CENTER CITY REPORTS

PHILADELPHIA: AN INCOMPLETE REVIVAL

JANUARY 2017

CENTER CITY DISTRICT
CENTRAL PHILADELPHIA DEVELOPMENT CORPORATION

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***Time for Tax Reform*: Last summer, both the Pennsylvania House and Senate passed HB 1871, providing Philadelphia with the flexibility to assess properties used for business purposes at a higher rate than residential properties, so long as all the incremental revenues raised are used to lower the City's wage and business taxes. In the coming session, the State House and Senate will vote again on what is now called *Joint Resolution 2016-3.* This report highlights the direct relationship between Philadelphia's antiquated tax policy, slow job growth and high poverty rate and suggests a path to more robust, citywide growth.**

American cities have outperformed the national economy in recovering from the Great Recession. The 25 largest U.S. cities have added jobs at the rate of 2.8% per year between 2010 and 2015, while job growth for the nation as a whole has been 2.2% per year. Philadelphia's job growth, however, has lagged far below the national average, at just 1.1% per year, slower than in Baltimore, Detroit and Memphis. These statistics may seem out of sync with the signs of success rising on the skyline of Center City and University City each day, but they reveal the physically limited and incomplete nature of Philadelphia's revival.

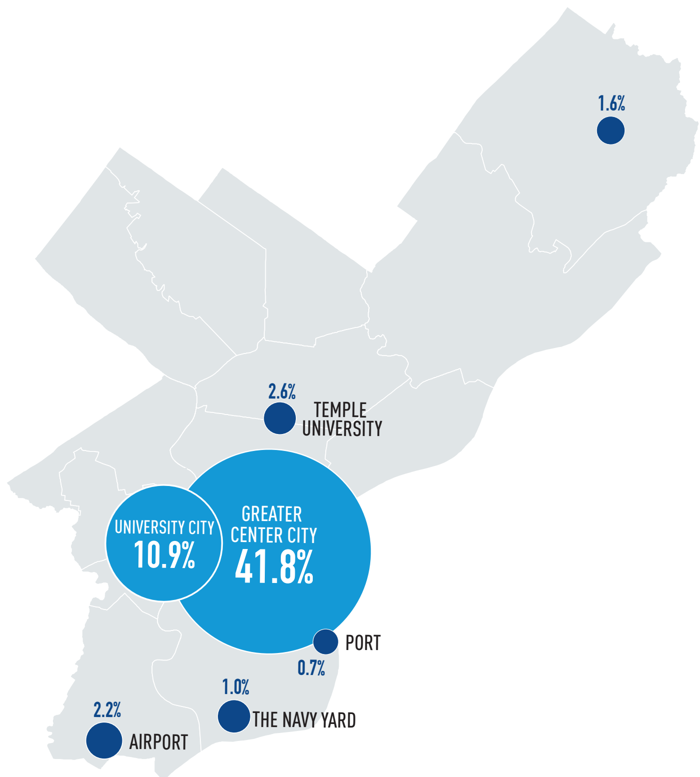
Of the 25 most populous counties in the U.S., Philadelphia has the dubious distinction of ranking the highest for both its adult poverty rate (25%) and child poverty rate (38%) and last in terms of median income, at $41,210. In four of Philadelphia's ten Council Districts (Third, Fifth, Seventh and Eighth), the poverty rate is significantly above the citywide average, peaking at well above 40% in portions of eastern North Philadelphia and Kensington.

Philadelphia has experienced sustained employment and population growth in its two largest employment nodes, Center City and University City, which together provide 53% of all jobs in the city (see Figure 1). Both are thriving success stories. Thirty-one percent of the working residents of each Council District, living outside Greater Center City, commute to work in these two transit-oriented job centers. The Navy Yard, the Port of Philadelphia, Philadelphia International Airport, Temple University, industrial parks and retail centers in the northeast provide other smaller nodes of city-based opportunities, totaling less than 10% of city jobs.

But on average, 39% of the working residents of each Council District are reverse commuting to jobs each day in the suburbs, sometimes taking multiple train and bus trips more than an hour each way.[1] The educational requirements for suburban jobs are not different from those required for city-based jobs; there are simply more suburban opportunities. Except where population is being replenished by foreign immigration, these same neighborhoods with high reverse-commuting rates are continuing to lose residents to the suburbs. Outside Greater Center City (Girard Avenue to Tasker Street), every portion of the city has seen its poverty rate increase substantially since 1970 (Figures 2 and 3).

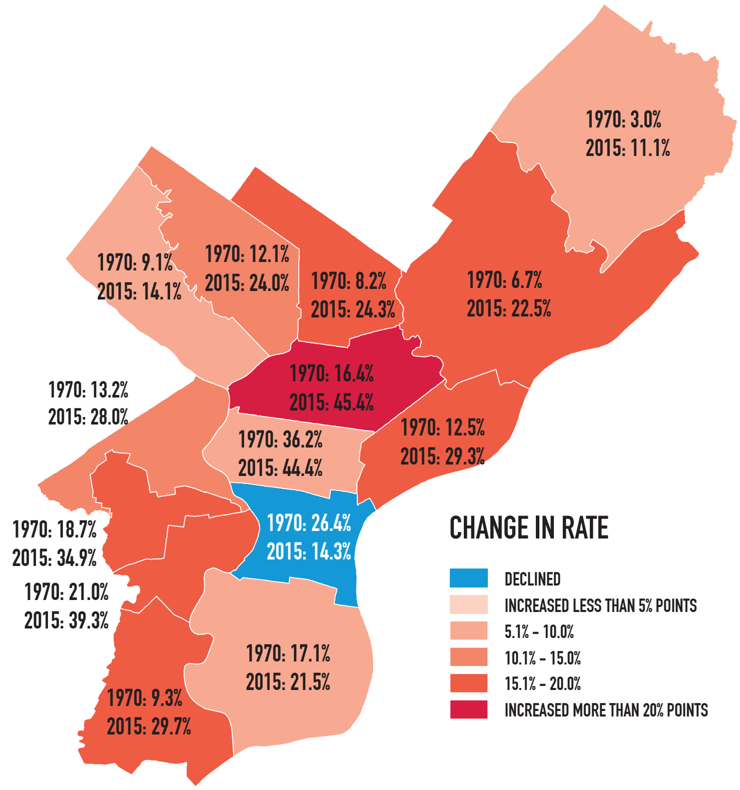
1: For an analysis of city resident commuting patterns, see Getting to Work: Transit, Density & Opportunity, CCD/CPDC June 2016, available on-line at http://centercityphila.org/transitreport.

