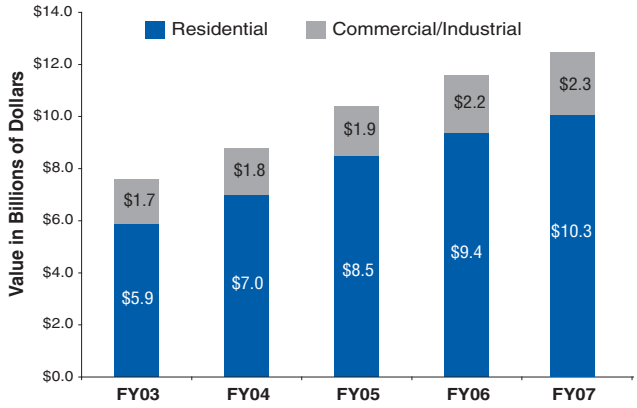
The tax base is the total assessed value of property within a city or town that is subject to local taxation. A municipality sets tax rates according to its annual revenue requirements and the value of all property assessments within its jurisdiction. The tax base is important because local governments 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 FY07.[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 $12.6 billion in FY07 was $1 billion (8.6%) higher than the FY06 value. **Chart 1.1** examines changes in the total value and composition of Worcester's tax base between FY03 and FY07, a period during which total assessed value increased by 75%.

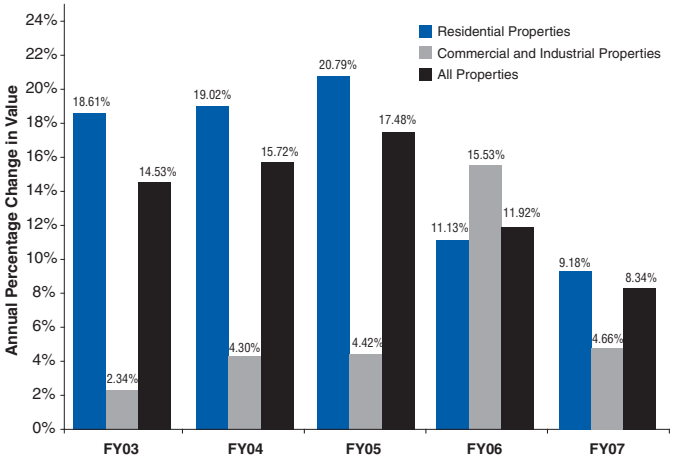
The tax base will expand or decline due to two main factors: changes in market values of existing properties and value added as a result of new construction (discussed further in **Indicator 3: Private Investment**). The City's residential tax base has grown by 74% since FY03 (exceeding $10.3 billion in FY07), and new-construction value represented $156 million of the $800 million in residential growth occurring from FY06 to FY07. **Chart 1.2** shows that rate of growth in residential property values has far outpaced the commercial and industrial rate of growth in all but one of the past five years. The 74% ($4.4 billion) overall increase in residential values from FY03 to FY07 exceeded the 32% ($541 million) increase in commercial-industrial values during the same period. From FY03 to FY07, Worcester's commercial-industrial property value decreased from 22% to 18% of the total value of property in the City, while Worcester's residential value as a percentage of total value increased from 78% to 82% (see **Chart 1.3**).[3] The high rate at which the City's residential property value has increased in recent years, partly as a result of greater new construction occurring in the residential sector compared to the commercial and industrial sector, has skewed the tax base in the direction of residential property owners bearing a greater share of the tax burden.

Chart 1.1: *Total Assessed Value of all Properties in Worcester, FY03-FY07 (In Billions)*



Data source: Massachusetts Department of Revenue, Division of Local Services

Chart 1.2: *Annual Growth in Property Values, City of Worcester, FY03- FY07*



Data source: Massachusetts Department of Revenue, Division of Local Services

[1] See CCPM publication 06-05. *Benchmarking Municipal and Neighborhood Services in Worcester: 2006* 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] 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.

Tax Base (continued)

***Table 1.1**: Assessed Values in Comparison Cities FY06*

In thousands of dollars

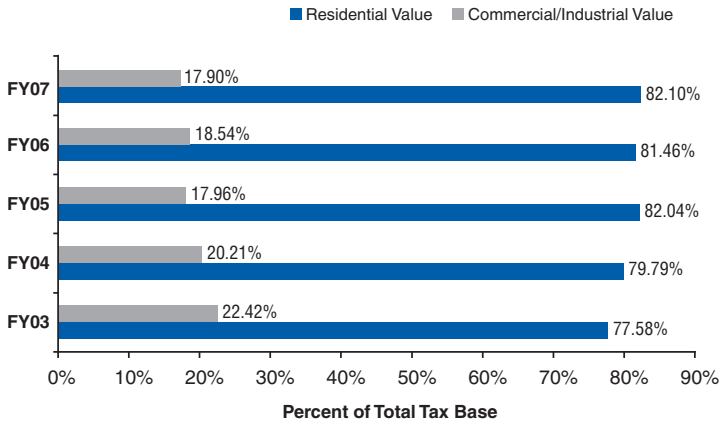
	Residential	% Change FY03-FY07	Commercial/ Industrial	% Change FY03-FY07	Total	% Change FY03-FY07
Worcester	$10,312,441	74.4%	$2,250,610	31.7%	$12,563,051	64.8%
Boston	$59,293,474	68.7%	$27,222,631	21.6%	$86,516,105	50.4%
Cambridge	$14,135,495	30.6%	$8,031,641	15.9%	$22,167,136	24.9%
Somerville	$7,523,927	57.2%	$1,228,149	38.3%	$8,752,076	54.2%
Lowell	$6,191,398	92.8%	$946,587	36.4%	$7,137,985	82.8%
Springfield	$5,776,965	57.6%	$1,656,686	27.9%	$7,433,651	49.9%

Data Source: Massachusetts Department of Revenue, Division of Local Services

Table 1.1 compares Worcester's FY07 tax base and its rate of increase since FY03 with those of several other cities in Massachusetts. In each of the communities examined, the rate of growth of residential values far exceeded the rate of growth of commercial-industrial values. The data also reveal that Worcester has experienced the second-highest rate of increase both in residential values and total values of the cities examined.

