The Research Bureau

Tax Classification: Passing the Buck$

Ending the Tug-of-War Among Worcester Taxpayers

Report 16-05

November 2016

Research in the Public Interest

Worcester Regional Research Bureau, Inc.

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"And further, full power and authority are hereby given and granted...to impose and levy proportional and reasonable assessments, rates, and taxes, upon all the inhabitants of, and persons resident, and estates lying, within the said commonwealth…."

Article IV of the Massachusetts Constitution

"While we have serious doubts about a property tax system that allows the CIP [Commercial-Industrial-Personal Property] classes to be taxed at such high rates, we recognize that classification is firmly entrenched in Massachusetts. However, we found that there is little justification for classification other than the politically expedient outcome of keeping the residential tax burden low. Clearly, authorizing ever-increasing shifts to the CIP classes is not good public policy and, at some point, raises constitutional issues. Though not the primary factor when businesses make locational decisions, higher CIP taxes also serve as an impediment to attracting and retaining business in certain communities."

Tax Classification Report as required by Chapter 3 of the Acts of 2004
Municipal Data Management and Technical Assistance Bureau
Massachusetts Department of Revenue
December 2004

Executive Summary

Since 1984, the City of Worcester has set residents against businesses in an annual duel over property tax rates. The implementation of tax classification (which provides a municipality with the authority to set different tax rates for commercial, industrial, residential, and open space properties) and Proposition 2½ (which limits a municipality's aggregate property tax increases), has resulted in a system in which tax relief for one class results in a tax increase on another. Since 1984, business owners have subsidized Worcester's residential taxpayers to the tune of more than $650 million.

While it is unfair, as importantly it is unwise.

Experts agree that taxes can ultimately impact investment and growth. Worcester's commercial and industrial properties indicate sensitivity to extreme tax change, ultimately lowering property values and therefore moving the burden of taxation more and more onto residents. In 1984, commercial, industrial, and personal properties accounted for 35.42% of Worcester's total property tax value and 45.88% of Worcester's total property tax revenues. In 2015, these properties accounted for only 28.92% of Worcester's total property tax value and 39.14% of Worcester's total property tax revenues—a decline of approximately 18% in property tax value and 15% in property tax revenues. Worcester is losing its largest commercial taxpayers and too often the jobs that go with them. Instead, we see tax-exempt entities like health care and educational institutions becoming the mainstay of the economy—but not the tax base.

If Worcester looks to grow its economy and build its tax base, it must look at minimizing the impact of taxes on local business. It should especially look at the impact of taxes on industrial properties—once the foundation of the Worcester economy—that are less tied to local markets and more subject to national and even international competition. The data show that industrial properties, more than any other class, are negatively impacted by extreme tax rate changes. The City Council must take that into account as it sets tax rates going forward. In the long term, the City should buffer any individual property owner from significant annual tax rate shifts by either committing to limited tax increases or embracing a single tax rate.

A healthy city requires a large and diverse tax base to fund the many services, including education, infrastructure, and public safety, that make a city livable and a place for investment. As outlined in the Massachusetts Constitution, taxes should be "proportional and reasonable" so that no person or entity bears the brunt of funding government. Worcester must look at its approach to tax classification and the annual imposition of residential costs onto commercial property owners. A tax rate that equitably distributes the burden of government among all property owners is essential to the region's long-term sustainability and growth.

Since 1979, the City of Worcester has held the authority to apportion property taxes at different rates depending on classification. With the implementation of Proposition 2½ in 1984 capping annual increases in tax levies, the determination of tax rates has become a tug-of-war among classifications—a zero-sum game in which a savings for one taxpayer results in a shift of cost to another. Over the years, this annual debate has had significant impact on Worcester's business community. Since 1984, commercial, industrial, and personal property (CIP) taxpayers have paid over $650 million in property taxes that would otherwise have been paid by residential taxpayers under a single tax system. To view it another way, since 1984, residential taxpayers have saved over $650 million in property taxes courtesy of local businesses.

Research on tax classification generally finds that increasing taxes on commercial entities likely limits a municipality's economic potential. Experts have found that classification resulting in higher business taxes can dissuade companies from locating in a community, can cause communities to lose jobs and have slowed or negative growth, and can disproportionately impact small businesses, including female- and Latino-owned businesses. (See, for example, Fischel 1974, McDonald 1993, Alberro & Hamm, 2008, Lee & Wheaton, 2010, Frates & Shires, 2012). While The Research Bureau was not able to isolate direct evidence of tax-induced negative growth in Worcester, the city's lack of broad economic progress—with the notable exception of tax-exempt industries—is likely influenced by the ongoing pressure on commercial and industrial property owners to subsidize the residential and non-profit communities through increased taxes and financial responsibility for local government. The annual debate cannot be one-sided: Worcester must explore ways to reduce its reliance on commercial and industrial taxpayers, whether through a reduction in costs, the identification of new revenue sources, or a reallocation of the burden between commercial, industrial, and residential property owners.

Tax Classification

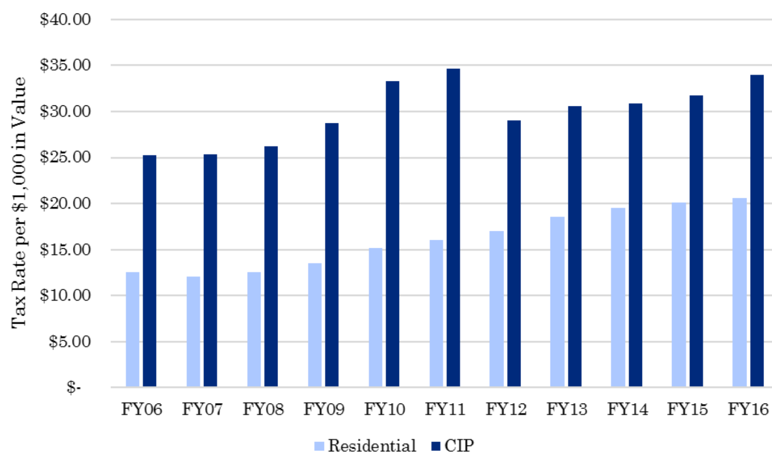
According to the well-known aphorism, there is nothing more certain in life than death and taxes. In Massachusetts, property taxes are more certain than most. While state and federal governments set tax rates and then budget based on estimated revenues, local governments set budgets and then levy property taxes at the rates necessary to meet budget numbers. Property taxation is made in hindsight: municipalities approve budgets in the spring, but establish tax rates in the fall after determining values for all properties. Unlike state or federal government processes, local revenue generation is based on a known quantity and not dependent on uncontrolled variables like domestic income or sales. Therefore, the act of setting tax rates simply distributes the budget burden among taxpayers. It does not establish the burden itself—a burden set with the spring-time approval of the budget.

Subject to Chapter 59 of the Massachusetts General Laws, property taxes are essential to municipal budgets. Property taxes account for nearly half of the City of Worcester's revenue and, importantly, comprise the bulk of the City's discretionary spending—items that can be added, increased, decreased, or removed by local leadership.

The *Massachusetts Property Classification for Taxation Amendment* of 1978 authorized the legislature to establish up to four classes of property that could be taxed at different rates. In 1979, the General Court adopted legislation allowing communities to classify property according to four distinct classes as well as personal property:

- **Class One: Residential** — Property containing one or more units for human habitation, as well as accessory land and buildings incidental to such uses such as lawns, swimming pools, and garages. Class One includes single and multi-family dwellings. Temporary accommodations like hotels and motels are not included in this class.
- **Class Two: Open Space** — Land maintained in an open or natural condition which contributes significantly to the benefit and enjoyment of the public. Class Two property cannot be used to produce an income. There are no taxable properties of this class in Worcester.
- **Class Three: Commercial** — Property used or held for business purposes such as office buildings, warehouses, retail stores, and hotels.
- **Class Four: Industrial** — Property used for manufacturing, processing, or fabrication, including the generation and storage of utilities.
- **Personal Property** — Tangible property, not attached to land, including business equipment, inventory, and furniture and fixtures. Utility poles and conduits also are subject to personal property taxes.

Figure 1: Property Tax Rates in the City of Worcester



Source: City of Worcester & Massachusetts Department of Revenue Data

Under Massachusetts law, a municipality like Worcester must engage in a three-part process in order to classify and tax properties differently. First, the City Assessor must demonstrate, subject to the certification of the Massachusetts Commissioner of Revenue, that all properties have been fairly assessed at market value. Second, the Assessor must classify all property according to use. Third, the City Council may vote in a public hearing to assess tax rates among the various classes of property. The first and second steps are mandatory to every community. The third step only occurs in "split roll" communities, or those that embrace tax classification and split the tax roll among various property classes, such as Worcester.