FIGURE 1: PHILADELPHIA'S MAJOR JOB NODES, PERCENT OF CITYWIDE EMPLOYMENT



Source: U.S. Census, Local Employment - Household Dynamics, 2014

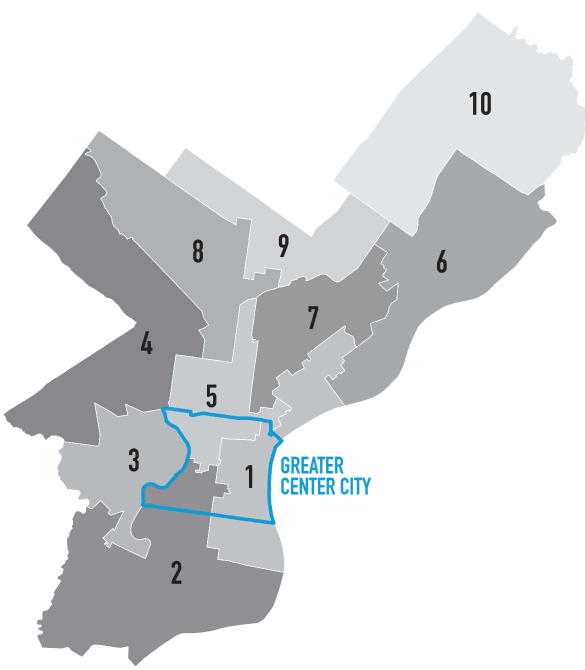
FIGURE 2: CHANGE IN POVERTY RATES, 1970–2015



*Boundaries on the maps above are based on Philadelphia City Planning Commission Districts.

Sources: U.S. Census 1970; ACS 2015 5-Year

FIGURE 3: POVERTY BY COUNCIL DISTRICT



COUNCIL DISTRICT	POVERTY RATE	DEEP POVERTY RATE
1st District	22%	10%
Outside Greater Center City	25%	11%
Inside Greater Center City	14%	8%
2nd District	23%	9%
Outside Greater Center City	27%	10%
Inside Greater Center City	13%	7%
3rd District	39%	21%
4th District	23%	13%
5th District	36%	18%
Outside Greater Center City	44%	22%
Inside Greater Center City	17%	9%
6th District	18%	8%
7th District	43%	19%
8th District	29%	12%
9th District	22%	9%
10th District	12%	5%

Source: ACS 2015 5-Year

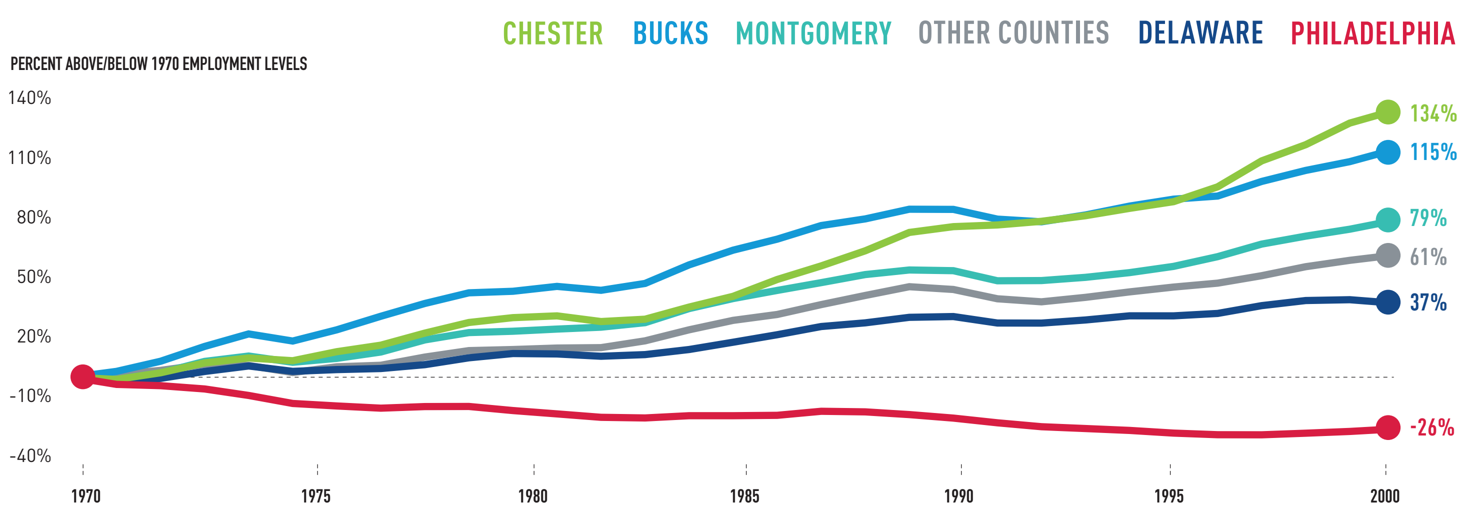
HOW DID WE GET HERE?

Between 1970 and 2000, Philadelphia lost 26% of its employment (255,244 jobs) while the adjacent Pennsylvania and New Jersey suburbs added 752,749 jobs (Figure 4). Decline was driven initially by the long-term contraction of industrial jobs. In 1880, 52% of city jobs were in manufacturing, falling to 30% in 1950, 10% in 2000 and 3.5% today. But the suburbs also significantly outpaced the city in growth in post-industrial, service jobs. As employment decentralized, the number of Philadelphia residents who held full-time jobs dropped by 23% between 1970 and 2000, a loss of 172,146 employed individuals living in the city. This significantly weakened demand for neighborhood housing and supportive, retail services. As suburban opportunities expanded and those in the city contracted, an increasing number of Philadelphia residents also began to reverse commute. The number of employed city residents who gain their livelihood in the suburbs has nearly doubled since 1970. The loss of jobs was mirrored by a steady depletion of residents: between 1970 and 2000, the population of Philadelphia contracted by 23%, from 1,948,609 in 1970 to 1,517,550 in 2000, a loss of 431,059.

Like most cities, Philadelphia relied on the property tax until the 1930s' Depression undermined land-values throughout the city. In 1939, City Council introduced a "temporary" 1.5% wage tax when Philadelphia was still the dominant place of employment in the region and jobs were concentrated in factories with immobile equipment and a heavy reliance on railroads and the port. As the industrial sector declined precipitously after World War II, as highways and trucks enabled jobs and residents to disperse to the suburbs, the City compensated by steadily increasing the wage tax until it reached 4.96% by the mid-1990s. Combined with Philadelphia's Business Income and Receipts Tax (formerly the Business Privilege Tax), enacted in the early 1980s, local tax policy exacerbated the push to the suburbs since business and residents with choice could easily avoid these taxes by moving out of the city. From 1970 to 2014, the city's regional employment share fell from 45% to 24%. The increased cost of doing business in Philadelphia, due to wage, business and use and occupancy taxes, also has the effect of depressing rents, lowering the assessed value of commercial real estate. This has major implications for school funding.