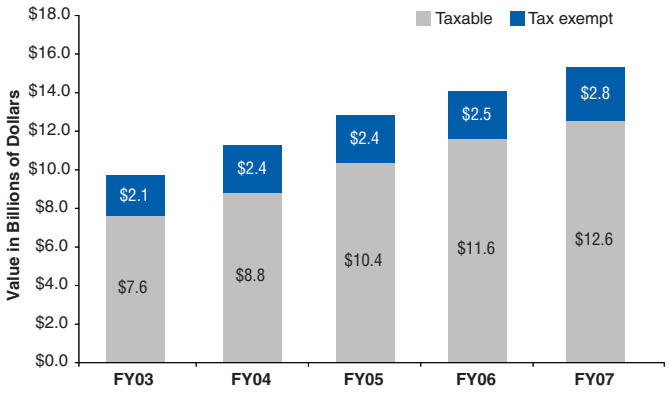
In addition to property that is eligible for taxation, the City of Worcester also contains a significant amount of property that is tax exempt, including colleges and universities, churches, government buildings, and other non-profit organizations. As shown in **Chart 1.4**, in FY07, almost $2.8 billion 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 22% in FY03 to 18% in FY07. **Chart 1.5** shows the distribution of taxable and tax-exempt property for Worcester and other cities in Massachusetts.

***Chart 1.3:** Distribution of Assessed Valued by Property Type, City of Worcester, FY03-FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

***Chart 1.4:** Taxable and Tax-Exempt Property in Worcester, FY03-FY07 (In Billions)*



Source: Massachusetts Department of Revenue, Division of Local Services

What does this mean for Worcester?

In FY07, 34.5% 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.[4]

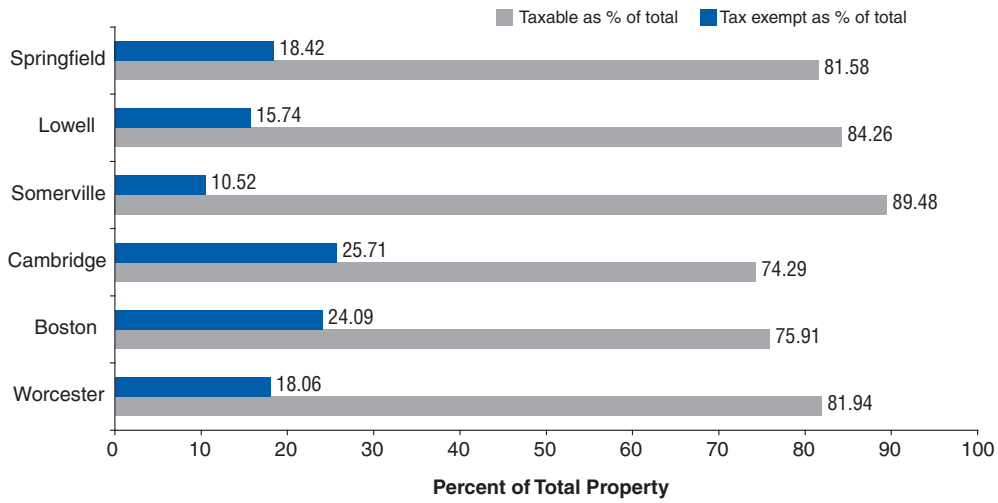
[4] The significance of a strong tax base is also discussed in *Benchmarking Municipal Finance in Worcester: Factors Affecting the City's Bond Rating*, Report 07-02, May 22, 2007.

Tax Base (continued)

Although Worcester's tax base has seen strong and consistent growth in recent years, 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 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), and must also consider cost-savings which could result from divesting the City of services and infrastructure that are not related to its core mission.[5]

As noted above, currently more than 80% of the City's tax base is derived from residential property values. Although the gap between residential and commercial-industrial values may lessen 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 and industrial tax base would ease that burden.

Chart 1.5: *Distribution of Taxable and Tax-Exempt Property in Selected Massachusetts Cities, FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

[5] For further discussion of potential areas of cost savings, see *Cutting to the Core: Rethinking Municipal Services in FY08 and Beyond,* Report 07-03 (May 24, 2007), available at http://www.wrrb.org

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 FY07, Worcester's commercial and industrial tax rate was $25.32; hence taxes on a commercial or industrial property with an assessed value of $1 million would total $25,320. 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 due to the fact that 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, office space or land available for immediate development, and the level of public-private coordination 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), which in Massachusetts, grants qualified firms tax abatements over a number of years in return for a guarantee that the company will create a certain number of jobs and invest private dollars into physical improvements or new construction of 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.[6]

