City of Philadelphia

PHILADELPHIA INCENTIVES STUDY

FINAL REPORT

JULY 2019

HR&A Analyze. Advise. Act.

RES Real Estate Strategies, Inc. RES Advisors

Acknowledgements

ABOUT THE PHILADELPHIA DEPARTMENT OF COMMERCE

The **Department of Commerce** works with organizations, large and small, to make the city an attractive place to do business. The Department offers support through financing and improvement programs, providing assistance from location-based business service managers, supporting projects that make the city's commercial corridors clean, safe, and well-lit, promoting minority, women, and disabled-owned businesses on their paths to success, providing resources for companies—local, national, and international—to launch and grow in Philadelphia, and implementing a workforce development plan that prepares residents for careers in family-sustaining jobs. *For more information visit: https://www.phila.gov/departments/department-of-commerce/.*

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ABOUT HR&A ADVISORS, INC.

HR&A Advisors, Inc. (HR&A) is a consulting firm providing services in real estate, economic development, and program design and implementation. HR&A provides strategic advisory services for some of the most complex mixed-use, neighborhood, downtown, campus, and regional development projects across North America and abroad. HR&A understands the importance of linking accretive private investment with public resources to support investors and communities' responsibilities and aspirations.

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ABOUT REAL ESTATE STRATEGIES, INC.

Real Estate Strategies, Inc. (RES) is a full-service real estate advisory services firm based in metropolitan Philadelphia. RES specializes in market analysis for real estate, fiscal and economic impact analysis, and economic development strategic planning. RES assists developers, corporations, governments, and not-for-profit organizations in creating successful residential, commercial, and industrial real estate development projects.

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Executive Summary

Context

Philadelphia is currently undergoing a renaissance. After years of population and job decline, people and businesses are moving to Philadelphia, generating new economic activity within the city. As Philadelphia's economic conditions evolve, it is critical now more than ever that the City reflect on its business incentives, optimize its economic development toolkit, and consider how economic growth can be leveraged citywide.

Although Philadelphia has experienced recent population growth, **job growth has historically lagged behind that of competitors**. In addition, Philadelphia remains the poorest large city in the United States. Taken together, Philadelphia requires a strong balanced focus on equity and economic growth. **The inability under the state constitution to have variable tax rates to address socioeconomic issues has led to a complex tax structure** that disproportionately burdens mobile assets, such as businesses and personal income. This has led to a competitive disadvantage for recruiting new businesses. To address underlying economic challenges, **the City has developed a number of incentives to deter the outflow of businesses and jobs and to motivate real estate development and investment**.

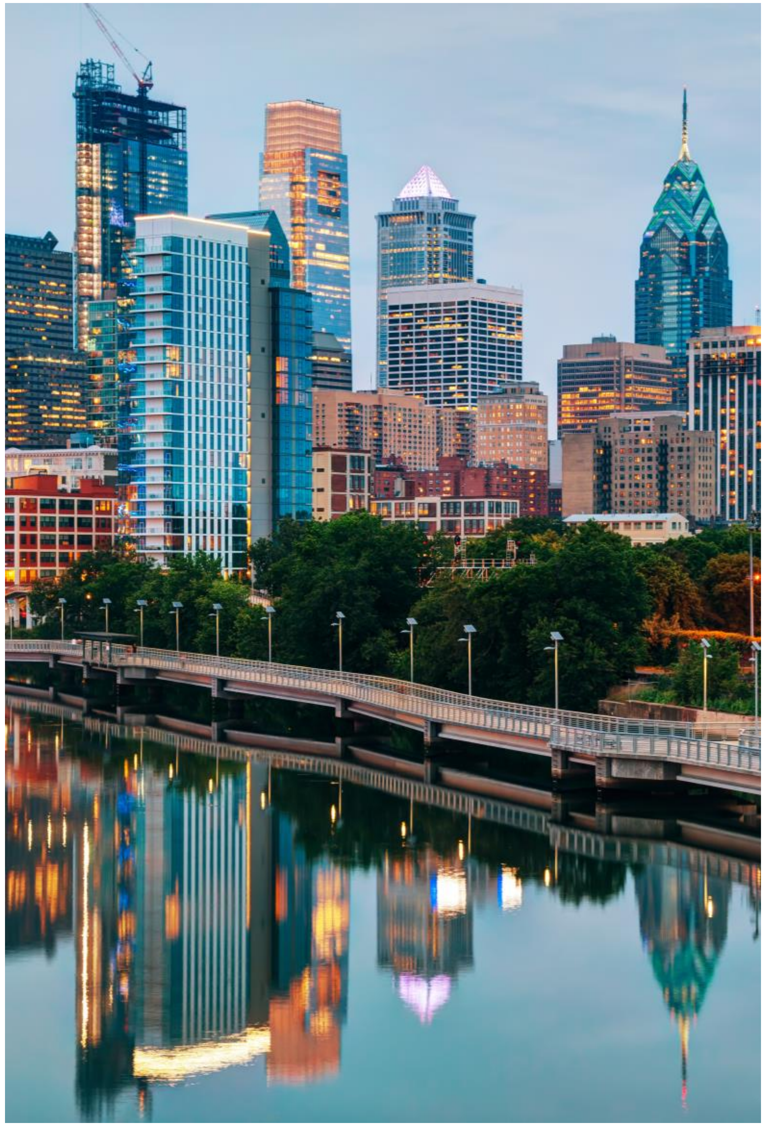
Each incentive in the City's portfolio was developed at a different time in Philadelphia's history. Varying economic conditions and political agendas influenced the development of a range of tools that oftentimes function inefficiently and do not arrive at a collective objective.