Since 1996, Philadelphia has made progress reducing wage and business taxes, but not enough to alter regional competitiveness. Only 19% of Philadelphia's municipal budget now comes from the property tax, compared to 36% in Washington, D.C. and 43% in New York City; 65% of Philadelphia's municipal budget comes from wage and business taxes, compared to just 33% in New York City. Today, even when many townships in the western suburbs have added a 1% earnings tax, a Philadelphia resident who moves their home to the same county as their suburban job, gets an automatic, 3% salary increase.[2]

FIGURE 4: CHANGE IN TOTAL WAGE AND SALARIED JOBS, 1970–2000



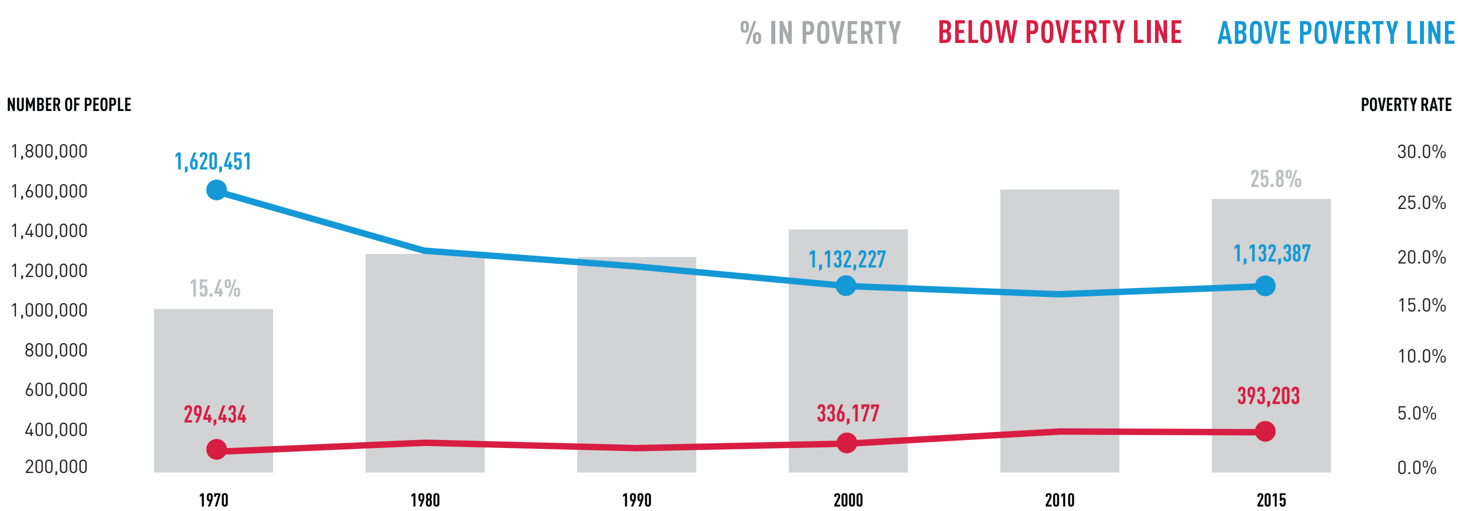
Source: BEA, Total Full & Part-Time Employment by Industry

2: A recent Pew report compared the tax burdens of typical households at different income levels in a static mode without analyzing the most significant housing trend of the last half century: the movement of Philadelphia residents to the suburbs. Using Pew's statistics and acknowledging the higher property taxes in the western Pennsylvania suburbs, the typical low-income, moderate-income and higher-income households all still enjoy a 1.5% increase in their income when they move from Philadelphia to Montgomery County – the locale for half of all moves of Philadelphians to the western suburbs in the last five years. Between 2010 and 2014, while 5,162 residents of Montgomery County moved into Philadelphia each year, 10,587 annually moved the other way for a net total loss of 27,125 city residents. It is a reasonable assumption that most who moved out sought the "free" public schools that their real estate taxes help pay for, whereas most who moved in were empty nesters.

During the same three decades, 1970-2000, Philadelphia's poverty rate grew dramatically. But it was not because the actual number of people in poverty skyrocketed, but rather because so many working-class and middle-class residents left for new housing, employment opportunities and quality schools in the suburbs. In 1970, the first year the federal government formally tracked poverty, there were 294,434 Philadelphians living in poverty, a rate of 15.4%. By 2000, the number in poverty rose to 336,177, an increase of 41,743 or 1,391 more persons per year (Figure 5). This was a disturbing trend.[3] But during this same period of time, the number of working- and middle-class residents living in the city dropped by 488,224, a rate of decline of 16,274 per year.[4] So the number of middle-income residents who ceased to dwell in the city was 12 times greater than the number added in poverty. Philadelphia declined from a city of 1.9 million to 1.5 million and the reduction in the denominator (the total population) pushed the poverty rate up to 23% by 2000. Had there not been a loss of a half-million working- and middle-class residents and a loss of 255,244 jobs during these three decades, Philadelphia's poverty rate would have been 17% in 2000.[5] Mirroring the national trend, Philadelphia's poverty rate rose significantly in the Great Recession. The rate has been falling both nationally and locally since 2010, but still remains higher than 2000 levels.

BETWEEN 1970 AND 2000, THE NUMBER OF MIDDLE-INCOME AND WORKING-CLASS RESIDENTS WHO CEASED TO LIVE IN THE CITY WAS 12 TIMES GREATER THAN THE NUMBER ADDED IN POVERTY.

FIGURE 5: PHILADELPHIA POVERTY RATE, 1970–2015



Sources: U.S. Census 1970, 1980, 1990, & 2000; 2010 & 2015 ACS 1-Year

3: The Census can't determine if a person who was living in poverty in 1970 was still in the same status in 1980, whether they moved up or out, or were replaced by recent arrivals who are now in poverty. But as comparative 10-year snapshots, the data show an overall increase in the number of people living in poverty.

4: Again, the data can't determine over a decade whether an individual moved to the suburbs, left the region, died or slipped into poverty. What it does show is a dramatic net reduction in middle-class and working-class residents in the city.

5: Sociologists and economists point to the adverse effects of concentrated poverty when working-class and middle-income residents disappear from lower-income neighborhoods, eliminating the relationships and networks that can connect unemployed residents to jobs and provide for children the role model of working adults. The loss of city jobs further disconnects those without cars from opportunity.

A REBOUND BEGINS

The process of renewal that commenced in the mid-1950s enabled Philadelphia to begin to replace the manufacturing jobs it had been hemorrhaging since the end of World War II with new post-industrial jobs, concentrated in Center City, University City and on Temple University's campuses. Today, Center City holds 42% of all jobs in Philadelphia, University City houses 11%, Temple's campuses hold 2.6% and the Navy Yard provides 1%. SEPTA's hub-and-spokes public transit system enables an average 25% of the working residents of each City Council District to commute to work in Center City, while 6% work in University City. Another 22% work elsewhere in Philadelphia. Less than 10% of city residents outside downtown work in their own neighborhood.[6]

The process of post-industrial revival in the center of the city was simply not strong enough to counter broader forces of industrial decline and employment decentralization. In each national economic expansion between 1970 and 2000, Philadelphia added jobs. But it then shed more in the next contraction cycle than it had just gained. A graph of job trends from 1970 to 2000 creates an image that looks like a long descending staircase that only flattens out at the beginning of the 21st century (Figure 6).

Emerging from recession in 2004, Philadelphia did begin its strongest expansion since the end of the Second World War, largely concentrated in education and healthcare, (sectors largely exempt from business and real estate taxes) enabling the city to weather the Great Recession and finally get off the down staircase. By 2013, Philadelphia climbed sufficiently out of recession to surpass its prior, 2008 job peak. But it has not climbed high enough yet to regain 1990 job levels, let alone 1980 or 1970 job numbers. Figure 6 portrays a city with long-term employment trends still moving sideways.

This is a prime reason why 39% of the working residents of each Council District are reverse commuting to the suburbs. Without more dynamic growth of transit-accessible jobs in the city we stand little chance of achieving major reductions in unemployment and poverty.