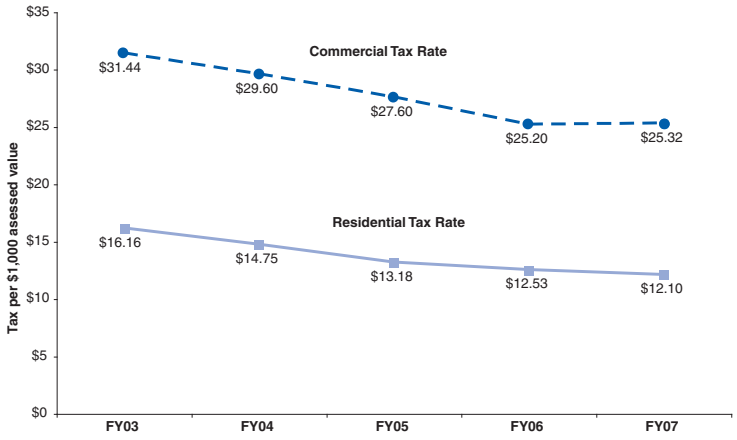
How does Worcester perform?

Under Massachusetts General Laws Chapter 59, cities and towns may choose to adopt property tax classification, which allows different classes of property (residential vs. commercial and industrial) to be taxed at different rates.[7] The City of Worcester adopted dual classification in FY84, and since that time, the City Council has consistently adopted a higher commercial-industrial tax rate.[8]

Chart 2.1 shows Worcester's commercial-industrial and residential tax rates for the FY03 to FY07 period. From FY03 to FY06, Worcester's commercial and industrial tax rate steadily declined from $31.44 to $25.20 per $1,000 of assessed value, and then increased to $25.32 in FY07. The residential rate has declined in each of the past five years, falling from $16.16 to $12.10.

Despite the decline in Worcester's residential tax rate in recent years, homeowners have faced rising property tax bills due to sharply increasing residential property values (as discussed in **Indicator 1: Tax Base**). According to the Massachusetts Department of Revenue, the average value of single-family homes in Worcester increased from $156,420 in FY03 to $247,529 in FY07, a 58.2% increase. While the residential tax rate fell from $16.16 to $12.10 during this same period, the reduction in the tax rate was more than offset by increased residential property values. Consequently, between FY03 and FY07, the average single-family tax bill in Worcester increased by about 18%, from $2,528 to $2,995.

Chart 2.1: *Worcester's Commercial and Residential Tax Rates, FY03-FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

[6] Worcester's CitySquare project is the only project in the state to receive approval for its DIF District and DIF financing plan.

[7] According to the Massachusetts Department of Revenue, in FY07, 110 Massachusetts communities (31%) taxed residential and commercial-industrial properties at different rates.

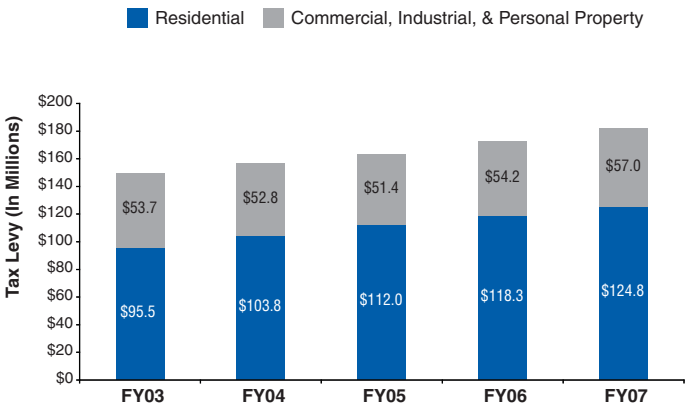
[8] While state legislation allows communities to shift the tax burden from one property class to another, the state sets limits on how much of the burden a municipality may shift. In FY07, the maximum allowable shift for Worcester was 175.3% of the single tax rate (the single tax rate is the total tax levy divided by the total assessed value multiplied by one thousand), and the City adopted a commercial and industrial rate at 175% of the value of the single tax rate ($25.32) and a residential rate at 84% of the value of the single tax rate ($12.10).

Commercial-Industrial and Residential Tax Rates *(continued)*

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.

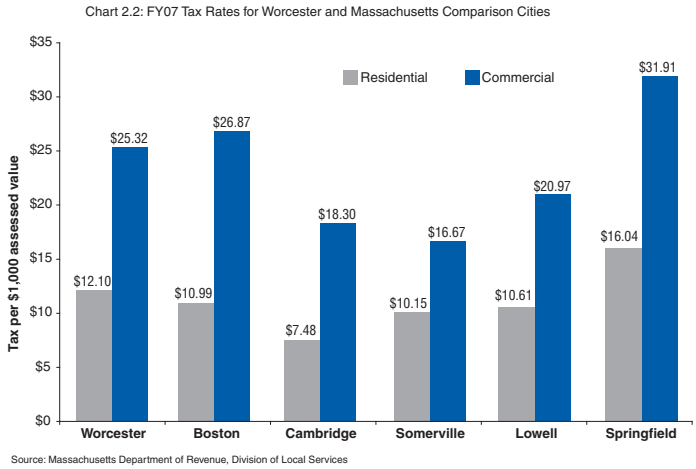
Chart 2.3 shows that the amount of property tax revenue (tax levy) collected by the City of Worcester increased by 22% over the five-year period from FY03 to FY07. In FY07, the City collected more than $181 million in property taxes, with more than two-thirds of that paid by residential property owners (as discussed in **Indicator 1**, residential property values represent 82% of total property values in the City).