While Massachusetts allows the taxation of different classes at different rates, there are restrictions that limit the extent that the burden is shifted from one class to another. The single tax rate is the rate at which the annual property tax levy can be raised while taxing all classes (residential and CIP) at same rate. No tax rate on any property classification can rise or fall more than 75% of the prior year's single tax rate. (Periodically, this restriction has been amended to as low as 50% in the years 1984 through 1988, and as high as 100% in 2004.) Additionally, Massachusetts Proposition 2½, implemented in 1984, requires that the total annual property tax revenue raised by a municipality shall not exceed 2.5% of the assessed value of all taxable property contained in it, and the annual increase of property tax levy cannot exceed 2.5%, plus the amount attributable to taxes from new real property.

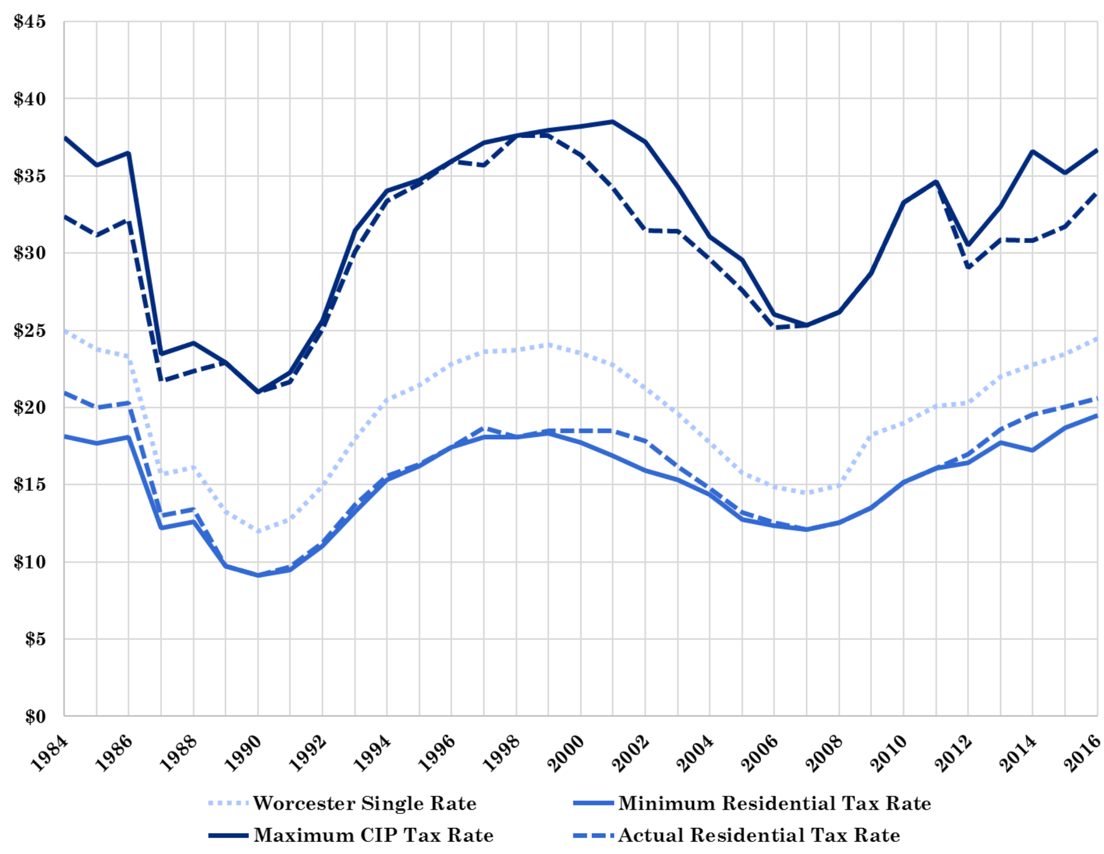
In FY2016, the various limits allowed the City to raise the residential tax rate as high as $24.46 or lower it to $19.51 per $1,000 of assessed property value. CIP tax rates could have gone as high as $36.70 or as low as $24.46 per $1,000 of assessed property value. In the end, the City Council approved rates of $20.61 for residential properties and $33.98 for CIP properties.

A Zero-Sum Game

The dual limits that tax classification and Proposition 2½ place on tax rates create a tug-of-war among the classes, as municipal governments work to satisfy Proposition 2½'s limits on the budget within the prescribed limits of tax burden that can be placed on any one group.

Since the implementation of Proposition 2½ in 1984, tax rates have shifted significantly over the years, from a residential low of $9.15 in 1990 to a commercial high of $37.63 in 1998 and 1999. The Worcester City Council, which sets tax rates, has often shifted the tax burden to the highest allowable tax rate on CIP properties and the lowest allowable tax rate on residential properties. Figure 2 illustrates that shift together with the annual single rate, around which the residential and CIP tax rates are set.

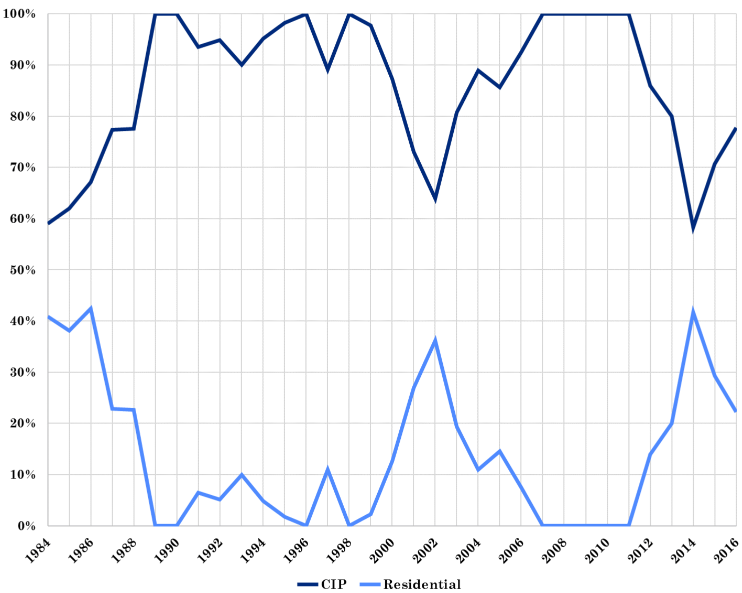
Figure 2: Worcester's CIP Tax Rate is Historically At or Close to the Maximum Rate Allowed Under Law, While the Residential Tax Rate Remains Close to the Lowest Possible Rate, 1984-2016.



Source: City of Worcester & Massachusetts Department of Revenue Data

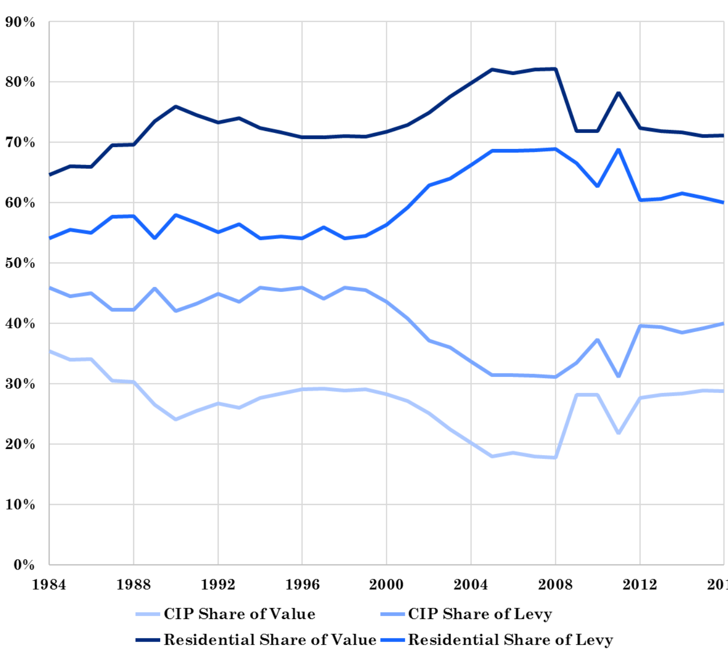
In 1992, the tax burden was divided among 3,959 CIP parcels valued at $1.75 billion and 34,789 residential parcels valued at $4.79 billion. In 2016, however, the tax burden was divided among only 3,421 CIP parcels valued at $3.24 billion but approximately 39,985 residential parcels valued at $8 billion. While the residential tax burden is being distributed among a growing number of properties, a smaller number of commercial properties are attempting to carry the CIP tax burden. Whether or not this has had a causal effect on the value of CIP properties, the decline in CIP values over the last 25 years has had a dually negative effect, shifting a greater tax burden onto the residential property class as well as a shrinking CIP base.