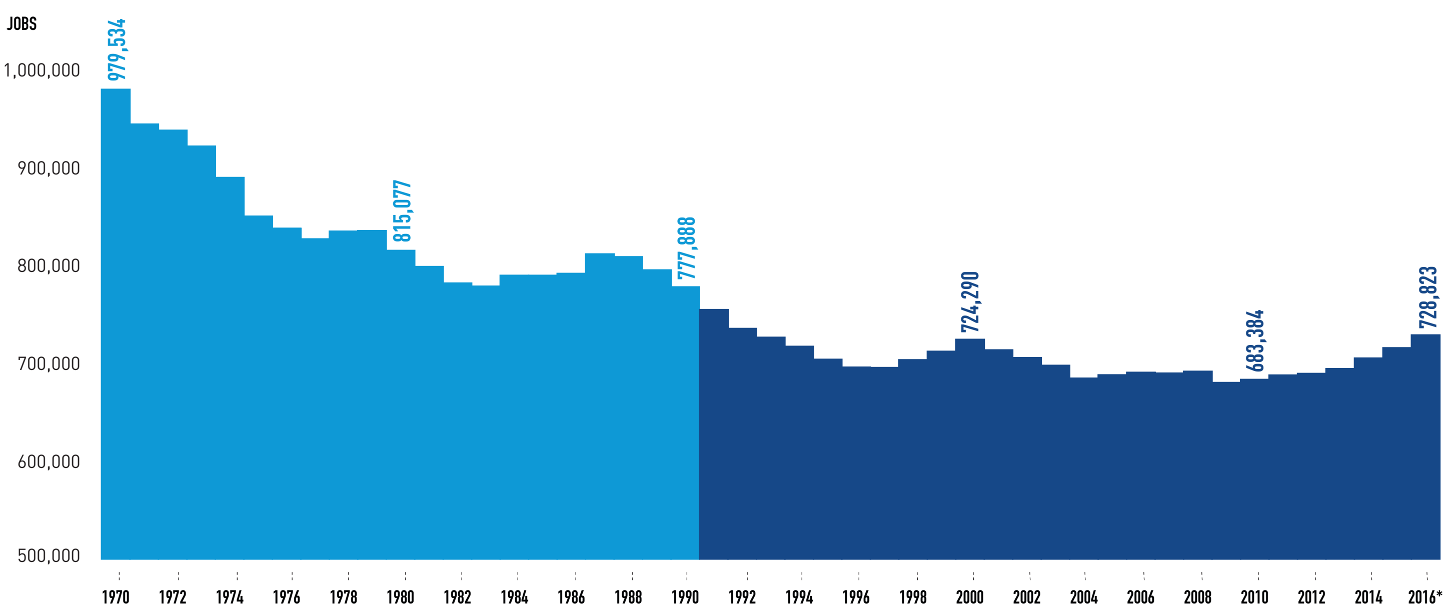
Since 2000, Philadelphia also began to turn around population decline with a net addition of 49,892 residents between 2000 and 2015, almost all of the increase (83%) occurring since 2010. This was achieved despite more than 70,000 residents leaving the city since 2010, with 40% moving to adjacent suburbs. Three factors account for the turn-around: births outpaced deaths by 43,750 in the last five years; there was a dramatic increase in foreign

6: By contrast, 40% of residents living in Greater Center City (between Girard Avenue and Tasker Street, river to river) work downtown, while another 12% commute to University City.

immigration, from 4,559 persons per year in the 1990s to 21,558 per year between 2010 and 2015; and finally, 37% of all in-movers to Philadelphia were the millennials, empty nesters and others who chose to live close to the city's two largest employment nodes: Center City and University City (Figure 7).

In-movers to the city skew young; more than half are adults between the ages of 18 and 30. The biggest spike corresponds with the age students enter college: 97% of the 18 and 19 year olds who moved to Philadelphia in the past year are currently enrolled in school (Figure 8). The strong cluster of colleges and universities thus gives Philadelphia the opportunity to import new potential residents from outside the region, if they choose to stay after graduation. Twenty-somethings make up a second significant peak, corresponding to national demographic trends in which 31% of all 18 to 24 year olds move in any given year. Thereafter, as people age, they tend to move less frequently.

FIGURE 6: TOTAL WAGE AND SALARY EMPLOYMENT, 1970–2016



*2016 Value is Preliminary Estimate as of November 2016 Data

Source: BLS, Current Employment Statistics

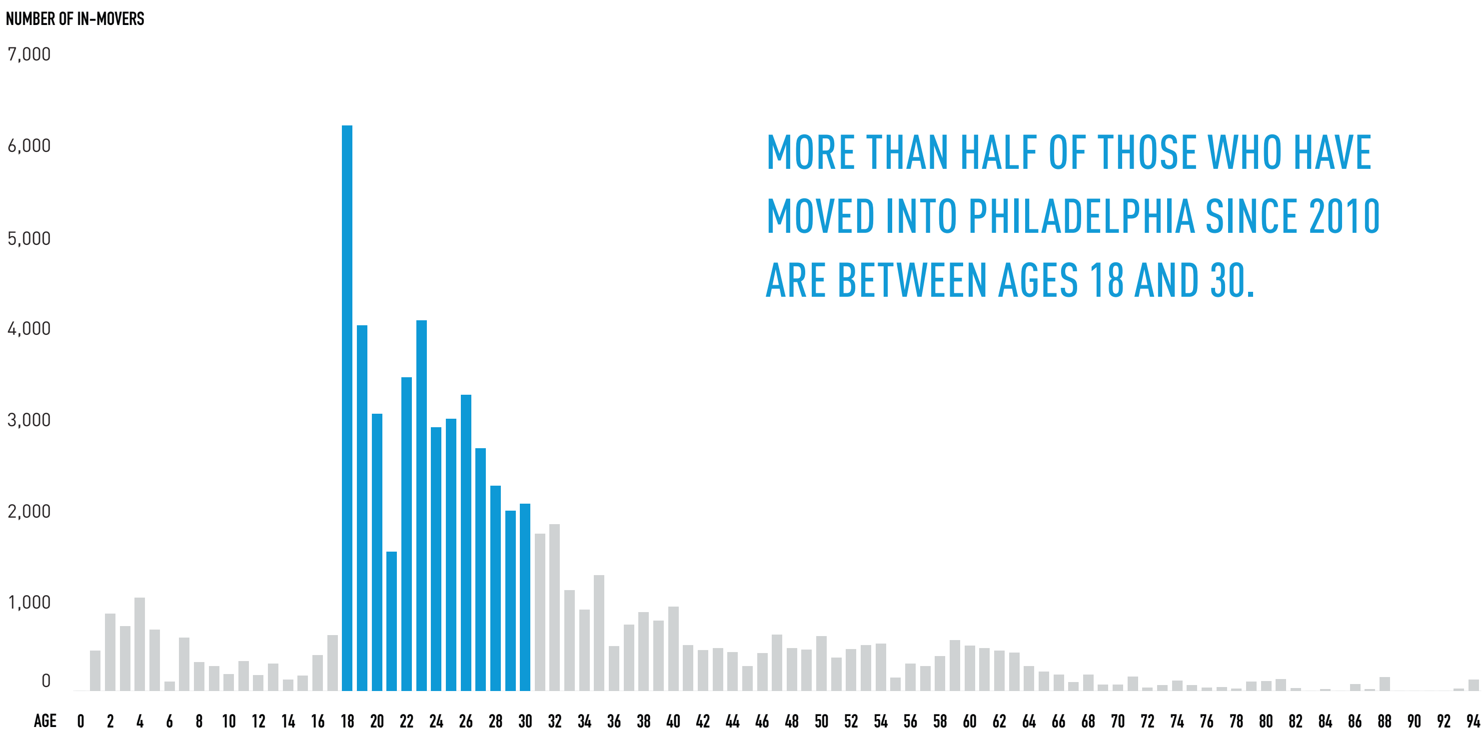
FIGURE 7: COMPONENTS OF POPULATION CHANGE IN PHILADELPHIA, 1990–1999 AND 2010–2015