The Role of Economic Incentives Today

In recent years, there has been growing recognition among national and local policymakers that economic development incentives merit scrutiny to ensure that they are delivering the greatest benefit at a reasonable cost.

Today, incentives remain an important component of Philadelphia's economic development strategy. Because they allow the City to offset its competitive disadvantages and relieve businesses from the disproportionately burdensome local tax structure, they promote the creation of quality jobs within Philadelphia.

This study signifies an inflection point in the trajectory of Philadelphia's economic development strategy—one where the City can ensure that incentives are used more effectively to allow for sustainable growth and to provide equitable outcomes for all Philadelphians.



The Study

Pursuant to Philadelphia Bill 161015, the City of Philadelphia engaged HR&A Advisors and Real Estate Strategies (the "HR&A Team") to conduct a comprehensive review of a subset of local business attraction and retention programs, including:

- Keystone Opportunity Zone
- Job Creation Tax Credit
- Tax Increment Financing
- Forgivable Loan (administered by PIDC)
- Jump Start Philly
- Sustainable Business Tax Credit
- Philadelphia Works Economic & Workforce Development Training Funds

Specifically, the HR&A Team's evaluation:

1. Assesses the relative effectiveness of programs in achieving stated economic development objectives and their **comparative benefits and revenue implications** to the City.
2. **Considers ways of adapting existing programs** to reflect broader equity and inclusive economic growth objectives.
3. **Provides a strategic, streamlined framework for the City when determining if and how to deploy incentives going forward,** with the goal of improving the performance, transparency, and accessibility of the City's incentives regime.

Business Attraction & Retention Programs Under Study	
KOZ	A place-based tool providing **abatement** of multiple State and local taxes; the City must apply to participate in this State program through a periodic State application process
JCTC	Jobs-based **tax credit** against BIRT, intended to encourage job creation.
TIF	Special **tax assessment district** (property-level or district -wide) in which future tax revenues generated on-site are used to finance project costs.
Forgivable Loan	Low-interest, **forgivable financing** administered by PIDC, used to close high profile deals; usually used as part of a larger incentives package; functions like a grant with a claw-back mechanism tied to performance outcomes.
Jump Start	Offers full **abatement** of Business Income & Receipts Tax (BIRT) liability for new businesses and exempts new firms to Philadelphia from a range of City licensing fees, so long as the businesses meet employment requirements.
SBTC	One-time tax **credit** against BIRT liability, meant to encourage sustainable business behaviors such as B corporation certification, fair hiring or environmental sustainability.
Philadelphia Works	Workforce and Economic Development Training **funds** awarded to partnering firms through the Federal Workforce Innovation and Opportunity Act (WIOA); program requires that businesses match award amount.

Methodology

This study was informed by an extensive data-collection and stakeholder engagement process, an analysis of each program's Return on Investment (ROI), and a peer city benchmarking and best practices review. It culminated in a final review and set of recommendations for the City to consider.

The study analyzes awards that originated between 2008 and 2017; however specific parameters for each program vary depending on availability of information and timing of awards. Data for this study was obtained through analysis of tax records and self-reporting information provided by the City of Philadelphia. Due to data limitations, this study only quantifies return on investment for four out of seven total programs.

This exercise does not attempt to isolate benefits related to jobs that would not have located in Philadelphia *but for* an incentive. Whereas simple measures of return on investment can be derived from documented job generation and spending data, answering the *but for* question requires development of theories to forecast likely alternatives in the absence of incentives. The HR&A Team has relied upon a benefit-cost metric and contextual understanding of major drivers in the local market that will allow the City to estimate the efficacy of individual deals or programs without needing to hypothesize as to alternative outcomes, for which the academic research on the role that incentives play in decision-making is inconclusive.

**Pages 32-35 of this report provides greater detail on the assumptions and methodology utilized in this study.*

Efficiency evaluates a program's ability to drive results while forgoing reasonable amounts of tax revenue for the City.

Indicators of a program's efficiency include metrics such as the City's return on investment as well as forgone tax revenues or cost per new job created. ROI is calculated by dividing the direct fiscal benefits created for the City by the full fiscal "cost" of a deal. This report defines benefit as the incremental tax revenue generated by the business activity. In calculating the benefit, we assume that this revenue would not have been generated absent the incentive. This report defines cost as the forgone tax revenue or subsidy amount. In calculating forgone revenue as a cost, we assume that all of the revenue would have occurred regardless of the incentive.

For example, a return on investment of 1.50x means that for every $1.00 the City forgoes in tax benefits or grants in awards, it receives $1.50 back through taxes generated by the incentivized investment, for a net incremental gain of $0.50.