Figure 3: Since 1984, Worcester's CIP Tax Rates Average 86.3% of the Maximum Allowed Shift, while Residential Tax Rates Average Only 14%, 1984-2016



Source: City of Worcester & Massachusetts Department of Revenue Data

Figure 4: Since 1984, CIP Properties have Carried a Higher Share of the Tax Levy than Their Share of Worcester's Assessed Value, 1984-2016



Source: City of Worcester & Massachusetts Department of Revenue Data

Figure 5: The Average 2016 Residential Tax Payment in the City of Worcester was $3,871, Less than All Adjacent Communities except Leicester.

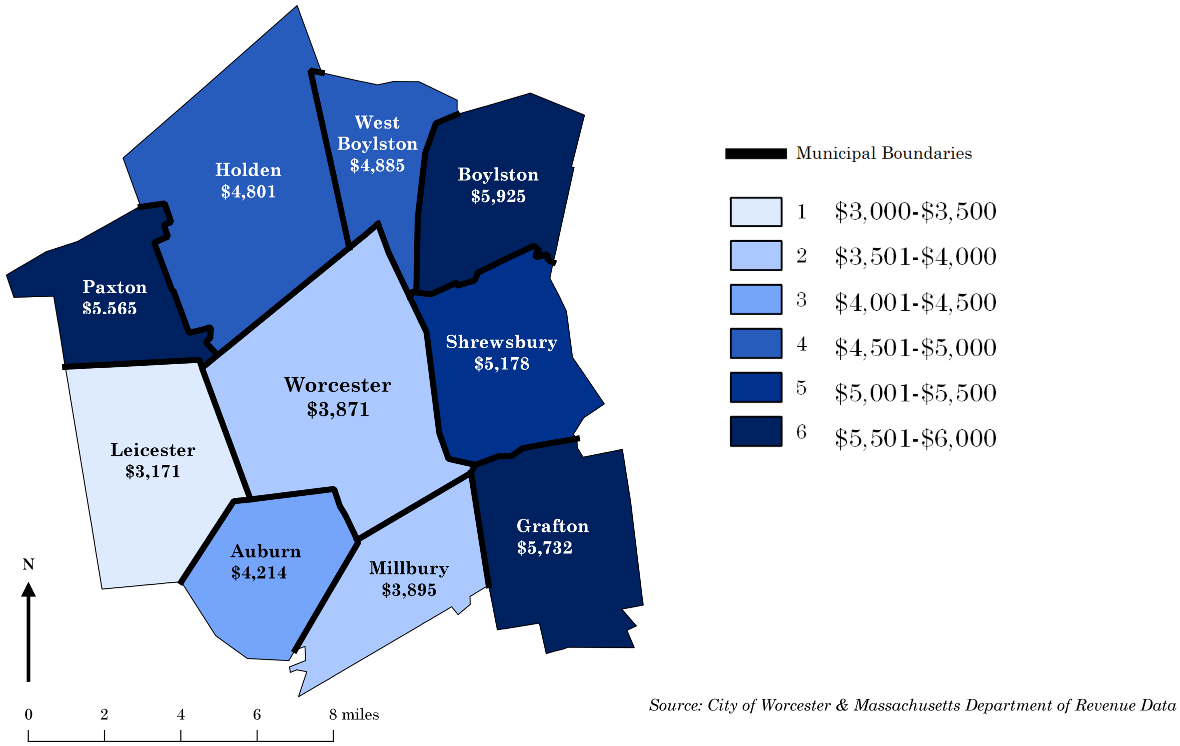
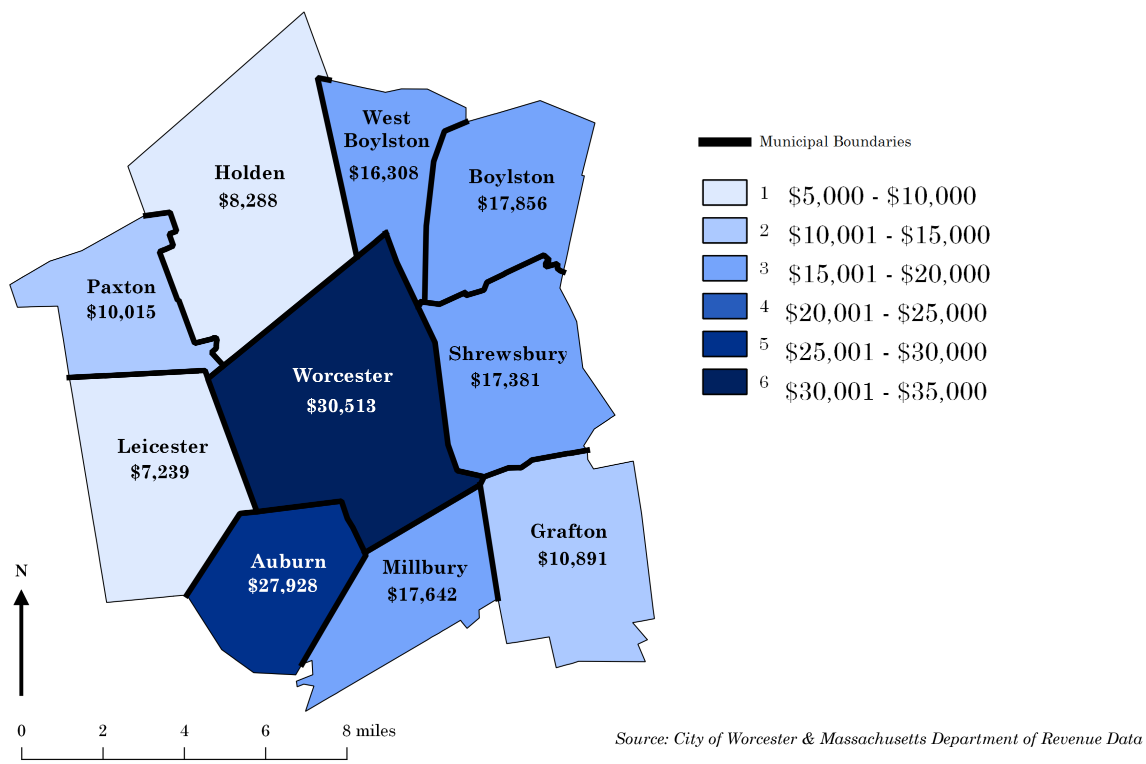


Figure 6: The Average 2016 Commercial Tax Payment in the City of Worcester was $30,513, Up to Four Times Higher Than Adjacent Communities.



N.B. The range of property values plays a significant role in averages among communities, most notably in commercial property values. Worcester contains a number of commercial properties that are exponentially more valuable than any properties in neighboring communities (and even in Worcester itself) and therefore the average tax payment may be higher than the tax payment actually made by most commercial property owners.