Chart 2.3: *Total Tax Levy: Residential and CIP, FY03-FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

Chart 2.2: *FY07 Tax Rates for Worcester and Massachusetts Comparison Cities*



Source: Massachusetts Department of Revenue, Division of Local Services

Table 2.1*: FY07 Commercial Tax Rates in I-495 Communities*

	Tax Rate	% Change FY03-FY07
Upton	$10.89	-15.3%
Berlin	$10.96	-22.4%
Harvard	$11.62	1.5%
Northborough	$12.39	-21.7%
Southborough	$12.58	2.8%
Ashland	$12.60	-5.4%
Hopkinton	$12.83	-7.2%
Westborough	$13.66	2.9%
Boxborough	$13.87	8.5%
Bolton	$14.06	10.5%
Milford	$20.25	-21.8%
Hudson	$20.79	-4.5%
Marlborough	$25.01	15.1%
Worcester	**$25.32**	**-19.5%**

Source: Massachusetts Department of Revenue

What does this mean for Worcester?

In FY07, local property tax levies comprised slightly more than one-third (34.5%) 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 which may slow the growth or even reduce the residential tax levy, placing even greater strain on already financially-strapped communities. Suggestions for reducing the cost of operations, detailed in The Research Bureau's Report 07-03, *Cutting to the Core: Rethinking Municipal Services in FY08 and Beyond*, include having the City divest itself of certain services and infrastructure which are not part of a City's core mission.[9] These include: Worcester Regional Airport, Union Station, Hope Cemetery, the Senior Center, and Green Hill Golf Course, and also controlling collective bargaining costs including salaries, health insurance, and disability pensions.

***Table 2.2**: FY07 Residential Tax Rates in I-495 Communities*

	Tax Rate	% Change FY03-FY07
Hudson	$9.52	-11.2%
Upton	$10.89	-15.3%
Milford	$10.90	-18.4%
Berlin	$10.96	-22.4%
Harvard	$11.62	1.5%
Worcester	**$12.10**	**-25.1%**
Northborough	$12.39	-21.7%
Southborough	$12.58	2.8%
Ashland	$12.60	-5.4%
Marlborough	$12.65	-3.5%
Hopkinton	$12.83	-7.2%
Westborough	$13.66	2.9%
Boxborough	$13.87	8.5%
Bolton	$14.06	10.5%

Source: Massachusetts Department of Revenue

[9] Report 07-03 is available online at http://www.wrrb.org/documents/ResearchBureau07-03.pdf.

Amount of Private Investment

Why is it important?

Private investment, measured 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 $1 billion (8.6%) from FY06 to FY07. 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.

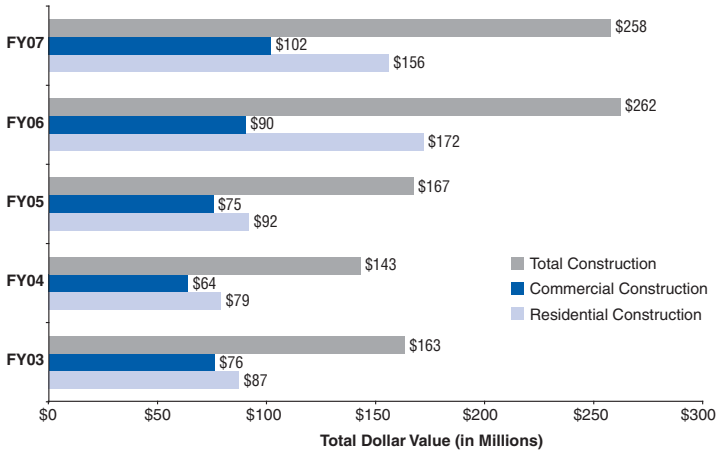
How does Worcester perform?

Chart 3.1 shows that the combined value of new commercial-industrial and residential growth in Worcester totaled $258 million in FY07. While slightly below the previous year's figure (about 1.6% less), it was about 50% higher than the FY03 value. The value of new commercial and industrial growth in Worcester grew by 12.8% from FY06 to FY07, from $90.2 million to $101.8 million. Although the City experienced strong new growth levels in the residential sector with $155 million of private investment occurring in FY07, the rate of residential growth has slowed, with about $17 million less invested in FY07 compared to FY06.

Chart 3.2 shows the percentage of Worcester's tax base and tax revenues derived from new construction since FY03.[10] 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 $258 million in new construction in FY07 is approximately 2.1% of the value of Worcester's tax base in the same year, and at the FY07 residential and commercial rates, it would yield about $4.5 million in new tax revenue.

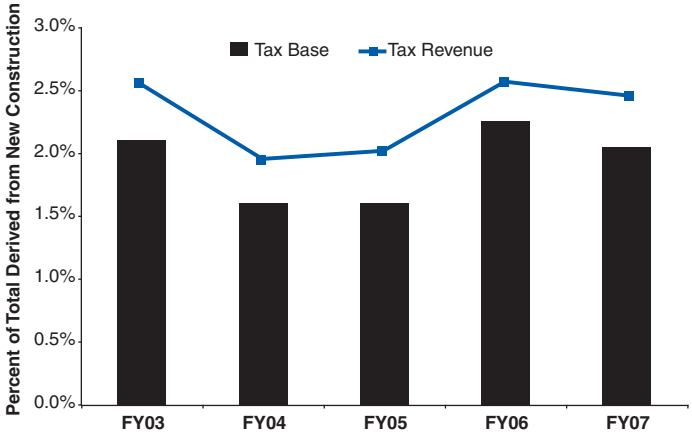
As shown in **Chart 3.3**, from FY96 until FY03, more than half of the value of new growth was generated by investment in commercial and industrial property. In FY96, commercial and industrial growth accounted for 80.6% ($52.3 million) of the value of all new construction in Worcester. However, by FY06, commercial and industrial growth lagged far behind residential growth, accounting for just 34.4% of new construction values. Although new growth values in FY07 were still skewed toward residential new growth values (representing 61% of the total), the gap between commercial-industrial and residential new growth values decreased by almost ten percentage points from FY06 to FY07 as commercial and industrial growth increased and residential growth decreased.