Efficacy evaluates a program's ability to drive intended results, such as driving business location decisions and/or job creation or retention.

Accountability evaluates a program's success in ensuring outcomes are met by the recipient. Accountability further includes evaluation of program administration, tracking of outcomes and performance, and transparency.

Evaluation Key Metrics

■□□ Needs Improvement
■■□ Satisfactory
■■■ Highly Effective

EXECUTIVE SUMMARY Findings

Evaluation Summary of Philadelphia’s Incentive Portfolio

Programs	Efficiency *[ROI]*	Efficacy		Accountability	
KOZ	1.1x	■■□	Effective at encouraging development and influencing business location decisions in development-ready and revitalizing markets, though depth of benefit and high utilization by less job-intensive uses diminishes overall return to City	■□□	Self-reporting and publicized utilization reports; City has limited control.
JCTC	6.8x	■□□	Favorable ROI reflects relatively small size of credit; incremental tax revenues are unlikely to be induced by JCTC benefit alone, as current award size does not effectively offset higher costs of doing business locally	■■□	Verification through self-reports; limited communication among administering agencies.
TIF	2.0x	■□□	Program underutilized owing to reliance on developer-backed bonds and lengthy approvals process; generally does not drive creation of diverse range of jobs	■■□	Bound by contractual agreement; monitored by the Philadelphia Authority for Industrial Development.
Forgivable Loan	15.4x	■■■	Discretionary nature allows for flexible financing to close the gap on deals; program guidelines help to ensure thresholds for job-creation and other public policy objectives are met	■■□	Built-in claw-back mechanism ensures accountability for recipients; self-reporting now required upon loan maturation.
Jump Start	-	■□□	Overlaps with other programs; benefits only available to new firms who are less likely to have large business tax liabilities during initial years	■□□	Limited capabilities for tracking of performance, no appointed administrator.
SBTC	-	■□□	Overlaps with other programs; award not substantial enough to influence changes in firm behavior – it is likely that recipients were engaged in sustainable business practices already	■■□	Split responsibilities between departments inhibits accountability; limited tracking of program.
Philadelphia Works	-	■□□	Program primarily utilized by existing, established businesses rather than business attraction prospects as talent needs become better known over time	■□□	Limited tracking; match requirement ensures some accountability from recipients.

EXECUTIVE SUMMARY Findings

Keystone Opportunity Zone (KOZ)

Key Takeaways

- KOZ can be effective in influencing business location decisions; the tool particularly is useful in accelerating development in development-ready markets.
- The high vacancy of KOZs in deeply-distressed areas suggests the program alone may be insufficient in moving the market, absent parallel public investments.
- Financial Investment Services firms receive a disproportionate share of KOZ benefits relative to their share of total job creation and fiscal revenues over the near- to medium-term.
- Absent Finance, Insurance, and Real Estate recipients, the program improves its ROI from 1.1x to 1.7x.
- No direct mechanism exists for ensuring that KOZ recipients deliver broader public goods alongside their investments.
- State legislation limits municipal administration of KOZ; the most transformative recommendations will result from amendments made to the enabling legislation at the State level.

Evaluation Summary

Simple ROI **1.1x**

Efficacy ■■□

KOZ is effective in encouraging real estate development and influencing business location decisions. However, Finance and Insurance industries produce low returns on the City's KOZ investment owing to limited job generation.

Accountability ■□□

The City recently began requiring annual subsidy self-reporting documents. However, there is still limited available information provided for the City, ambiguously enforced claw-backs for job creation or investment threshold accountability. Self-reporting is published, yet little additional data is made available publicly.

Program Recommendations

Recommendation 1
Propose the designation of future KOZ sites and/or extension of benefits at existing KOZ sites in deeply-distressed markets where public investments are already being made to ensure the greatest overall impact.

Recommendation 2
Quantify and advertise the typical KOZ benefit for different user types to increase awareness and demand for the program.

Recommendation 3
Amend State legislation to increase efficacy and flexibility by allowing for more targeted utilization. Possible amendments to KOZ legislation and/or a new place-based program could allow for deeper benefits by geographies, industry, or alignment with City policy objectives.

Job Creation Tax Credit (JCTC)

Key Takeaways

- In its current form at $5,000 per job, JCTC likely offers too small an award to induce business expansion when used in isolation. In 2015, a five-fold increase of the incentive drove significant additional leasing activity, suggesting that a higher threshold has greater efficacy.
- JCTC recipients are concentrated in high-paying sectors and tend to be located in Center City, suggesting that firm expansion decisions among recipients are driven more by talent attraction than by cost.
- JCTC is one of a limited set of City tools that can be used to influence business location decisions and should be made more effective for the purposes of doing so.
- JCTC's efficacy is undermined by redundancies with most other growth incentives, including KOZ, Jump Start, SBTC, and TIF, all of which are mutually exclusive with the credit.
- JCTC does not effectively target growth to drive towards broader policy goals, whether geographic or industry-based.

Evaluation Summary

Simple ROI 6.8x

Efficacy ■□□

While JCTC provides a favorable ROI, the credit amount is too small to induce business expansion. Additional findings suggest that the current award size does not effectively counter increased costs of doing business in Philadelphia, though a higher award size could.