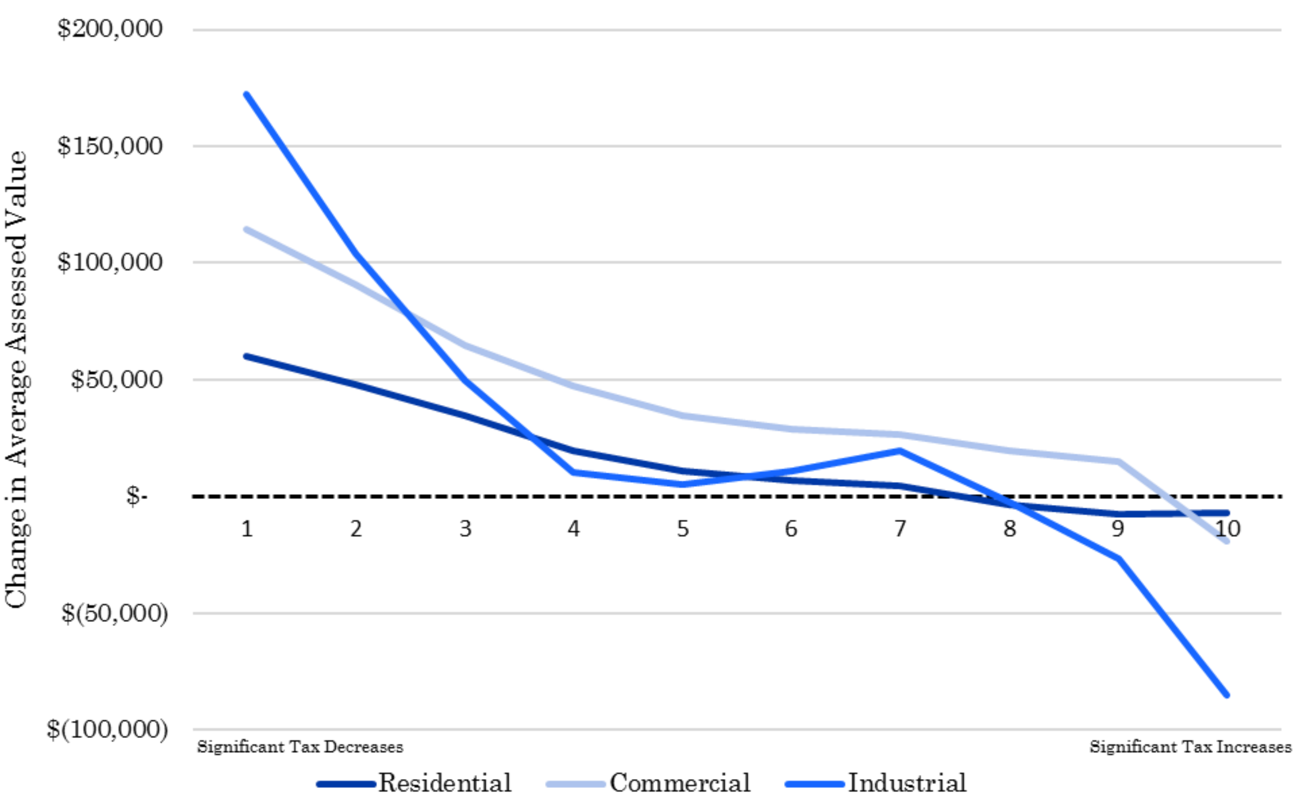
The Lasting Effect of Taxes

The structure of property taxation in which rates are set upon pre-determined values makes assessing the impact of tax rates challenging. In Massachusetts, tax classification and Proposition 2½ caps create additional challenges. If rates were set first, the impact on values would be more evident. Since values are determined first, rates do not drive valuation changes for a year or more. Therefore, while we can see definite correlation between property values and tax rates—as values go down, rates rise in order to secure sufficient revenues to meet municipal budget needs—there is no absolute causality that property tax rates impact property values.

Yet according to the literature, higher tax rates should have negative impacts on the marketplace and therefore have negative impacts on valuations.

The Research Bureau reviewed tax rate shifts across residential, commercial, and industrial classifications in all Massachusetts communities over the last 30 years and compared them to the change in property values one year after implementation. At this macro level, a change in tax rates correlates to a change in property values at the extremes. While nearly two-thirds of all tax rate shifts fell within one dollar of the previous year's rate, effects become clear when rate changes are arranged in deciles from "1" (greatest reduction in tax rate) to "10" (greatest increase in tax rate)—each bin containing a little over 900 year-over-year changes from 1984 to the present. As illustrated in Figure 7, significant decreases in tax rates are followed by increases in property values one year later while significant increases in tax rates are followed by decreases in property values. Property taxes matter in Massachusetts.

Figure 7: Significant Changes in Tax Rates Correlate to Changing Property Values in Massachusetts One Year After Implementation, by Rate Change Decile, 1984-2016



Source: City of Worcester & Massachusetts Department of Revenue Data

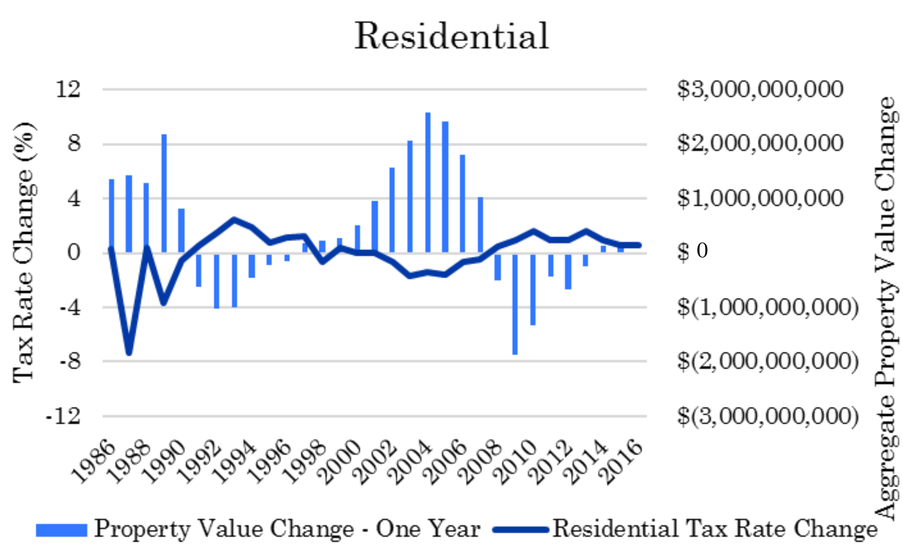
The data also indicate that residential properties are best able to retain value following major tax increases. While there is predictable decline in value as tax rates rise, residential properties do not exhibit significant vulnerability and disruption at the extreme. Industrial properties, however, illustrate considerable sensitivity to aggressive tax rates. Commercial property, too, lost increasing value in the most extreme scenarios. While all property types demonstrated the ability to appreciate in a majority of tax rate shifts, commercial and industrial properties—on which the tax base disproportionately depends—are most impacted at the extremes.

While Figure 7 indicates correlation between tax rates and property values, The Research Bureau was not able to separate out the potential impact of broader economic downturns from the impact of tax rates.

In reviewing the City of Worcester's own experience, tax decreases and property value increases generally correlate. Residential property consistently shows increased value one year after tax reductions. However, in this case, within the limits of Proposition 2½, housing markets are likely driving tax rates due to the housing bubble of the mid-2000s (pushing values up and therefore taxes down) and the Great Recession of the last half of the decade (pushing values down and therefore taxes up). Commercial and industrial property values are less predictable than housing values, but they are also subject to more dramatic changes in annual tax rates. Examining trends over the last thirty years, residential properties have slowed in value appreciation, commercial properties have slightly increased in appreciation, while industrial properties are stagnant.

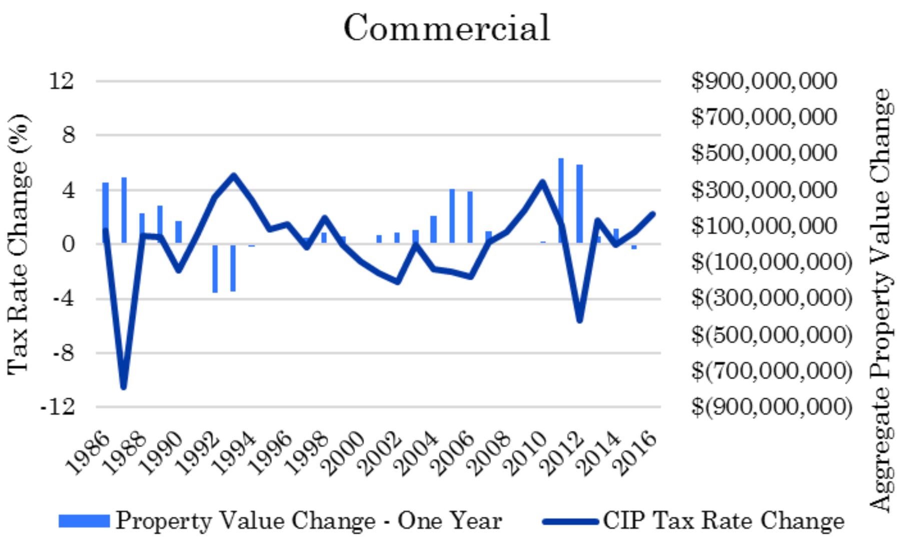
Industrial property has shown additional vulnerability in its valuations due to state and national trends. While commercial properties have regained value lost in the mid-1980s and the Great Recession, industrial properties have not regained value and consequently contribute far less to municipal tax revenue and employment (See Figures 9 and 14).