Chart 3.1: *Value of New Construction in the City of Worcester, FY03-FY07*



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 , FY03-FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

[10] 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.

Private Investment (continued)

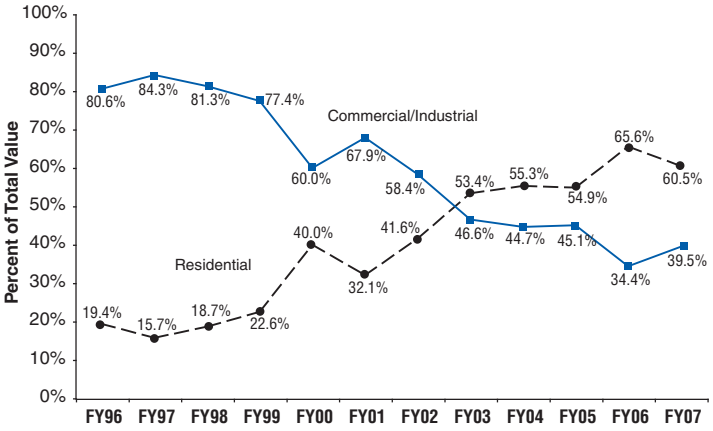
What does this mean for Worcester?

As noted in **Indicator 1**, Worcester's tax base, fueled by a combination of increasing values and strong new growth, has seen consistent expansion in recent years. Although investment in the residential sector has far outpaced commercial-industrial growth in recent years, as noted earlier, 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 commercial and industrial investment initiatives 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.[11]

Sustained growth is key to Worcester's long-term economic vitality, and while growth levels in the City have remained at historically high levels, future efforts to attract private investment to the area may be stymied by higher tax rates in comparison to those of the surrounding municipalities and the lesser availability of land for new housing and industry than in surrounding communities. Eliminating or reducing these barriers will be critical to attracting continued private investment to Worcester.

Chart 3.3: *Distribution of the Value of New Construction in Worcester, FY96-FY07*



Source: Massachusetts Department of Revenue, Division of Local Services

[11] See http://www.worcestermass.org to learn more about ongoing economic development projects and events in Worcester.

Employment and Labor Force Growth

Why is it important?

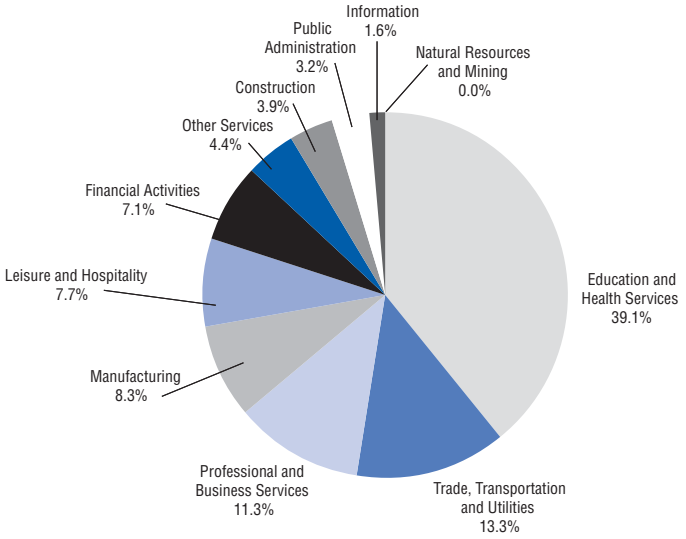
Low unemployment, high labor force participation, and job growth are key indicators of the health and stability of a local economy. Higher unemployment rates may reflect fewer employment opportunities for workers and/or the need for employment and training services to better match employees and employers. The labor force participation rate is the percentage of the working-age population that is either working or actively seeking work, and is a measure of the supply of workers. 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 2005, Worcester lost more than 3,300 jobs, although job growth was strong in 2006 with a net gain of about 1,300 jobs (the actual number of jobs created in 2006 exceeded 2,300; however, these gains were partly offset by about 1,000 job losses that occurred during the same period). The Health Care and Social Assistance industry experienced the greatest employment increase, with 795 net new jobs created, followed by the Accommodation and Food Services industry, which netted 368 new jobs. Employment in the Retail Trade industry experienced the greatest loss, with average monthly employment down by 486 jobs in 2006 compared to 2005. In the region, 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). While countywide there are still fewer employment opportunities today compared to 2001, average monthly employment has increased by more than 4,600 jobs since 2003.

Chart 4.1 shows the percentage of the labor force employed in various sectors of the economy in the City of Worcester. In 2006, 88% of Worcester's jobs were in the service-providing sector, with the remaining 12% in the goods-producing sector.[12, 13] In 2006, 39% of the jobs in Worcester were in the education and health-services fields (a one percentage point increase from 2005). **Table 4.2** shows 2006 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 remained constant at roughly one in four jobs (26.8%). This table also shows that the City's and 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.[14] Losses in manufacturing jobs have been partially offset by increases in other sectors, such as leisure and hospitality and education and health services.