	1990-99	YEARLY AVG	2010-2015	YEARLY AVG
Total Population Change	-167,976	-16,798	41,436	+8,287
Net Natural Increase	+59,013	+5,901	+43,750	+8,750
Births	+233,282	+23,328	+119,525	+23,905
Deaths	-174,269	-17,427	-75,775	-15,155
Migration	-223,638	-22,364	+8,078	+1,616
Net International	+45,589	+4,559	+107,790	+21,558
Net Domestic	-269,227	-26,923	-99,712	-19,942

*Note the total population change estimate includes a residual – a component of the change that cannot be attributed to any specific component, and hence the total will not match the sum of the components.

Source: U.S. Census, Annual Population Estimates

FIGURE 8: AGE DISTRIBUTION OF IN-MOVERS TO PHILADELPHIA



Source: ACS 2014 5-Year, Calculation from Microdata

THE ROLE OF SCHOOLS

CENTER CITY:

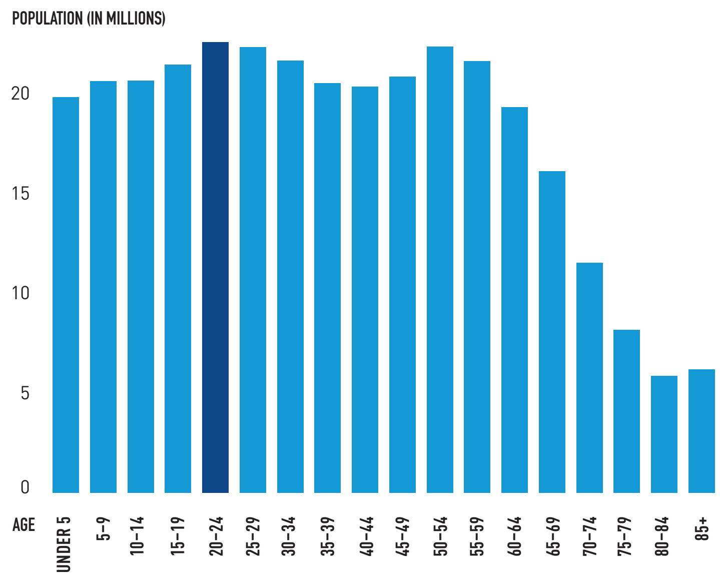
Schools loom large in Philadelphia's efforts to achieve success. For the growing number of millennials who have been attracted to the city, affordable, quality schools are essential to their retention as they begin to have children. While 76% of Greater Center City's school-age children are attending public school and their parents are actively engaged in improvement efforts, the ongoing funding crisis has made retention a major challenge. Births to Center City parents, as a percentage of citywide births, have been growing since at least 2000 and accounted for 11% of all citywide births in 2015. In most areas of the city, the number of school-age children (5 to 18) closely tracks the number of births in the prior 17 years. But the most recent American Community Survey (ACS) data for Greater Center City for 2011-2015 show that while there were 11,039 births to Center City parents in that five-year period, only 8,386 children under age 6 remain, suggesting a 24% departure rate from Greater Center City by the time young children reach school age. Elsewhere in the city, the difference between births and school-age children is less than 3%. Given national demographic trends, no city can count on an unending stream of millennials (Figure 9). The peak year, nationally, for millennials reaching age 25 (a threshold age for entering the rental market) appears to have been 2015. As one researcher notes, in the coming decade, "there will be smaller cohorts of young people to replace older peers who have advanced to the next stage of life."[7] Now is the time to retain this age cohort before the volume of their potential replacements wanes.

CITYWIDE:

For parents who lack the means to move to the suburbs or to pay for private school, the path to success for their children in the knowledge economy of the 21st century depends on quality public education. Figure 10 needs almost no explanation. Each successful benchmark of educational attainment increases earning power and employment success. But Figure 11 documents clearly what the downward spiral of job and population loss has done to diminish the tax base for the prime pathway out of poverty for 38% of Philadelphia's children.[8] At a time when federal and state resources for schools are severely constrained, Philadelphia's assessed value per pupil is just half the state-wide average, 38% of Pittsburgh's and just 15% of what is available per pupil in Lower Merion Township.

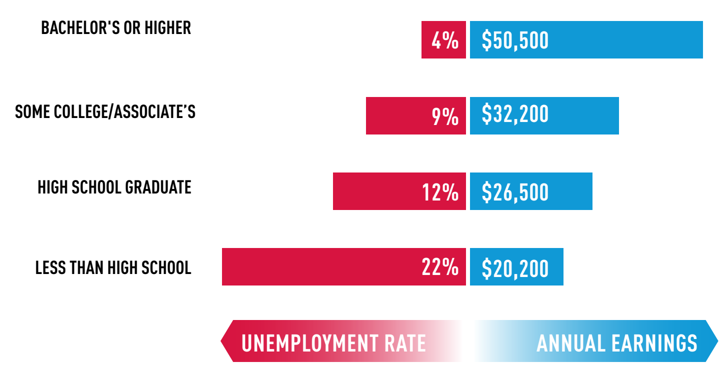
Figure 12 shows the age distribution of people moving into and out of Philadelphia (deliberately not showing those moving within Philadelphia, which is a larger group). The cohort between ages 18 and 29 is by far the largest and it is the primary demographic group for which in-movers surpass out-movers. Every other age group is net negative or nearly flat with a slight positive trend showing in the 45-to-54, empty-nester age group. The largest net negative is among school-age children (5 to 17 years old) followed by the age groups that presumably contain their parents (30 to 44 year olds).

FIGURE 9: UNITED STATES AGE DISTRIBUTION



Source: ACS 2015 1-Year

FIGURE 10: EDUCATIONAL ATTAINMENT, UNEMPLOYMENT AND ANNUAL INCOME IN PHILADELPHIA, 2015



Source: ACS 2015 1-Year

7: Dowell Myers, *Peak Millennials: Three Reinforcing Cycles That Amplify the Rise and Fall of Urban Concentration by Millennials*, Housing Policy Debate, 2016. Myers argues that the combined effect of a demographic bulge, limited job opportunity in the Great Recession and declining suburban single-family housing construction "bottled up" millennials in the centers of American cities. But as the economy recovers, these urban-oriented trends could easily unwind.