Figure 8: Worcester Property Classes Indicate Correlation Between Tax Rates Changes and Property Value Changes, 1986-2016

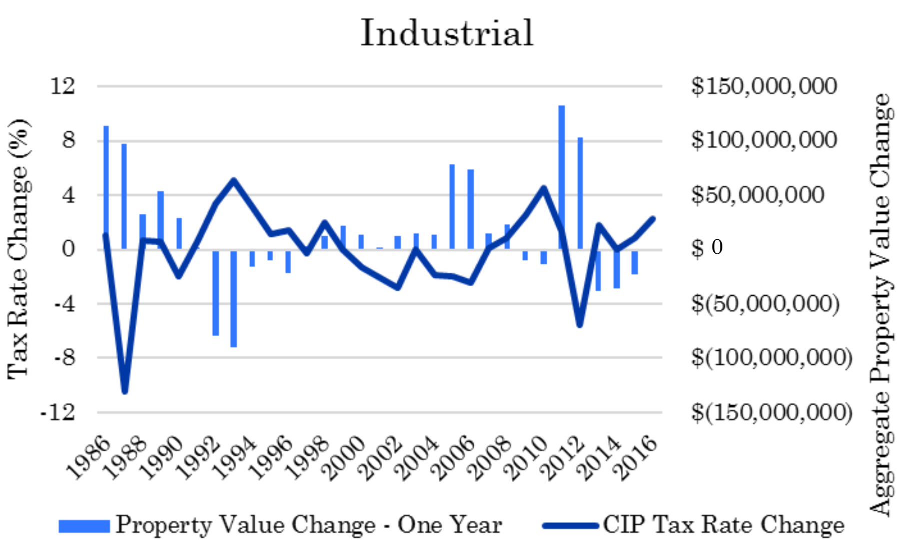


Source: City of Worcester & Massachusetts Department of Revenue Data

Figure 8 *(continued)*: Worcester Property Classes Indicate Correlation Between Tax Rates Changes and Property Value Changes, 1986-2016



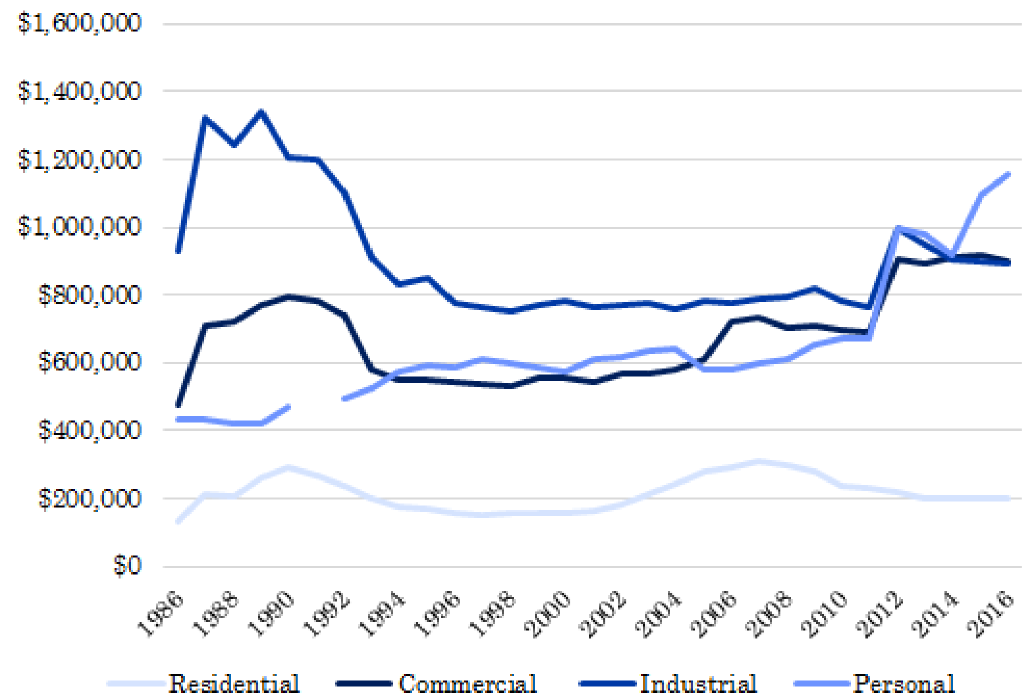
Source: City of Worcester & Massachusetts Department of Revenue Data



Source: City of Worcester & Massachusetts Department of Revenue Data

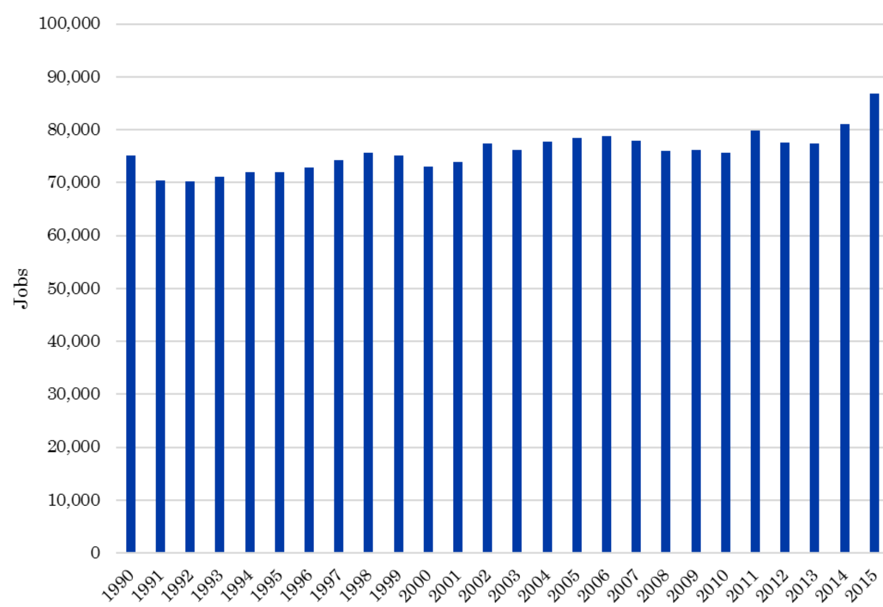
It is important to note that since 2009, the average property value for commercial, industrial, and personal property in Worcester has increased at a greater rate than residential property. Yet much of that increase occurred during the 2012 reevaluation in which it was determined that many CIP properties were undervalued and new assessments resulted in significant (and to many owners staggering) new numbers. That reevaluation skews local outcomes. Residential values have remained somewhat flat despite significant growth in communities to the east.

Figure 9: While Worcester's Average CIP Property Values Have Increased Since the Great Recession, Much of the Increase is a Result of the 2012 Reevaluation and Industrial Values are Significantly Below the Start of Tax Classification, 1986-2016



Source: City of Worcester & Massachusetts Department of Revenue Data

Figure 10: Worcester's Job Market, An Indicator of Residential Demand, Has Also Remained Relatively Flat, 1990-2015



Source: Massachusetts Department of Labor & Workforce Development

Property Taxes and the Workforce

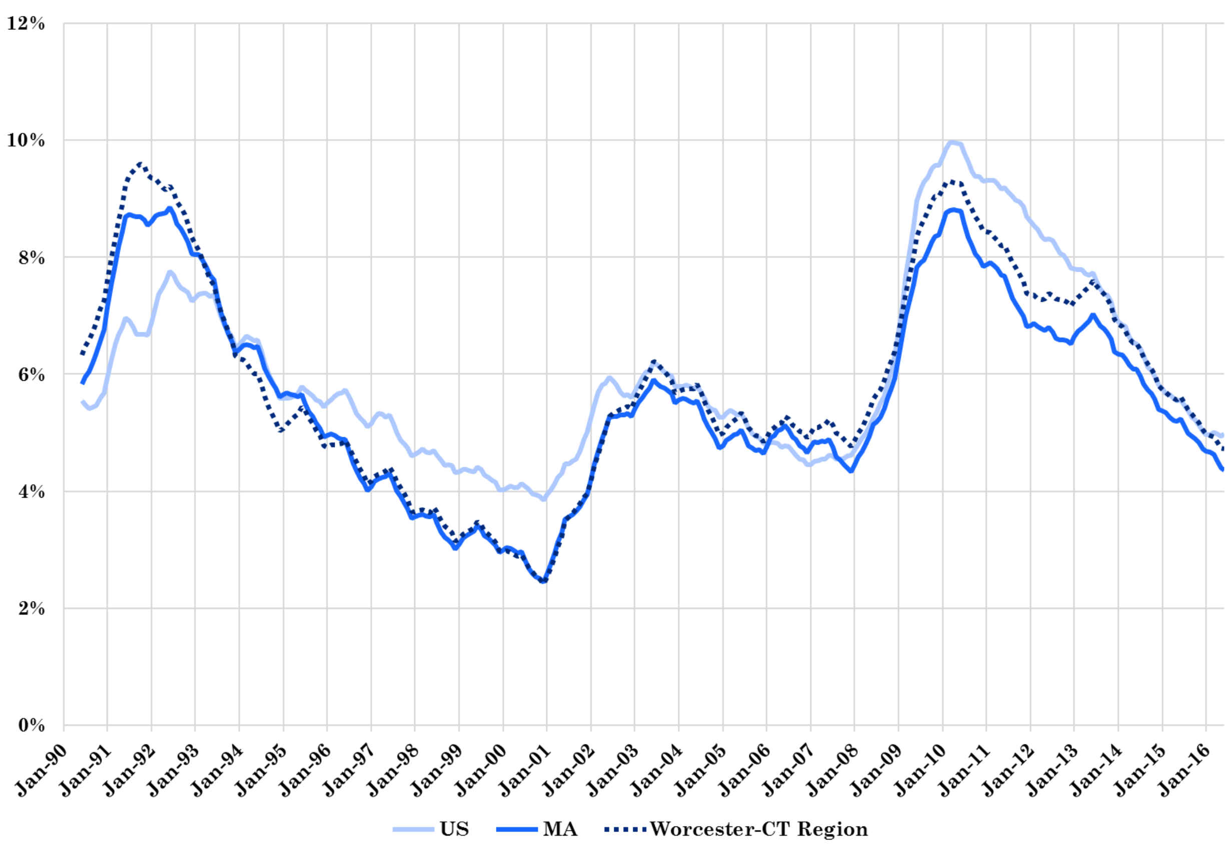
Commercial and industrial properties are not simply competitors in Worcester's tax tug-of-war, but in most cases the source of income for Worcester's residential taxpayers. It is important to recognize that Worcester's economic success and labor trends have considerable impact on a household's abilities to meet housing costs. Regardless of tax rates, Worcester has generally aligned with national unemployment trends since 1990; there was only a three-year stretch (1990-1993) in which the City had notably worse employment than the rest of the country. Even more closely aligned with Massachusetts unemployment rates, Worcester has nevertheless had more difficulty recovering from the 2009 recession than has the rest of the state.