Chart 4.1: *Employment by Industry, City of Worcester, 2006*



Source: Massachusetts Department of Workforce Development

Table 4.1 *Annual Rate of Job Growth*

	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%

Data source: Massachusetts Department of Workforce Development

[12] 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. (The industry employment data presented in this report are from the Employment and Wages (ES 202) data set available at http://lmi2.detma.org/Lmi/lmi_es_a.asp .)

[13] Mining, construction, and manufacturing industries comprise the goods-producing sector.

[14] 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.

Employment and Labor Force Growth *(continued)*

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 slightly from 5.8% in 2005 to 5.9% in 2006 (2007 preliminary data, which reflect the monthly average unemployment for January – June, show the unemployment rate rising to 6.0%).[15] From 2003 through 2007 the unemployment rate for the City of Worcester was, on average, about half a percentage point higher than the county-wide rate. Since 2003, however, Worcester's unemployment rates have been below those of Lowell, Springfield, Hartford, and Bridgeport.

Worcester's labor force, or the total number of working-age residents who are employed or looking for work (unemployed), increased by less than 1% from 82,762 individuals in 2005 to 83,451 in 2006 (**Table 4.3**).[16] Countywide, the labor force also increased slightly from 395,133 in 2005 to 400,768 in 2006. According to Census Bureau population estimates, both the City of Worcester and Worcester County have experienced annual increases in population since 2000.[17]

Compared to the City of Worcester, Worcester County has historically had a higher labor force participation rate. In 2006, the County's labor force participation rate was 69.3% compared to 61.2% in the City.

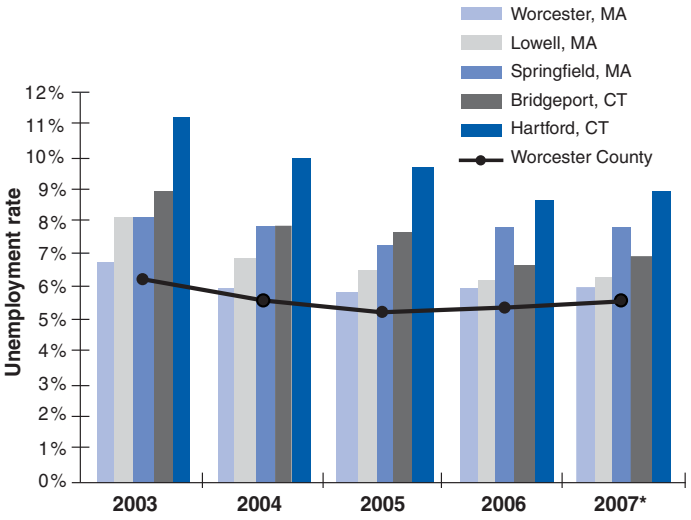
What does this mean for Worcester?

From 2005 to 2006, Worcester showed strong job growth, with average monthly employment increasing by nearly 1,300 jobs. Despite this good news, there were still about 2,000 fewer jobs in Worcester in 2006 than in 2001.

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 Projections 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."[18]

Efforts to attract jobs to the area would likely be bolstered by better utilization of the area's transportation network. Specifically, City officials should continue to seek expansion of commuter rail service in Worcester, particularly the expansion of reverse-commuting options. Increasing both the inbound and outbound commuter rail service among Worcester, Framingham, and Boston 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 Metro-West areas.[19] 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, by many accounts, points to Worcester having become a bedroom community for the Boston and Metro-West areas.

Chart 4.2: *Unemployment Trends for Northeastern Cities and Worcester County, 2003-2007**



** 2007 data is Jan-June average and is preliminary*

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics

[15] 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.

[16] 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.

[17] 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.

[18] The report is available online at http://lmi2.detma.org/Lmi/pdf/MEP2014.pdf

[19] 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/commuterrail.pdf for further discussion of the need for expanded commuter rail service in Worcester.

Employment and Labor Force Growth *(continued)*

***Table 4.2**: Employment by Industry, 2006*

	City of Worcester		Worcester County	
	Average Monthly Employment (#)	Percent Change 2003-2006	Average Monthly Employment (#)	Percent Change 2003-2006
Education and Health Services	38,696	5.4%	85,649	4.4%
Trade, Transportation and Utilities	13,199	-4.7%	62,864	-0.6%
Professional and Business Services	11,200	3.2%	37,232	6.3%
Manufacturing	8,214	-5.7%	41,368	-7.2%
Leisure and Hospitality	7,602	2.6%	28,961	3.3%
Financial Activities	7,059	-8.0%	17,008	1.4%
Other Services	4,345	-2.1%	11,702	5.6%
Construction	3,894	6.9%	16,153	7.1%
Public Administration	3,174	2.5%	12,567	2.5%
Information	1,557	-6.1%	5,410	-8.0%
Natural Resources and Mining	16	-23.8%	754	-7.6%

Data source: Massachusetts Department of Workforce Development

***Table 4.3**: Labor Force Participation Rate*

	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*	83,730	61.4%	402,548	69.6%

**January-June Average*

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

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. Nationwide, the suburbs have outpaced central cities in terms of both job growth and population growth over the past decade. The resulting "exit ramp economy," in which new office space and retail facilities are increasingly located along suburban freeways, continues to have a detrimental effect on many of our nation's once-vibrant urban cores.[20]

How does Worcester perform?