8: Seventy-five percent of locally generated revenues to support public schools comes from real estate and real-estate-related taxes and the increased cost of doing business in Philadelphia, due to wage, business and use and occupancy taxes, has the effect of depressing rents paid by businesses that remain, lowering even further the assessed value of commercial real estate.

FIGURE 11: REAL ESTATE TAX BASE PER PUPIL COMPARISON, 2014–15 SCHOOL YEAR

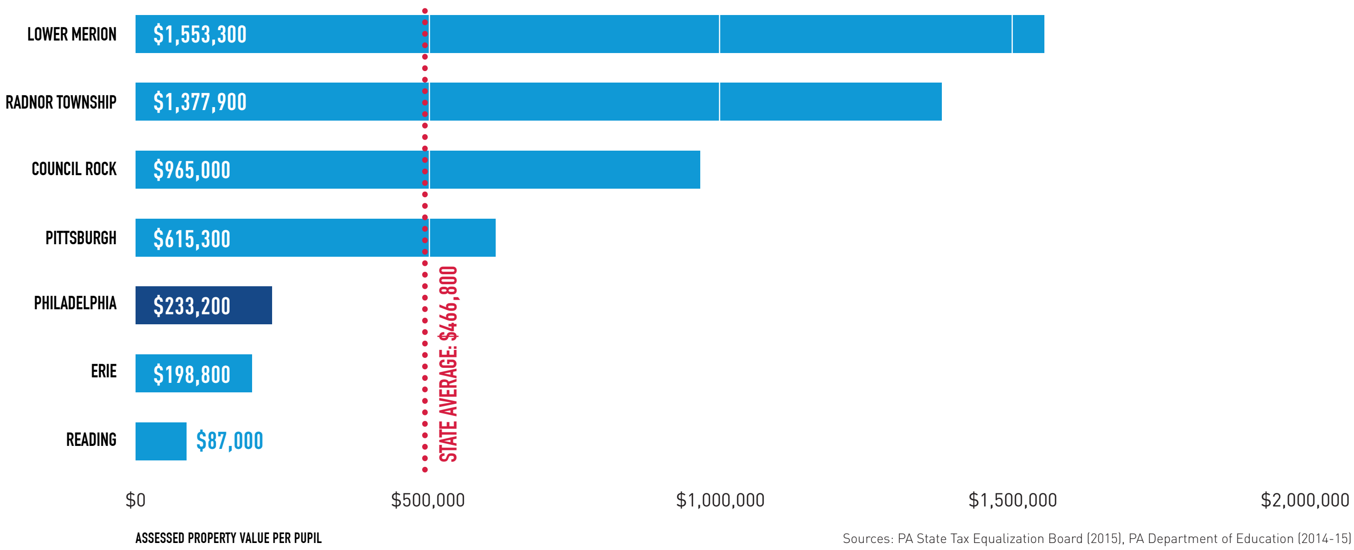
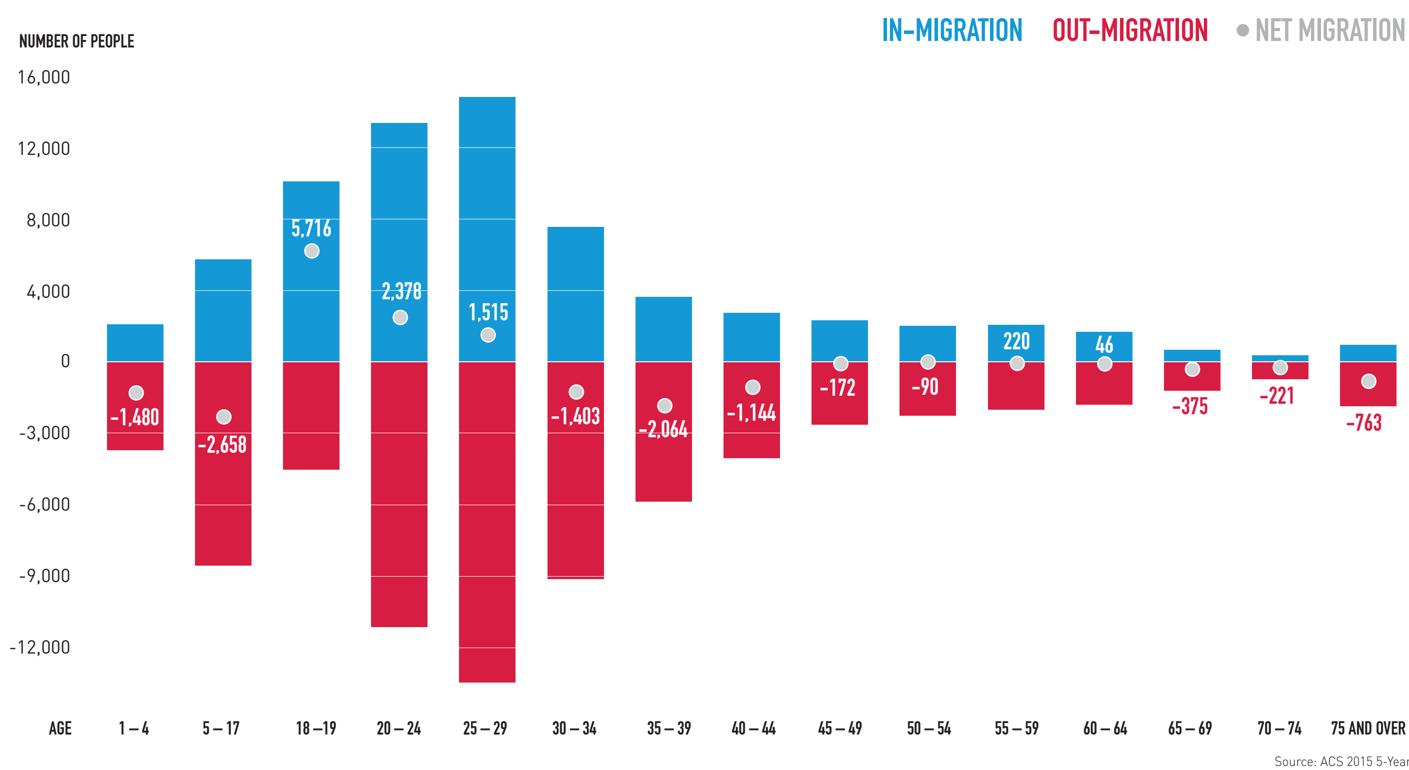


FIGURE 12: PHILADELPHIA IN- AND OUT-MIGRATION BY AGE



FOSTERING CITYWIDE REVIVAL

Well-funded, quality public schools are necessary, but they are an insufficient foundation for full-scale city revival. An educated workforce will go where the jobs are. This applies equally to Center City millennials or to the 39% of neighborhood residents who reverse commute to the suburbs. Philadelphia's recent job rebound has enabled the city to get off the down escalator. But many other cities have done much better.

As noted in the introduction, the 25 largest American cities have added jobs at the rate of 2.8% per year since 2010, outperforming the national average of 2.2% per year. Philadelphia's job-growth rate has been far below the national average, at just 1.1% per year. This has meant that our region has grown slowly as well (Figure 13).