Table 1: Average Unemployment Rate, 1990-2016

Worcester	Massachusetts	United States
5.9%	5.6%	6.1%

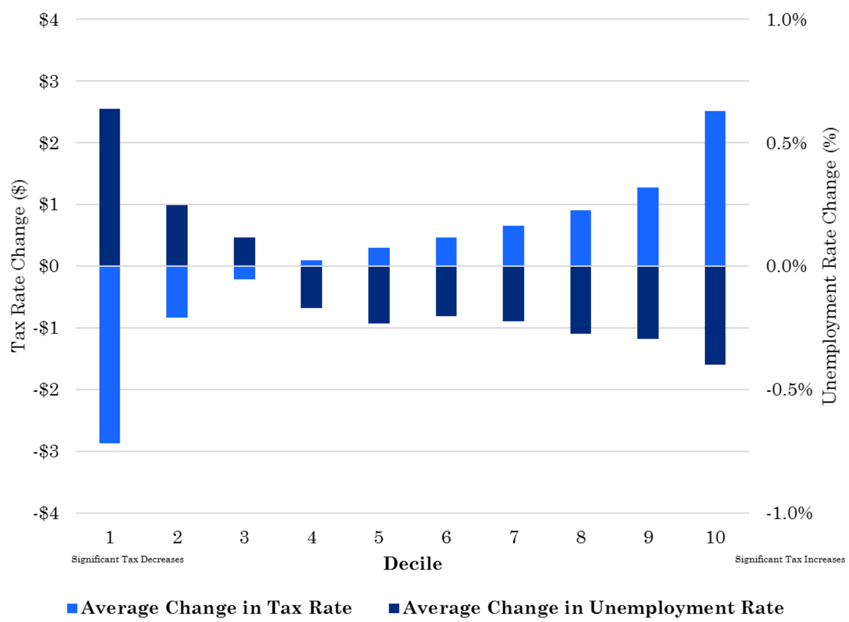
Source: U.S. Bureau of Labor Statistics

Figure 11: Worcester's Unemployment Generally Tracks the Massachusetts and National Averages, 1990-2016



It is interesting to note that tax rates appear to have little correlation to changes in employment. When commercial and industrial tax rate changes in all Massachusetts communities are arranged in a similar decile fashion to Figure 7, the relationship appears to contradict economic theory (See Figure 12). If anything, increased tax rates have correlated with increased employment in the following year for Massachusetts as a whole.

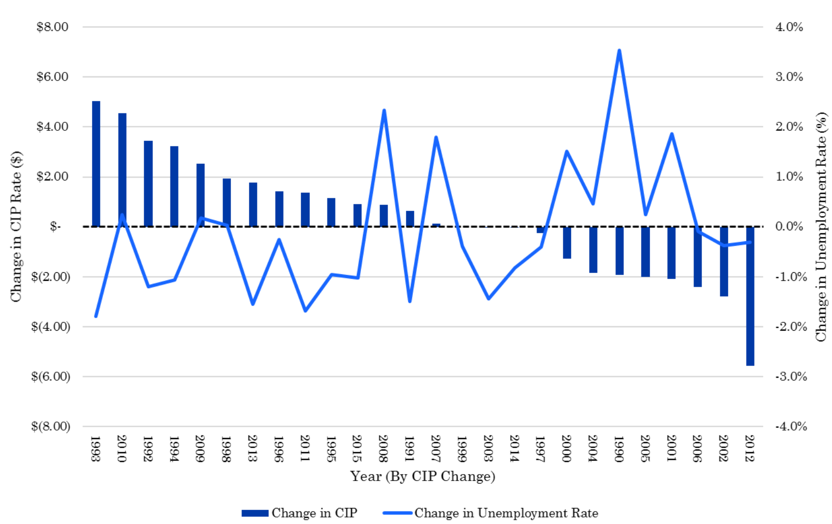
Figure 12: Impact of Changing Property Tax Rate on Employment in Massachusetts, by Rate Change Decile, 1990-2016



Source: Massachusetts Department of Revenue & U.S. Bureau of Labor Statistics Data

Reviewing Worcester's particular case since 1990, unemployment dropped an average of 0.5% the year after the CIP tax rate was raised. In years the CIP tax rate was lowered, unemployment increased an average of 0.4%. Based on the literature, tax rate raises should not result in increases in employment, but the data suggest that employment is tied to larger national trends (see Figure 11) and is largely unaffected by normal municipal tax rate shifts. The Worcester example also likely indicates the ability of largely tax-exempt industries—especially colleges, universities, and health care facilities—to expand regardless of tax conditions.

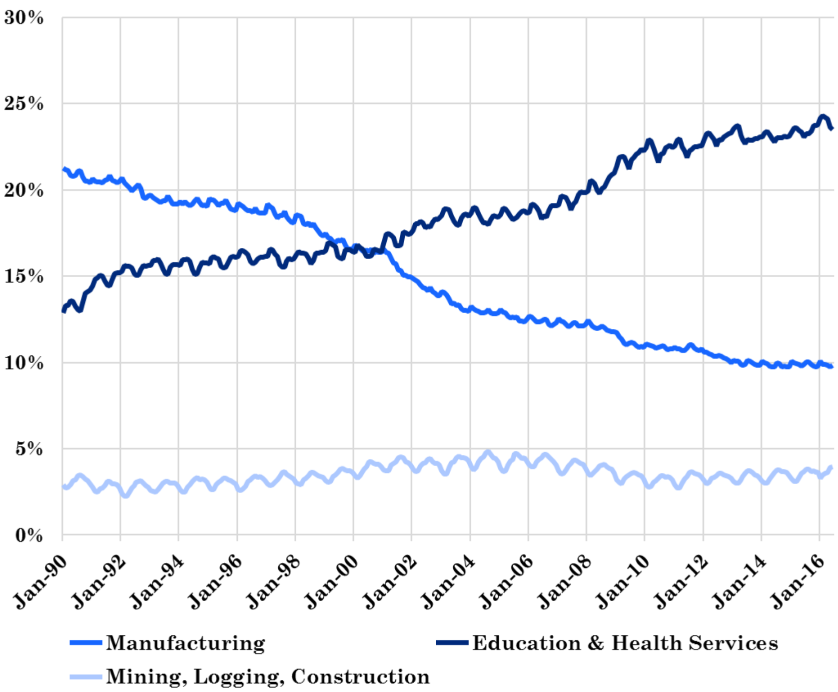
Figure 13: Impact of Changing Property Tax Rate on Unemployment in Worcester, by CIP Rate Change, 1990-2015



Source: Massachusetts Department of Revenue & U.S. Bureau of Labor Statistics Data

While Worcester has usually performed between state and national averages, general labor measures mask the gradual shift in employment among sectors. Worcester's well-known manufacturing decline is reflected in the percentage of the labor force employed within that sector. Conversely, Worcester's education and health care industries—usually tax-exempt—have steadily grown at rates above state and national averages, supplanting manufacturing's primacy in Worcester employment.