During the summer of 2007, CCPM 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.[21] For each of the 90 properties containing 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.[22, 23]

Downtown Worcester's Central Business District contains almost 5 million square feet of office space, of which 87.3% was occupied as of August, 2007.[24, 25] As shown in **Table 5.1**, office occupancy in the CBD has decreased from 89.4% in 2006 to 87.3% in 2007. Class "A" buildings (considered "premier space," either newly constructed buildings or office space that has undergone extensive renovation) account for about 1.9 million square feet (38%) of office space.[26, 27] The occupancy rate for Class "A" office space was 87.9% in 2007, a decrease from 2006 (91.1%). The 47 Class "B" buildings (older renovated buildings considered to be in fair to good condition) comprised 2.24 million square feet (45%) of downtown office space, of which 86.6% was occupied, the lowest occupancy rate among the three building classes. Finally, the 860,000 square feet of Class "C" space (older unrenovated buildings offering "functional space") had an occupancy rate of 87.9%. The Class "B" occupancy rate has been steadily declining over the past four years, and 2007 marked the second year in a row that Class "B" space had the lowest occupancy rate. Overall, the 2007 occupancy rate was the lowest it had been during the five-year period from 2003-2007.

As shown in **Table 5.2**, in 2007, 43% of the office buildings in the downtown area contain available vacant space (in 2006 this number was slightly higher at 49%). Among these, 22 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) constitutes the greatest proportion of vacant space (299,867 square feet, or 47.3 %).

Property owners and agents provided information on rental rates for almost half (46%) of the properties included in the survey, reporting monthly rental rates ranging from $5 per square foot to $30 per square foot.

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[20] Bruce Katz, "A Progressive Agenda for Metropolitan America," The Brookings Institution, May 2004.

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

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

[23] The full report, *Downtown Worcester Office Occupancy: 2007* Survey, is available online at www.wrrb.org.

[24] This figure 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).

[25] 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.

[26] 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 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).

[27] The last major office building constructed in the CBD (Chestnut Place) was completed in 1990.

Downtown Office Occupancy Rate *(continued)*

***Table 5.1**: Occupancy Rates for Downtown Office Space, 2003-2007*

		2003	2004	2005	2006	2007	Change '03-'07
Class A	Total Office Space	2,256,536	1,792,033	1,695,889	1,987,253	1,896,417	-16.0%
	Occupied Space	2,055,925	1,586,186	1,507,585	1,810,043	1,666,917	-18.9%
	Occupancy Rate	**91.1%**	**88.5%**	**88.9%**	**91.1%**	**87.9%**	
Class B	Total Office Space	1,278,478	1,436,083	2,082,157	1,667,653	2,243,490	75.5%
	Occupied Space	1,181,944	1,325,158	1,856,772	1,462,126	1,943,623	64.4%
	Occupancy Rate	**92.4%**	**92.3%**	**89.2%**	**87.7%**	**86.6%**	
Class C	Total Office Space	1,553,508	1,392,614	918,665	985,335	859,918	-44.6%
	Occupied Space	1,315,865	1,185,524	799,304	875,335	755,694	-42.6%
	Occupancy Rate	**84.7%**	**85.1%**	**87.0%**	**88.8%**	**87.9%**	
Total	Total Office Space	5,088,522	4,620,730	4,696,705	4,645,674	4,999,825	-1.7%
	Occupied Space	4,553,734	4,096,868	4,168,133	4,155,237	4,366,234	-4.1%
	Occupancy Rate	**89.5%**	**88.7%**	**88.7%**	**89.4%**	**87.3%**	

***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	19,654
10,001 -25,000 Sq. Ft.	2	32,460
>25,000 Sq. Ft.	4	177,386
Total	*9*	*229,500*
Class B		
1-10,000 Sq. Ft	14	94,293
10,001 -25,000 Sq. Ft.	2	34,781
>25,000 Sq. Ft.	3	170,793
Total	*19*	*299,867*
Class C		
1-10,000 Sq. Ft	5	23,585
10,001 -25,000 Sq. Ft.	6	80,639
>25,000 Sq. Ft.	0	0
Total	*11*	*104,224*
Total (A, B, C)		
1-10,000 Sq. Ft	22	137,532
10,001 -25,000 Sq. Ft.	10	147,880
>25,000 Sq. Ft.	7	348,179
Total	*39*	*633,591*

What does this mean for Worcester?

Although downtown Worcester has experienced only slight year-to-year changes in its office occupancy rate since 2003, 2007 represents a five-year low in the occupancy rate. There are 633,591 square feet of vacant office space available in Worcester's Central Business District, which could potentially support more than 3,000 additional workers/jobs in the downtown area.[28]

The City needs to be concerned not just with attracting new businesses to downtown, but with retaining those that are already here. One question that needs to be answered is why businesses are opting to locate elsewhere. 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, and transportation networks.[29]

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

[29] See CCPM report 06-05, *Benchmarking Municipal and Neighborhood Services in Worcester: 2006* 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) and the condition of neighborhoods.

Vacant and Abandoned Buildings

Why is it important?

Vacant and abandoned buildings continue to be a serious concern for the City of Worcester.[30] While buildings become vacant or abandoned for various reasons, 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.

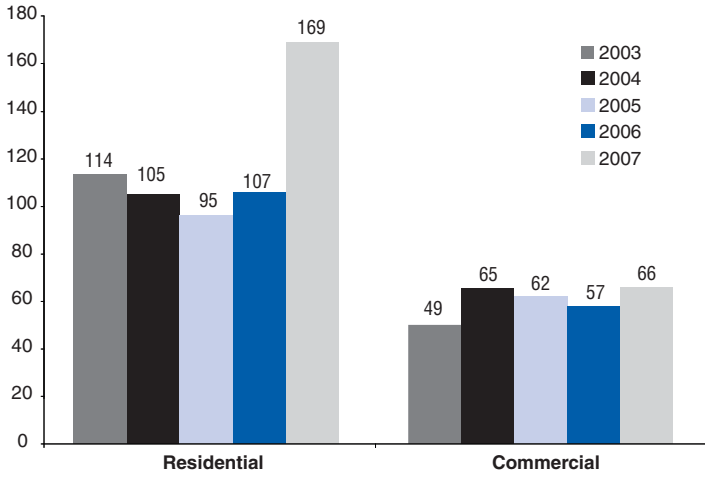
How does Worcester perform?