Accountability ■■□

The City requires audits of payroll of participating companies, in addition to self-reporting of other information to determine if the program is meeting set economic development goals. However, due to confidentiality concerns, the City does not publicize individual job creation or award amount information as the State does. These concerns also lead to limited communication between administering agencies on recipients and award size, limiting accountability for firms that benefit from multiple programs.

Program Recommendations

Recommendation 1

Right-size JCTC benefits to meaningfully reward firms that demonstrate good business behavior—potentially through a tiered structured that provides deeper credits for specific categories and a higher baseline amount awarded.

Recommendation 2

Offer deeper tax credits for jobs relocating from outside Philadelphia or from within Center City to areas outside the central business district.

Recommendation 3

Expand program accessibility by exploring salable tax credits, reduction of credit redemption guidelines, and substitution of grants for credits, where applicable.

Tax Increment Financing (TIF)

Key Takeaways

- After an initial surge during the Rendell Administration, new TIF proposals have severely declined, particularly following the adoption of the 10-Year Real Estate Tax Abatement in 2000.
- Political uncertainty during the approvals process further constrains the attractiveness of the program.
- By nature, TIF has typically supported relatively low-paying jobs. Retail projects have benefitted from the ability to capture sales tax revenue, making TIF more valuable than the 10-Year Tax Abatement.
- TIF has almost exclusively been used through developer-backed debt specific to project investments rather than through City-backed debt for areawide enhancements.

Evaluation Summary

Simple ROI 2.0x

Efficacy ■□□

Low utilization due to reliance on developer-backed bonds. Benefit depends on the quality of the but-for argument and projection of baseline tax revenues submitted with the application. The 10-year tax abatement offers a by-right alternative to TIF, circumventing the need to rely on developer-backed bonds.

Accountability ■■□

The PA TIF Statute requires a very transparent approval process which includes a mutual contract agreement that obliges businesses to meet certain requirements. Individual TIF project plans are publicly available, and TIF Agreements are executed and monitored by the Philadelphia Authority for Industrial Development on behalf of the City.

Program Recommendations

Recommendation 1

Encourage prospective TIF projects to co-locate with City investments. Ensure that City resources are maximized by encouraging TIF projects to co-locate with active City investments, including designated neighborhood commercial corridors, participants in employee training programs, City grant and loan recipients, and infrastructural investments.

EXECUTIVE SUMMARY Findings

Forgivable Loan

Key Takeaways

- The Forgivable Loan is valuable as a discretionary tool for closing high-value deals that closely align with the City's economic development strategy.
- Forgivable Loan has the flexibility to support targeted growth sectors and investments in priority markets.
- The program's simple structure and adaptability makes it easier to deploy for attraction prospects.
- The Forgivable Loan program has a sustainable ROI and a relatively low cost-per-job, owing to its use in conjunction with other incentives as a gap-filler.

Evaluation Summary

Simple ROI 15.4x

Efficacy ■■■

The tool's flexibility allows for discretionary financing to close the gap on deals. There are opportunities for the City to improve initial evaluation to ensure that deals produce a satisfying return on the investment.

Accountability ■■□

The program's design and built-in ability to utilize a claw-back mechanism to ensure that agreed-upon goals are met creates accountability for recipients. Public reporting has been limited; however this will change with the self-reporting requirement.

Program Recommendations

Recommendation 1
Given tool's efficacy and cost-effectiveness, establish a budget for Forgivable Loan to preserve the program's defining features while allowing decision-makers to prioritize among investments based on performance goals.

Recommendation 2
Build on program guidelines to increase accountability and transparency through the use project score cards that enable a comprehensive evaluation of deals and ensure delivery on core policy objectives (e.g. workforce development).

EXECUTIVE SUMMARY Findings

Jump Start Philly

Key Takeaways

- The abatement overlaps with multiple other programs. It cannot be used by KOZ or JCTC recipients, though businesses might be better-served through those programs.
- Based on historic utilization trends, total BIRT liability among Jump Start participants could be fully abated under JCTC for firms creating at least 9 new jobs.
- Program is well-positioned for consolidation (see Portfolio-Wide Recommendation #1).

Evaluation Summary

Efficacy ■□□

Eligible businesses often have smaller BIRT liabilities as they initiate operations, limiting attractiveness of program for new firms. Program overlaps with other incentives offered by the city.

Accountability ■□□

There is no tracking of this program and no appointed administrator, which compromises program transparency and accountability.

Sustainable Business Tax Credit (SBTC)

Key Takeaways

- Extension of credit to the income portion of BIRT increased utilization, but maximum participation has not been reached.
- On average, half of allowable credit is taken, suggesting firms have small tax liabilities.
- Split responsibilities between the Office of Sustainability and Department of Revenue complicate program tracking and marketing.
- Program is well-positioned for consolidation (see Portfolio-Wide Recommendation #1).

Evaluation Summary

Efficacy ■□□

The program structure has resulted in utilization primarily by small professional services companies who are located or planning to locate in the city.