Figure 14: Worcester Labor Force, Selected Sectors 1990-2016



Source: U.S. Bureau of Labor Statistics

What the education and health care industries cannot replicate, however, is the lower barrier to entry into employment historically afforded in manufacturing—more so than health care, industrial positions do not require advanced degrees. Education and health care occupations also cannot replace the salaries afforded by manufacturing, nor can the service sector more broadly. Per U.S. Bureau of Labor Statistics data, the average worker in manufacturing earned \$1.40 for every dollar earned by an education or health care worker in Worcester County, and \$1.56 for every dollar earned by a service worker outside the education and health care industries.

Table 2: Average Worcester County Salaries, 2015

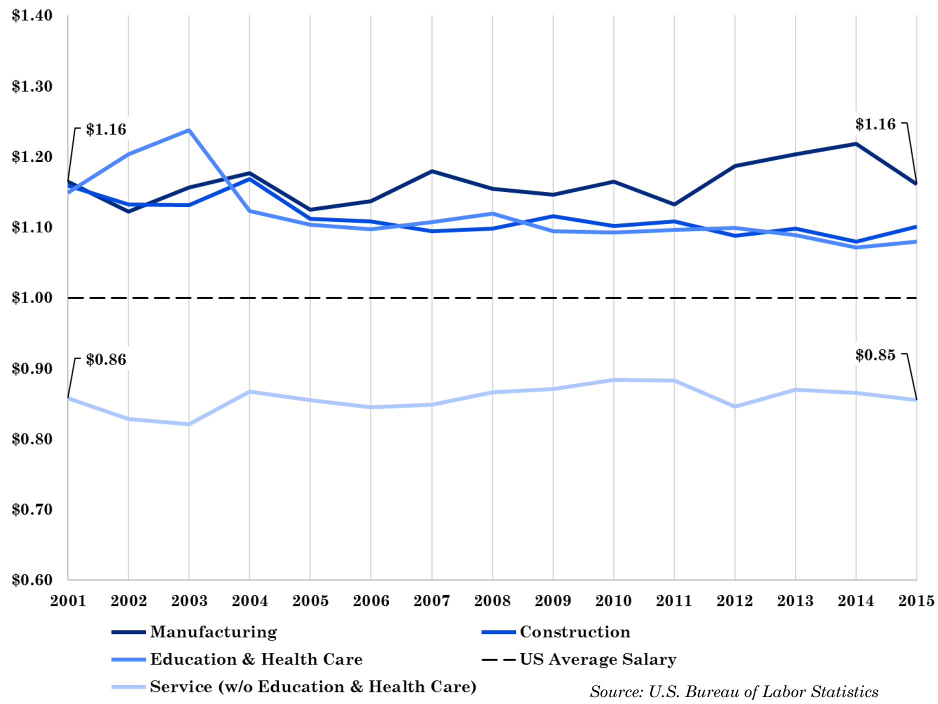
Industry	Average Annual Salary, 2015
Manufacturing	**\$74,642**
Education & Health Care	**\$53,490**
Service (excluding Education & Health Care)	**\$47,849**

Source: U.S. Bureau of Labor Statistics

Finally, education and health care industries, generally tax-exempt, cannot replace the municipal tax revenue generated by industrial properties.

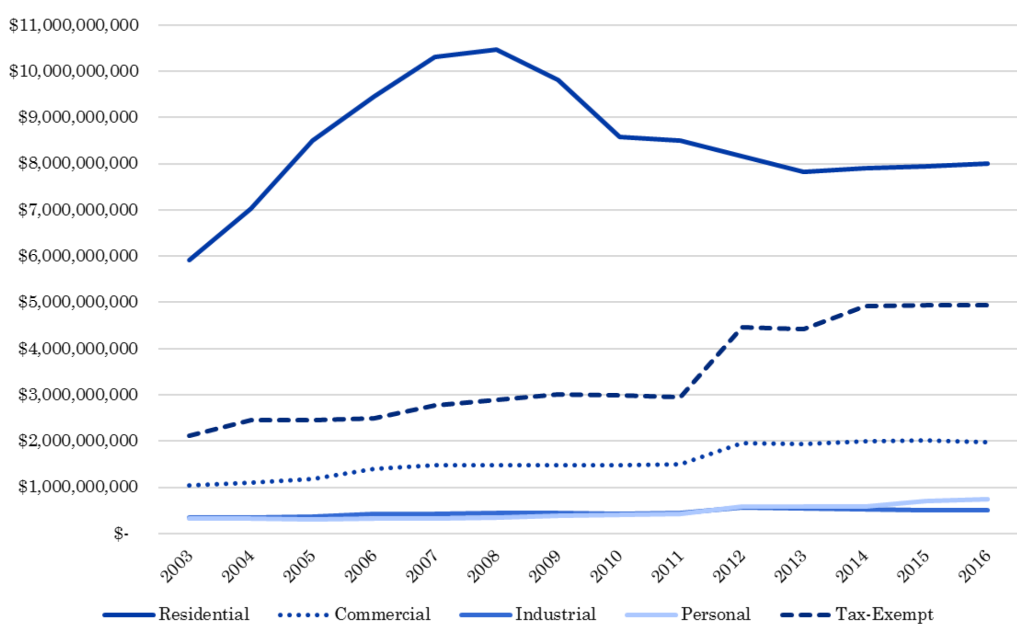
Moving forward, however, education and health care are vital to the future economic well-being of Worcester residents. In addition to the intrinsic benefits to the community of such professions, education and health care are among the few occupations in the service sector that offer salaries well above the national average.

Figure 15: Earnings per Dollar of U.S. Average Salary by Industry, Worcester County, 2001-2015



This latter point is crucial because, since 1990, almost the entire growth of the service sector as a percentage of Worcester's labor force (75.8% to 86.4%) comes via education and health care. As evident from Figure 16, the value of Worcester's tax-exempt entities is steadily growing—a needed source of employment but not a sufficient replacement for maintaining and growing the city's tax base.

Figure 16: Total Property Valuations by Class and Tax Status, Worcester, 2003-2016

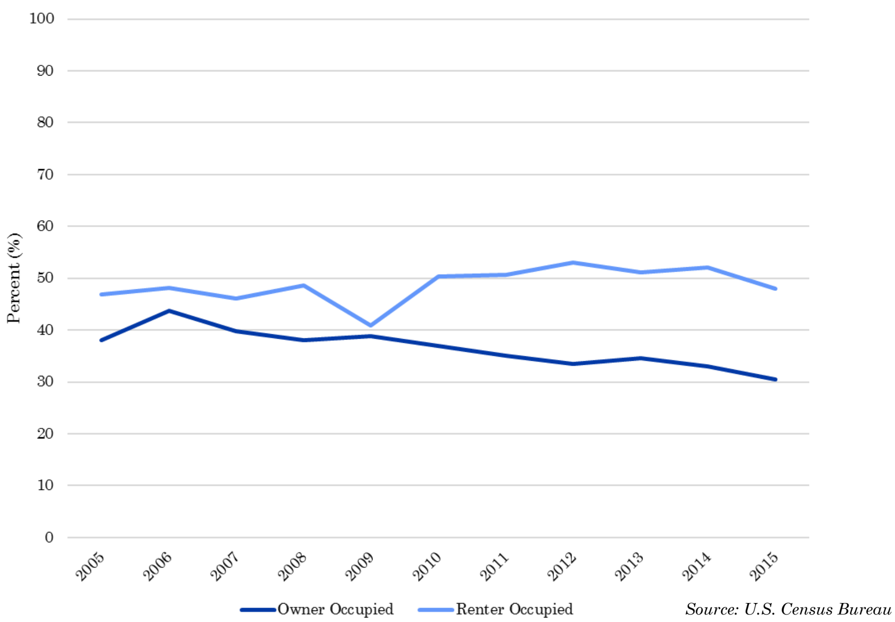


Source: City of Worcester & Massachusetts Department of Revenue Data

Living with Taxes

While the previous data indicate the impact of the tax burden on CIP properties and employment, that does not mean residential property owners have avoided increased housing costs. Over the last ten years, the median cost of housing has risen slightly for renters and declined for homeowners. That said, in both cases, housing costs are at or above 30% of household income, which exceeds the standard for federal housing programs. Since residences are a major source of household equity, flat values limit asset growth for homeowners.