Comparing point-in-time data from 2003 to 2007, the total number of vacant residential and commercial buildings in Worcester has risen by 44.2%, from 163 to 235.[31] As shown in Chart 6.1, in July, 2007, there were 169 vacant residential buildings (55 more than in 2003) and 66 vacant commercial buildings (17 more compared to 2003) in the City. From 2006 to 2007 alone, the number of residential vacant buildings increased by more than 50%, from 107 to 169 respectively, an increase possibly related to the recent rise in mortgage foreclosures. The assessed value of the 235 vacant properties in 2007 totaled $105,260,900.

As of July, 2007, less than one-third (29.8%) of vacant properties owed FY07 taxes and/or had a tax lien placed against the property. As shown in Table 6.1, a greater proportion of the vacant residential properties had delinquent FY07 taxes when compared to vacant commercial and industrial properties.

In July 2003, tax liens totaling almost $1.25 million had been placed against 23 vacant or abandoned properties in the City.[32] However, by July 2005, the total value of tax liens placed against 10 properties fell to a total of $87,003. 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 during this period. Tax liens totaling $64,827 in July 2007 represented a five-year low during the period 2003-2007. Charts 6.2 and 6.3 show five-year trends in both the number and value of tax liens imposed on properties in the City of Worcester.

Chart 6.1: *Number of Vacant Buildings, City of Worcester, 2003-2007*



These data reflect a point-in-time count of vacant buildings.
Data source: City of Worcester Office of the Treasurer and Collector

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

	Residential	Commercial/ Industrial	Total
Number of Vacant and Abandoned Properties	169	66	235
Assessed Value (FY07)	$42,304,800	$62,956,100	$105,260,900
Delinquency - FY07 Taxes	52 (30.8%)	15 (22.7%)	67 (28.5%)
Properties with Tax Liens	12 (7.1%)	2 (3.0%)	14 (6.0%)
Total Value of Tax Liens	$53,778	$11,049	$64,827

Data source: City of Worcester Office of the Treasurer and Collector (data as of July, 2007)

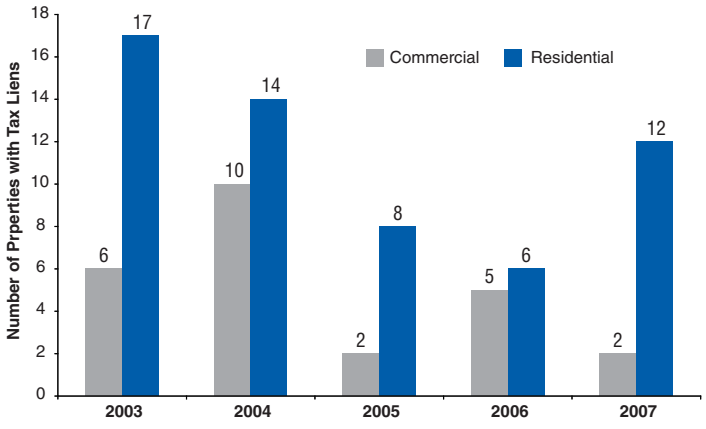
[30] The Research Bureau discussed many of the issues surrounding vacant and abandoned buildings and options for addressing them in the City of Worcester in its 1997 report *Distressed Property in Worcester: The Problems and the Options* (Report No. 97-2).

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

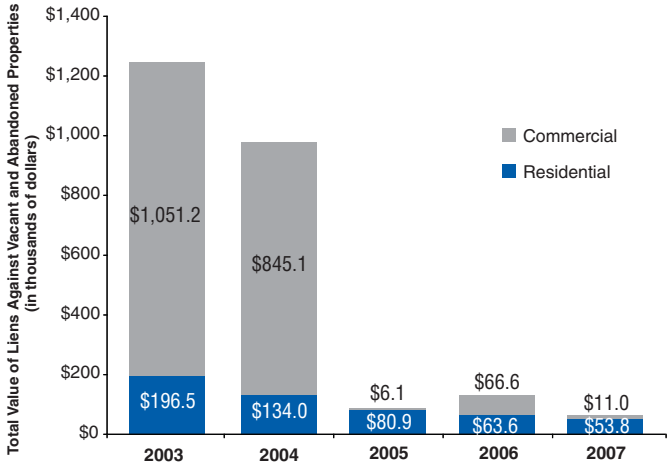
Vacant and Abandoned Buildings *(continued)*

Chart 6.2: *Vacant and Abandoned Properties with Tax Liens, City of Worcester, 2003-2007*



Data source: City of Worcester Office of the Treasurer and Collector

Chart 6.3: *Property Tax Liens Against Vacant and Abandoned Properties in the City of Worcester, 2003-2007*



Data source: City of Worcester Office of the Treasurer and Collector

What does this mean for Worcester?

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. Analysis of the vacant property listings obtained from the City of Worcester for each of the years from 2003 to 2007 reveals that one-third of the commercial properties and 17% of the residential properties vacant in 2007 have been vacant since 2003.

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.

The Research Bureau

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