Accountability ■■□

Split responsibilities between departments limits internal accountability and capacity to track performance.

Philadelphia Works

Key Takeaways

- Philadelphia Works reports more interest from retention prospects who have a better sense of operational requirements and labor force issues.
- WIOA-required customized learning plans and pre- and post-assessment reporting may be overwhelming for employers.
- Training services are available outside of the attraction/retention process. Most of the utilization is from supermarkets and food service firms.

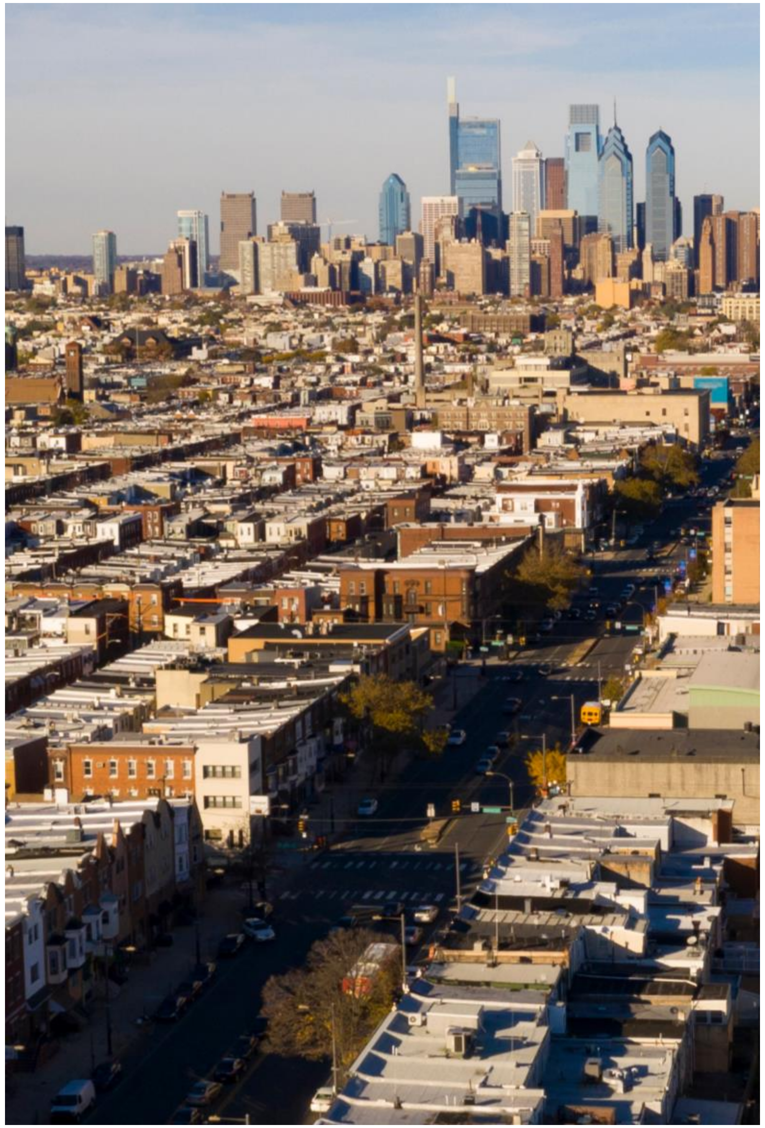
Evaluation Summary

Efficacy ■□□

Philadelphia Works' workforce development services are primarily utilized by existing, established businesses. These services are not typically used by business attraction prospects.

Accountability ■□□

Philadelphia Works has limited tracking capacity for this program. By design, businesses are required to match contribution which ensures some accountability for recipients.



Major Challenges

Program evaluation and peer benchmarking analyses highlighted areas for improvement in the administration and efficacy for deployment of Philadelphia's economic incentives. The following challenges were identified:

A complex business tax structure may be perceived as inhibiting growth.

Side effects of intergenerational poverty prevent equitable distribution of growth.

Heavy regional competition coupled with limited State incentives impair competitiveness.

Numerous local incentives programs overlap, undermining efficacy.

One-size-fits-all benefits do not always provide targeted relief to businesses.

Program marketing, approval, and administration is inefficiently spread across multiple departments.

No consistent evaluation criteria or process across programs.

Limited transparency and accountability weakens public trust in incentives.

Limited political appetite for continuation and expansion of some of programs.

Portfolio-Wide Recommendations

A series of improvements related to consolidation, a greater focus on equity, and transparent practices will help streamline and improve the efficiency and effectiveness of Philadelphia's economic incentive toolkit.

Recommendation 1 Consolidate programs into a combined *Quality Jobs Credit Program* with tiered benefits.

Recommendation 2 Establish common program standards and portfolio-wide benchmarks with which to evaluate and monitor performance.

Recommendation 3 Publicize programs, applications, and requirements and assist prospective firms in navigating incentives regime.

Recommendation 4 Improve coordination among economic development entities to streamline incentives management and implementation.

Recommendation 5 Explore possibilities to provide incentives reporting data in a more accessible format.

Recommendation 6 Consider advancing meaningful reforms to the local tax regime to drive long-term economic growth that is less reliant on incentives.

