



The Research Bureau

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**MASSACHUSETTS DEPARTMENT OF REVENUE
PROPERTY TAX CLASSIFICATION HEARING**

**May 4, 2004
Worcester Public Library**

The Worcester Regional Research Bureau is on record opposing the recently approved bill **ALLOWING AN INCREASE IN THE DISPARITY BETWEEN RESIDENTIAL AND COMMERCIAL PROPERTY TAX RATES**. This new provision **MOVES THE COMMONWEALTH IN PRECISELY THE WRONG DIRECTION**. For about a decade, the Research Bureau has requested each year that the Worcester City Council reduce the disparity on a gradual basis so that eventually Worcester has a single tax rate.

I wish to submit for the record a report prepared by the Worcester Regional Research Bureau titled *Benchmarking Economic Development in Worcester: 2003*. Our findings will explain to you the basis of the Research Bureau's strenuous opposition to the Commonwealth's grant of local option authority to increase the disparity between the two tax rates – even for a limited time. Worcester's dual tax rate, adopted in FY84, is an important factor that we believe has contributed to the City's shrinking commercial/industrial sector and loss of jobs.

- Commercial and industrial property in Worcester continued to decline as a proportion of the tax base during FY03. The residential tax base constituted 80% of the value of the total tax base in FY03. This is a record high in the residential proportion. The commercial proportion in FY03 was 20%; in FY84, it was 35.4%.
- The total assessed value of residential property continued to rise, increasing by 18.6% during FY03. The value of industrial/commercial property rose by 2.3%
- Worcester's labor force decreased by over 2,100 people in FY03.

- Although Worcester lost over 2,300 jobs in FY03, the greater Worcester area gained over 11,000.
- While the occupancy of downtown office space increased to 89.5%, up from 88.5% in 2002, no new office space has been built in downtown Worcester since 1990.
- Although Worcester's commercial tax rate declined by 2 cents to \$31.44 from FY02, it is higher than all towns that border Worcester as well as the nearest communities in the I-495 corridor. Nineteen of the 23 towns surveyed in the Worcester area have single tax rates.
- The value of new construction in many of those communities is higher as a percentage of the tax base than Worcester's.
- The percent of Worcester residents working outside the City is well above 50%, up from 31% in 1990.
- Between 1990 and 2000, the percent of Worcester residents commuting less than 20 minutes to work decreased from 64% to 56%; and the percent of Worcester residents who commute more than 30 minutes to work increased from 19% to 25%.

While not all these trends can be attributed to placing an undue tax burden on businesses, the tax rate is certainly a factor in location and expansion decisions. If the commercial/industrial tax base continues to shrink, how will the City provide the services for a population that has more needs than ever before? If other second tier cities in Massachusetts with dual tax rates have experienced the same shrinkage, then it would be appropriate for the Commonwealth to rethink this local option tax policy.

Recommendations:

If the Romney Administration is genuinely serious about bringing jobs to regions beyond metro Boston, and to encouraging both industry and housing in the older industrial cities, then **CHAPTER 3 OF THE ACTS OF 2004 THAT GRANTS THE LOCAL OPTION TO INCREASE THE DISPARITY BETWEEN THE TWO CLASSES OF PROPERTY MUST BE RESCINDED.** In addition, the local aid formula must be revamped to provide incentives to those communities with dual tax rates to eliminate them over a ten-year period. This can be accomplished by increasing local aid to dual tax rate communities according to a formula that will supplement the decrease in property tax revenues resulting from closing the gap between the two tax rates. If the community fails to meet the goal in any given year, it loses a percentage of local aid greater than the amount of compensation from the State for compliance.