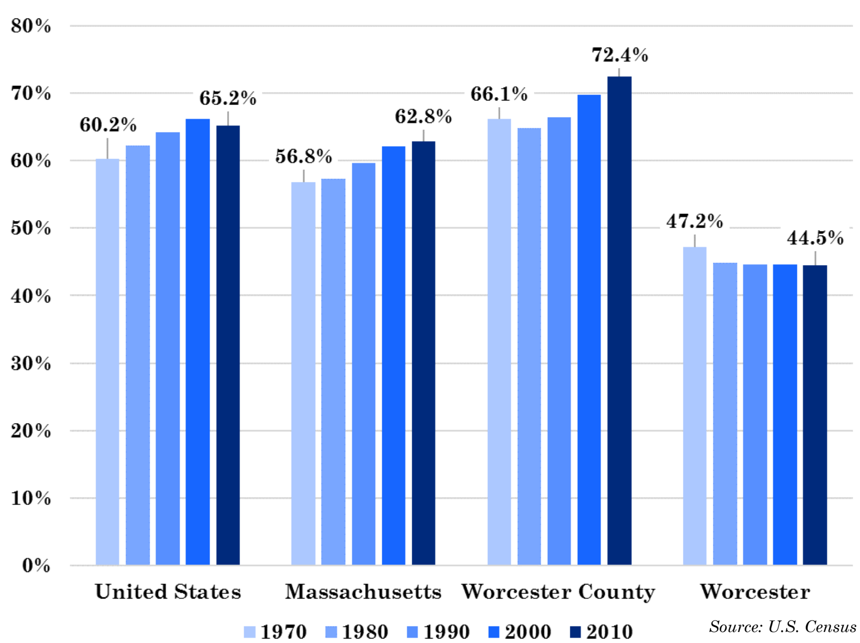
Figure 17: The Median Renter and Homeowner in Worcester Spends More Household Income on Housing Than Federal Housing Standards Recommend, 2005-2015



Source: U.S. Census Bureau

Renters in particular have borne a greater burden on income relative to homeowners, which suggests that increases in residential property taxes may have greater impact on renters relative to homeowners. Depending on market elasticity, landlords may pass property tax increases on to renters. In a diverse city like Worcester, policies with disparate impacts on rental housing can also have a disparate impact on racial and ethnic groups. According to the U.S. Census Bureau, 76.8% of people of color and 51.3% of whites live in rental housing.

Figure 18: Percentage of Housing Units Owner Occupied, 1970-2010



Source: U.S. Census Bureau

In the 1920 U.S. Census, 62% of households in Worcester County rented; by 1930 that figure had dropped to 55%, though it rebounded to 60% by the 1940 Census. The 2010-2014 American Community Survey indicates that 56% of Worcester households currently rent their place of residence.

Taxing a Vibrant Community

Over 100 of Massachusetts' 351 communities have adopted a dual tax rate. Except for embracing streamlined budgets, it is one of few tools available to local governments to offset property tax increases on residents. Yet the impact of Proposition 2½ and classification limits results in a destructive battle between residents and businesses and is ultimately a losing proposition for both.

According to a July 2006 report by Christopher H. Wheeler of the Federal Reserve Bank of St. Louis:

> Taxes represent a cost of doing business and could have a negative effect on economic activity, all else constant. However, tax revenue is often spent to maintain public infrastructure and services (e.g., roads, public utilities, education) that directly or indirectly have an impact on an employer's ability to perform its daily operations...Higher levels of per capita expenditures devoted to primary and secondary education, fire and police protection, highways, water utilities, and sewerage and solid waste management all correspond to greater numbers of businesses being established over time within a ZIP code.

Cities like Worcester require property tax revenue to survive. Municipal services are essential to both residents and businesses. Worcester must find ways to maximize revenue and maximize services, all while minimizing cost.

Unfortunately, as stated by the Massachusetts Department of Revenue in its 2004 report, "we found that there is little justification for classification other than the politically expedient outcome of keeping the residential tax burden low." Tax classification is a short-sighted effort to pass the buck on costs and does not strategically raise revenues or encourage economic growth.

Worcester's history with tax classification rings true. Shifting the tax burden from residential to CIP properties has potentially limited or even negated economic growth over the years. As the analysis indicates, CIP properties, especially industrial properties, are impacted by significant tax burdens. While certain businesses may be able to pass on the cost of taxes to consumers, that is not always true in an elastic service-based local market or for industrial users competing in national or international markets. Residential property values have remained relatively flat for decades—no doubt influenced by the low growth of jobs and the employment shifts from higher-paying industrial positions to lower-paying service positions.

The City Council's annual discussion of tax rates must consider the long-term impacts of a disproportionate tax burden.

The City should work to minimize or even equalize the tax burden among the classes. According to our analysis, residential properties have held value better than CIP properties under increasing tax burdens. Residential properties could likely absorb additional property tax burden without dramatically impacting value. In making such a shift, however, the City must consider the impact on household resources, especially those of renters. Any effort to equalize tax rates must be phased over time to ensure that increases are incremental and predictable and minimally burdensome on the residential taxpayer. While the data indicates that CIP properties have been able to shoulder limited tax increases, extreme shifts over the years have negatively impacts property values and the economic viability of business operations. Decreased values means a decreased ability to borrow and expand a company. A decreased ability to borrow means less reinvestment and therefore a loss of potential tax growth to the municipality. As residential tax rates increase, CIP tax rates should similarly decrease—incrementally and predictably.

The Additional Case for Industry

Conceptually, it is not revolutionary to focus especially on the challenges for industrial property —the State identifies it as a separate class in Chapter 59 of the Massachusetts General Laws. Yet industrial property is taxed at the same rate as commercial and personal property. We suggest that commercial and industrial property utilize the City and its resources in different ways; industrial properties are much less dependent on local markets for customers and, in a global logistics economy, much less tied to geography. Local property taxes become one more cost on top of shipping, state and federal taxes, even international tariffs. Industrial properties employ more permanent, salaried work, at wages well above other sectors and national averages (See Figure 15). Furthermore, with technological innovation, industry is becoming increasingly integrated with computer and bio-technology, creating a new and rapidly expanding area of commerce that is outgrowing Boston and reaching toward Worcester's educated young professionals. With the right inducements, Worcester can redefine its industrial heritage.

Under the current law, the City is unable to create an independent, reduced industrial tax rate unique from that of commercial and personal property. If tax classification proves intractable in the near-term, the City should consider appealing to the Commonwealth to eliminate the restriction. While an independent industrial tax rate would require the City to allocate the tax burden among the other property classes, the shifts necessary to accomplish this may not be exorbitant. If industrial properties had been taxed as low as the residential property tax rate in FY2016, the residential rate would have risen $0.85 per $1,000 dollars of residential property value. Building on City's Assessing Division calculations, this would have raised the median residential property tax bill only $148 over the calendar year. The average industrial property owner would have saved nearly $12,000. To mitigate such a drastic change to the industrial rate, however, a more reasonable approach might have been to tax industrial property at the single tax rate, an FY2016 reduction from $33.98 per $1,000 of assessed value down to $24.46. Residential owners would have seen a tax rate increase of $0.60 per $1,000 of assessed value, for an annual average increase of $104. The resulting shift would save industrial owners over $4,800 in a year. This assumes that the commercial tax rate remained unchanged.

Such a radical approach would highlight Worcester's commitment to business and economic growth. It would reinforce its relationship with existing industrial property owners and encourage expansion. It would constitute a drastic tax reduction for industrial properties, at the level at which we observed real changes in value among all property values (See Figure 7). The encouragement of industry could subsequently entice industrial and technological start-ups by reducing overhead and creating career opportunities for Worcester's college graduates. A growing tech sector in Worcester would be a low-cost alternative to Boston and further bolster the development of economic links along the I-90 corridor. Worcester's large health care sector would have a ready partner in innovation. With new growth, both residential and commercial rates would ultimately follow suit as new investments occurred, values rose, and the tax burden was disbursed among more valuable properties.

Conclusion

Every fall, the Worcester City Council debates the City's tax rates and every year pushes the burden onto commercial and industrial property owners. As the Town of Auburn works to reestablish a single tax rate, Worcester will soon remain the lone classified system in our immediate region. We slowly lose our competitiveness both locally and beyond.

The City must raise revenue. It must create a livable community. It must address public needs such as education, public safety, and infrastructure. And it must also create an environment that supports business growth and the income-producing jobs that provide for its residents.

A city is a place where many people live and work. Without careful consideration and long-term thinking, Worcester may find itself challenged to provide a home for both residents and the jobs that sustain their livelihoods.

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Worcester Regional Research Bureau, Inc.

Special thanks to Benjamin Wendorf (Quinsigamond Community College) and Kathryn Nutting (College of the Holy Cross) who contributed to this report.