Introduction

Philadelphia is a city on the rise, with the opportunity to leverage its resources to ensure that economic growth continues in an equitable manner.

By leveraging an efficient incentives toolkit, the City can further achieve its overarching economic development policy goals:

- Grow the city's jobs base at multiple skill and salary levels to **increase economic resiliency** and **reinforce recent growth trends**;
- Encourage **inclusive economic growth**, providing greater opportunity to residents of *all* of Philadelphia's neighborhoods.

Now is an ideal time to review the City's incentives portfolio—Philadelphia is currently undergoing an economic renaissance. Compared to prior decades, Philadelphia has recently benefited from the significant inflow of people and businesses, generating new economic activity within the city. Given these changing economic conditions, the time is ripe to reflect on the City's business incentives, determine how to optimize its economic development toolkit, and consider how economic growth can be leveraged citywide.

In recent years, there has been growing recognition among national and local policymakers that economic development incentives merit scrutiny to ensure that they are delivering the greatest benefit at a reasonable cost. A thorough evaluation of the current incentives regime will allow Philadelphia to evaluate the costs and benefits of recent high-profile incentive deals and ensure that future deals properly balance economic growth and public resources.

Fundamentally, there are two motivations for reviewing the City's incentives portfolio:

- To ensure that business attraction and retention incentives are **aligned with citywide economic development goals.**
- To assess the full economic costs and benefits of incentives in order to identify opportunities to **improve return on investment** and further advance Philadelphia's economic development goals.

In 2018, the City of Philadelphia engaged HR&A and RES ("the HR&A Team") to undertake a comprehensive review of its incentives portfolio, pursuant to Philadelphia Bill 161015.

Study Objectives

1. Assess the **relative effectiveness** of the City's incentive programs in achieving stated economic development objectives, as well as understand the **comparative costs and benefits to the City** of seven selected business attraction and retention incentive programs.

2. Consider ways of adapting existing programs to **reflect broader equity and inclusive economic growth objectives**.

3. Provide a **strategic, streamlined framework** for the City in determining if and how to deploy incentives going forward in order to **improve the performance, transparency, and accessibility** of the City's incentives regime.

The HR&A Team took a multi-step approach, culminating in final recommendations for improvements to the City's local tax incentives portfolio.

Analytical Process

1 Data Collection & Stakeholder Engagement

- Confirm study objectives and methodology
- Interview key public and private stakeholders
- Collect historical data for programs under study

2 Policy Goals & Objectives

- Review existing planning and strategy documents
- Review program parameters
- Identify city's economic and inclusivity growth objectives to guide our analysis and recommendations

3 ROI Analysis

- Determine total utilization, direct costs, and trends by geography and industry
- Assess program efficiency through ROI calculations for each program

4 Best Practices Review

- Identify best practices to:
  - Catalyze business attraction/retention
  - Advance inclusive economic development goals
  - Demonstrate optimal efficiency in terms of administration, deployment, and structure

5 Peer City Benchmarking

- Assess competitiveness vis-à-vis peer cities:
  - Review 3 national peers with similar economic characteristics or historic challenges
  - Review 2 regional competitors that compete with Philadelphia for business

6 Future Policy Recommendations

- Align program objectives with City policy goals
- Reposition existing programs and recommend new ones to drive strategic outcomes
- Improve operational procedures to reinforce accountability and transparency

The HR&A Team assessed potential forgone and incremental tax revenues associated with historical use of seven business attraction and retention programs selected by the City.

TAX EXEMPTION	**Keystone Opportunity Zone**	A place-based incentive providing complete abatement of multiple State and local taxes; the City must apply to participate in this State program through a periodic State application process.
TAX EXEMPTION	**Jump Start Philly**	A complete abatement of Business Income & Receipts Tax (BIRT) liability for new businesses, also exempts new firms to Philadelphia from a range of City licensing fees.
TAX CREDIT	**Job Creation Tax Credit**	Jobs-based tax credit against BIRT, intended to encourage job creation.
TAX CREDIT	**Sustainable Business Tax Credit**	One-time tax credit against BIRT liability, meant to encourage sustainable business behaviors such as B Corporation certification, fair hiring or environmental sustainability.
FINANCING TOOLS & SUBSIDIES	**Forgivable Loan Program**	Low-interest, forgivable financing administered by PIDC, used to close high profile deals; usually used as part of a larger incentives package; functions like a grant with a claw-back mechanism tied to performance outcomes.
FINANCING TOOLS & SUBSIDIES	**Tax Increment Financing**	Special tax assessment district (property-level or district -wide) in which future tax revenues generated on-site are used to finance project costs.
FINANCING TOOLS & SUBSIDIES	**Philadelphia Works Funds**	Workforce and Economic Development Training Funds awarded to partnering firms through the Federal Workforce Innovation and Opportunity Act (WIOA); funds require that business match workforce training.

**The 10-Year Tax Abatement was not included in this study because a separate, detailed study was completed on that incentive in 2018.*

Based on a review of policy documents, the HR&A and City teams identified eight economic policy objectives to inform the portfolio analysis and recommendations.