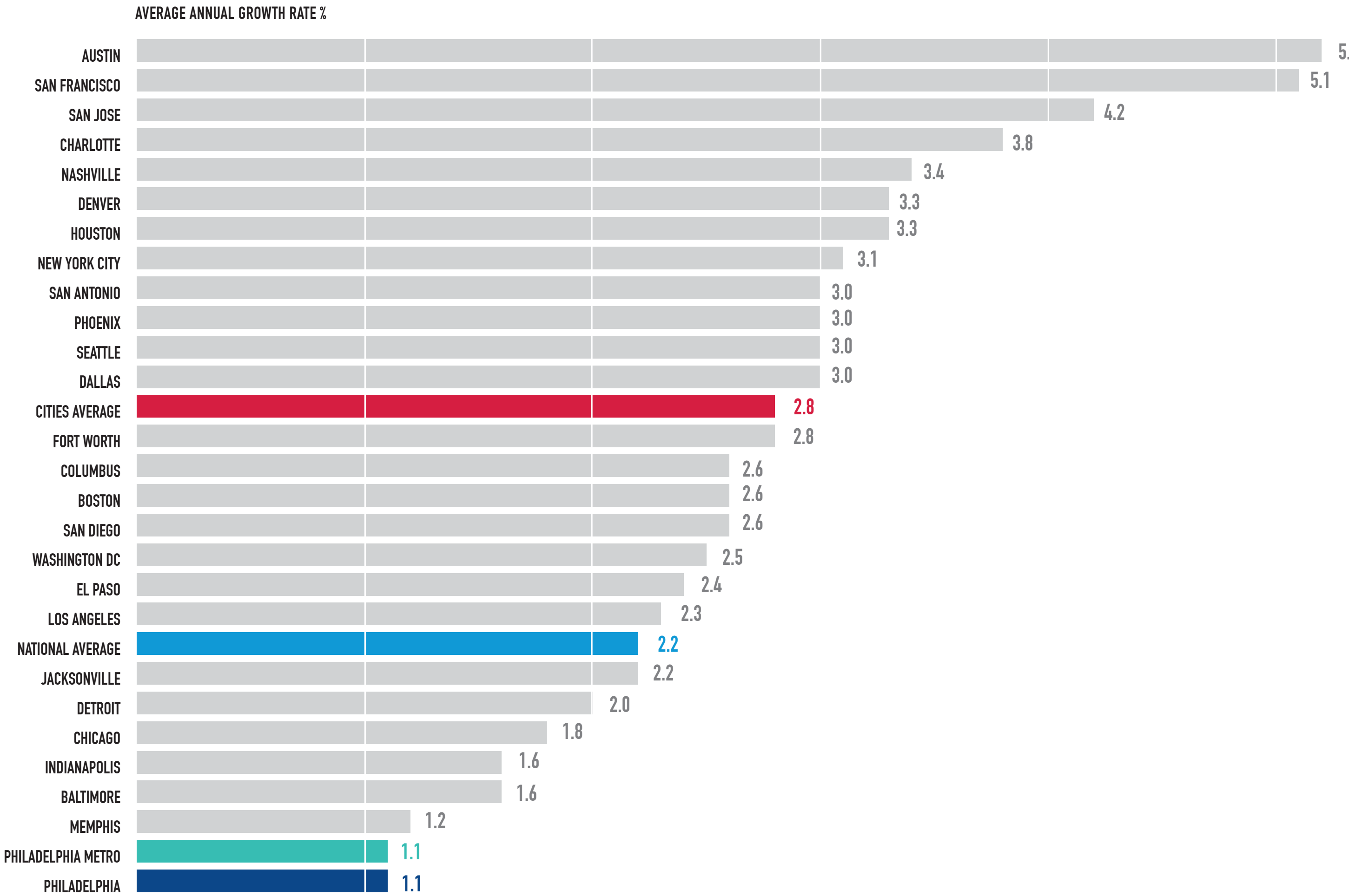
Boston, New York, Washington, D.C. and Philadelphia all lost the same percentage of manufacturing jobs they held in 1970. But post-industrial expansion in peer, East Coast cities has enabled them to recoup historic losses and surpass their 1970 job levels. Philadelphia is still 27% below 1970 job levels and that is a major reason why our poverty rate is so much higher than that of our peers (Figure 14).

In recent decades, Center City has fashioned an amenity-rich environment out of the intimate, human-scale we inherited from the pre-auto era. *Walkable, transit-oriented* and *affordable* are attributes that appeal to a broad cross-section of Americans who value cosmopolitan cities rich with educational, healthcare and cultural institutions. Mayor Kenney's investment in neighborhood facilities—libraries, recreation centers and playgrounds — will significantly improve the attractiveness of residential neighborhoods across the city. Investment in pre-K education will enhance the level of educational success. But local tax policies, conditions largely within our own control, undermine the competitive advantages of investments in amenities and services by making it more expensive to live and work in the city. Without thinking strategically, we have accepted a dysfunctional tax structure that is dramatically different from those of our peer cities and suburban counterparts.

In the last 15 years, two independent tax commissions have come to the same conclusion: Philadelphia can achieve more dynamic job growth citywide by shifting its method for financing local government from an over-reliance on taxing what easily moves — wage earners and businesses — to broad-based taxes on what can't readily move: land and improvements.

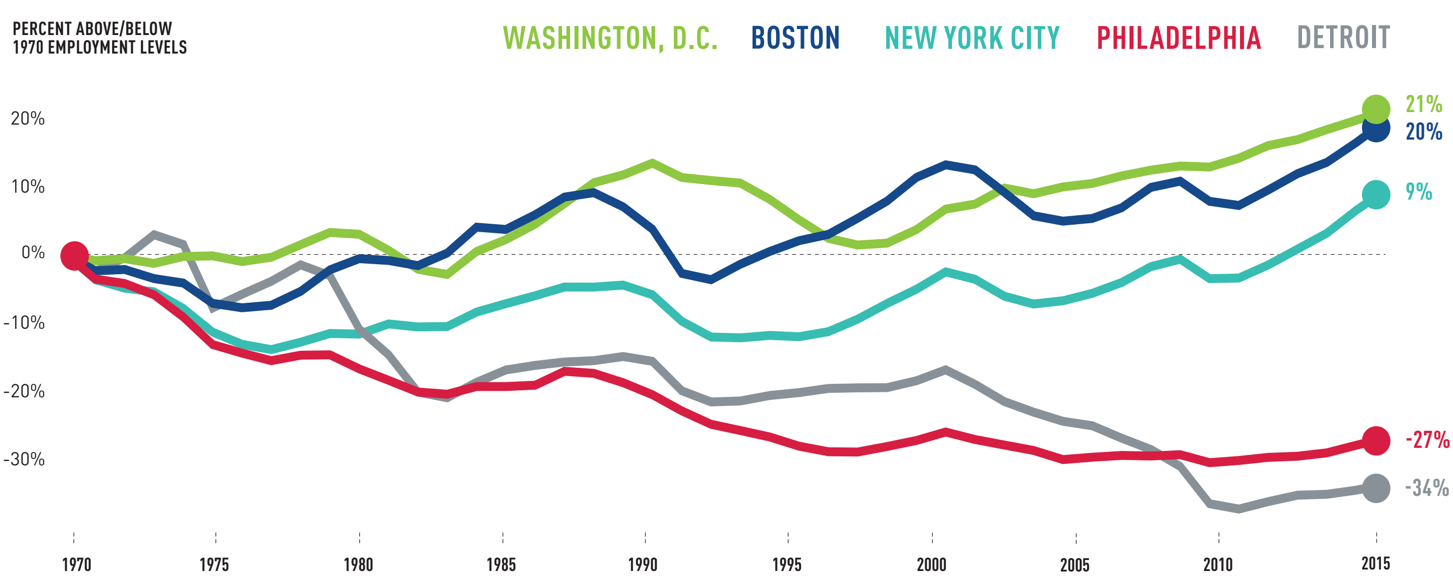
Philadelphia's wage tax is almost four times the regional median; our Business Income and Receipts Tax (BIRT) has no regional counterpart and adds a 20% to 30% premium to operating costs for both established firms and many start-ups. By contrast, the property tax is 66% of the suburban Pennsylvania median. In sum, we have inherited a tax structure that underfunds our public schools and generates 63% of local revenues to support city services by taxing things that can easily move: workers' wages and business revenues. If we want to enjoy the citywide revival that most major cities are now enjoying, if we want to educate our children and reduce a shamefully high rate of poverty, it is time to make a major change in tax policy.