Economic Development Goals

1. Improve regional, national and international **competitiveness**
2. Retain and expand employment in **legacy and emerging industries** to grow the number of quality jobs
3. Extend **economic activity to underserved areas**, while maintaining the competitiveness of existing commercial centers
4. Bolster **entrepreneurship** to increase **economic mobility** and foster just, equitable growth
5. Grow Philadelphia's **local talent pool**
6. Ensure **pathways to employment** for disadvantaged Philadelphians
7. Couple **inclusive growth efforts** with broader support systems in struggling communities
8. Support the **green economy** and **sustainable energy use**

Economic Competitiveness

- Policy that counters structural challenges to growing the city's jobs base by addressing obstacles such as increased cost-of-doing-business

Equity & Inclusion

- Policy that drives inclusive economic development by encouraging good business behavior and investment in target neighborhoods or industries

Workforce Development

- Policy that promotes educational investment in Philadelphia residents to connect them to opportunities in the 21st Century economy

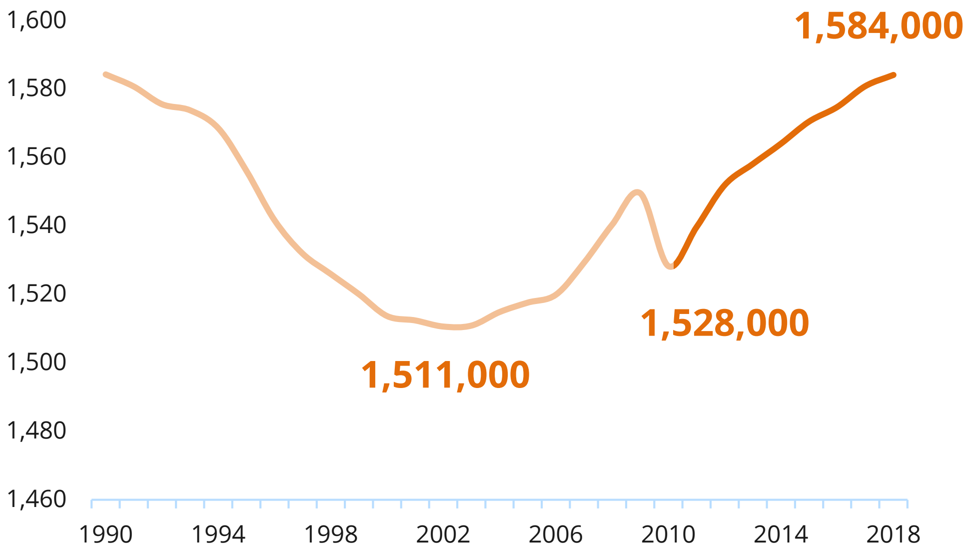
Sustainability

- Policy that encourages environmentally friendly business practices and guides growth towards more sustainable and socially conscious outcomes

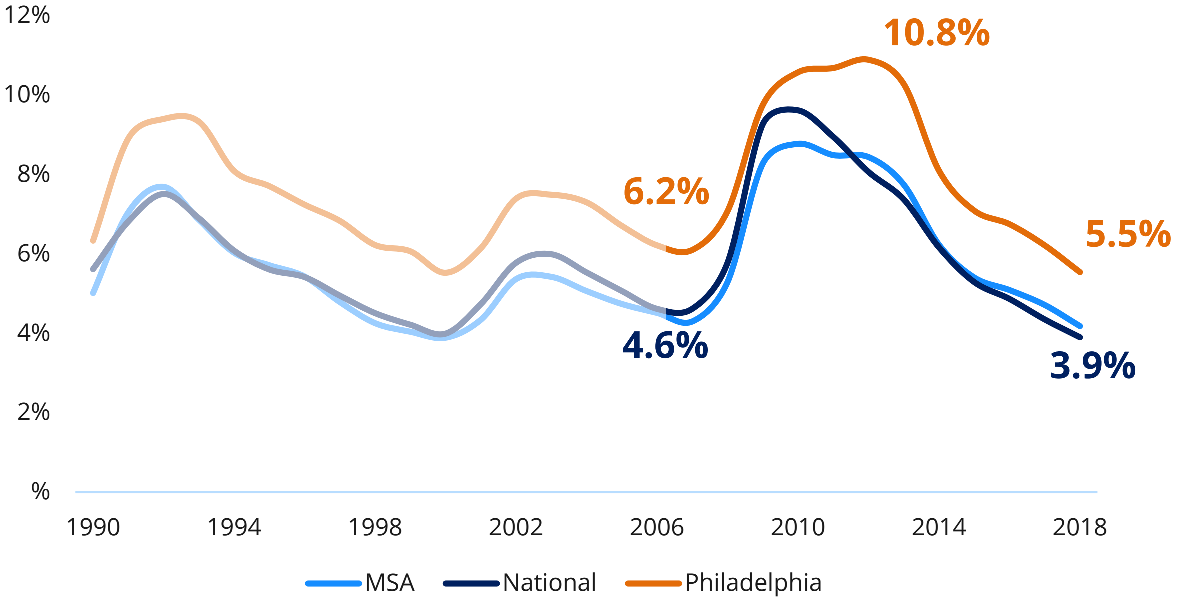
Economic Context

By many measures, the recent decade has been a successful one for Philadelphia, attracting new residents and building a stronger, more vibrant city.