FIGURE 13: AVERAGE ANNUAL GROWTH IN PRIVATE WAGE AND SALARY JOBS, 2010 TO 2015



Source: BLS, Quarterly Census of Employment and Wages

FIGURE 14: MAJOR CITIES TOTAL WAGE AND SALARY EMPLOYMENT, 1970–2015



Source: BEA, Total Full & Part-Time Employment by Industry

TIME FOR TAX REFORM

Last summer, a bipartisan coalition from the city's delegation in Harrisburg and leadership from Mayor Jim Kenney and a broad alliance of business, civic and labor groups, enabled Philadelphia to take a giant step toward competitiveness. On June 27, the Pennsylvania House of Representatives approved HB 1871 with a decisive, bipartisan vote of 170-25.[9] On July 1, the Senate followed with a margin of 49-2 to amend the Pennsylvania Constitution to enable Philadelphia to assess properties used for business purposes at a 15% higher rate than residential properties, so long as incremental revenues are dedicated 100% to wage and business tax reduction.

The bill, now referred to as Joint Resolution 2016-3, must pass again in the spring 2017 legislative session and then be placed on the ballot for voter consideration as soon as this fall. When approved, it provides a framework that will enable Philadelphia to implement the recommendations of the two tax commissions, while ensuring no gap opens in the City's budget. The goal is to get the wage tax below 3% for the first time in 50 years and cut the net income portion of the Business Income and Receipts Tax (BIRT) in half so we can dramatically reduce the barriers to job growth and poverty reduction.

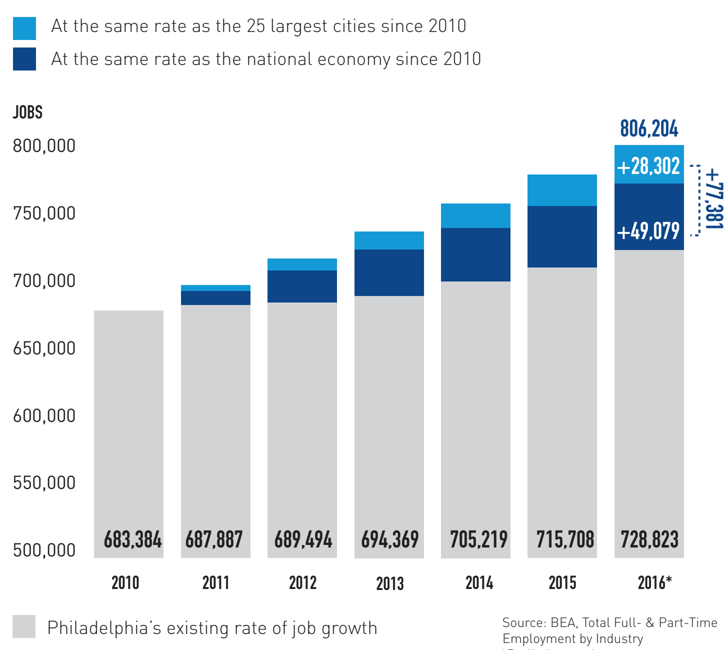
An analysis by Econsult Solutions concluded this plan is "revenue positive" in that it will produce more municipal tax revenues than the City's most recent Five-Year Plan and it will generate $362 million more for the School District over the next 10 years than the City's Five-Year Plan.[10] Analyses by several accounting firms show a positive impact on the overwhelming majority of business tenants and owners as lower BIRT taxes and employee wages more than offset any real estate tax increases. Enabling legislation to be passed by the state can also protect mixed-use, business properties on neighborhood commercial corridors and exempt apartment buildings of four units or less from the higher commercial rates, since many are occupied by lower-income households.

Most important, the proposed amendment does not dictate tax rates to be levied by the City. The amendment specifies only that if the City chooses to raise commercial property taxes, the rate on business properties can be no more than 15% higher than on residential and the extra revenue generated through that increase must be devoted to wage and business tax reduction. Philadelphia could avoid the necessity of a constitutional amendment if it were simply prepared to increase real estate taxes on both businesses and residents and direct the additional revenues to wage and business tax reduction. But there is an understandable reluctance to raise real estate taxes on residents, particularly those on fixed incomes. So HB 1871 provides the flexibility for Philadelphia to increase real estate taxes only on properties used for business purposes, while directing the increment to reduce wage and business taxes for all.

This proposal allows Philadelphia to restructure its own tax policy on a "pay-as-you-go" basis: when there is an increment, it must be used to reduce wage and business taxes. But if, in any year, there is no increment, the City is not forced into a deficit position. Philadelphia will remain free to raise or lower its real estate rates, so long as commercial and residential rates move together, maintaining the 15% maximum differential. The goal is simple: to provide a self-help tool for Philadelphia to become more competitive, grow more jobs and put more residents back to work.

This is a moment of choice. Philadelphia now competes for workers and residents in a global economy with fast-changing technologies and highly mobile firms. We have extraordinary amenities and innate advantages. But we have held on to an antiquated tax structure, forged in an era when industries rarely moved and workers had limited choice. Since the late 1990s, the City has made marginal reductions in some taxes and created special loop-holes and exemptions from others. But the imbalance between city and suburbs still remains and our dependency on a wage tax puts us almost in a league of our own.[11] The combination of the slowest job growth and highest poverty rate should send a powerful message: holding on to an outmoded past is no way to succeed in the future.

FIGURE 15: IF PHILADELPHIA GREW FASTER...



Source: BEA, Total Full- & Part-Time Employment by Industry
*Preliminary value

...THEN PHILADELPHIA WOULD HAVE 49,000 TO 77,000 MORE JOBS THAN IT CURRENTLY HAS. IT'S TIME TO CHOOSE THE PATH TO STRONGER AND MORE INCLUSIVE GROWTH.

9: The bill can be accessed at http://bit.ly/2iVH32J.

10: The Econsult Solutions report is available at http://bit.ly/28Zhhbk.

11: Detroit is the only other major American city as dependent on a wage tax and its job performance since 1970 (Figure 15) closely mirrors Philadelphia's experience.