Growing population



Shrinking unemployment



After a long period of population loss, Philadelphia has seen steady recovery, with population growing exponentially since reaching a trough in 2002. The last decades represent the longest period of sustained population growth for the city since the 1950s. This is complemented by the city's strong recovery in recent years; the unemployment rate has decreased to 5.5% from from a 10-year peak of 10.8%, while the local economy caught up to match national growth trends.

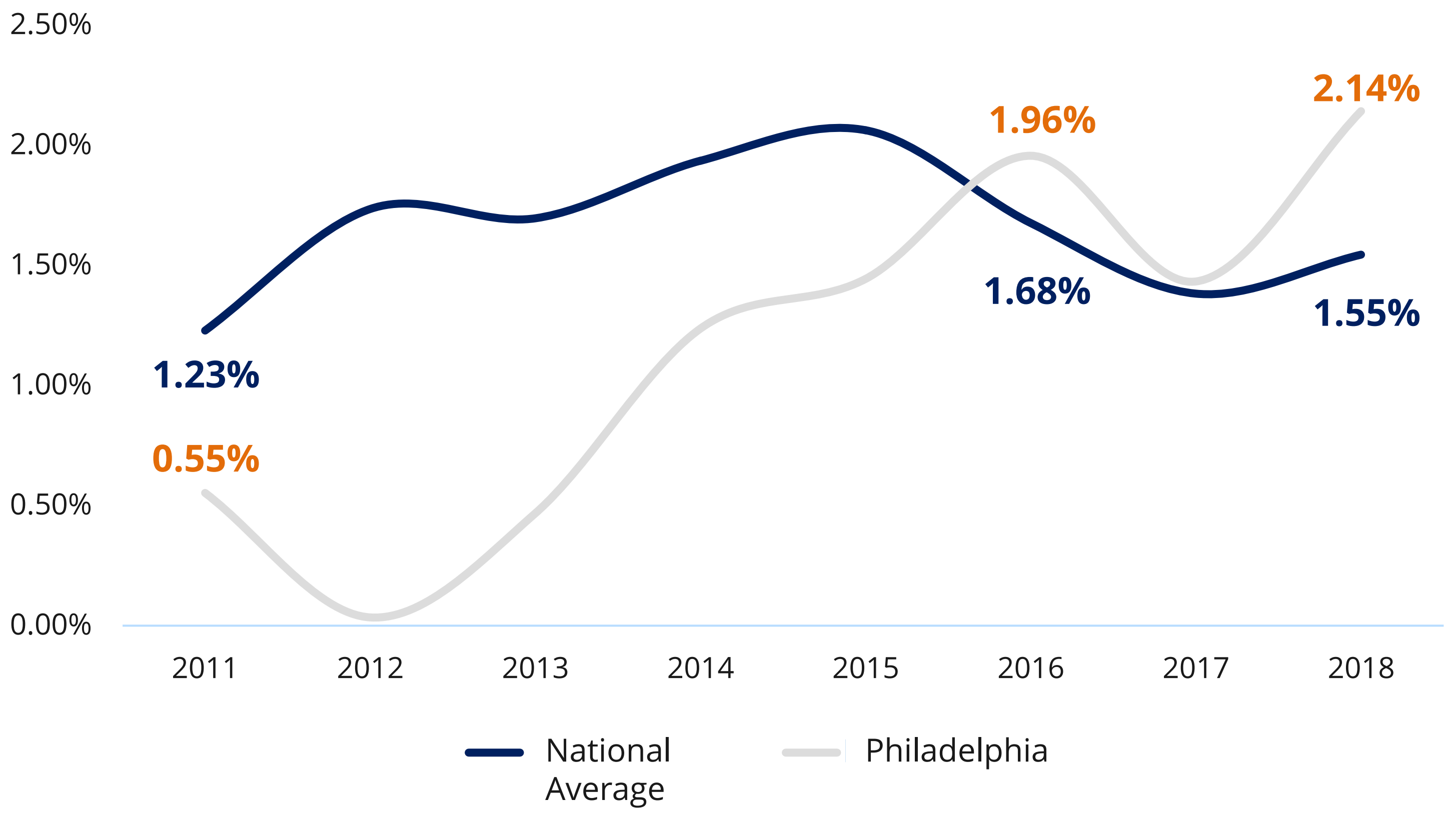
U.S. Census Bureau, Resident Population in Philadelphia County/city, PA [PAPHIL5POP], retrieved from FRED, Federal Reserve Bank of St. Louis; ACS 5-Year Estimates, BLS: Current Employment Statistics

Following years of lagging job growth post-Great Recession, economic expansion has exceeded the national average in each of the last three years.

Historically, Philadelphia has lagged behind other U.S. cities in terms job growth, with its non-business friendly tax structure contributing to a slow recovery following the Recession. When compared to high-growth cities, such as Austin and Nashville, Philadelphia was more than 2.5 percentage points lower and one percent lower compared to the national average.

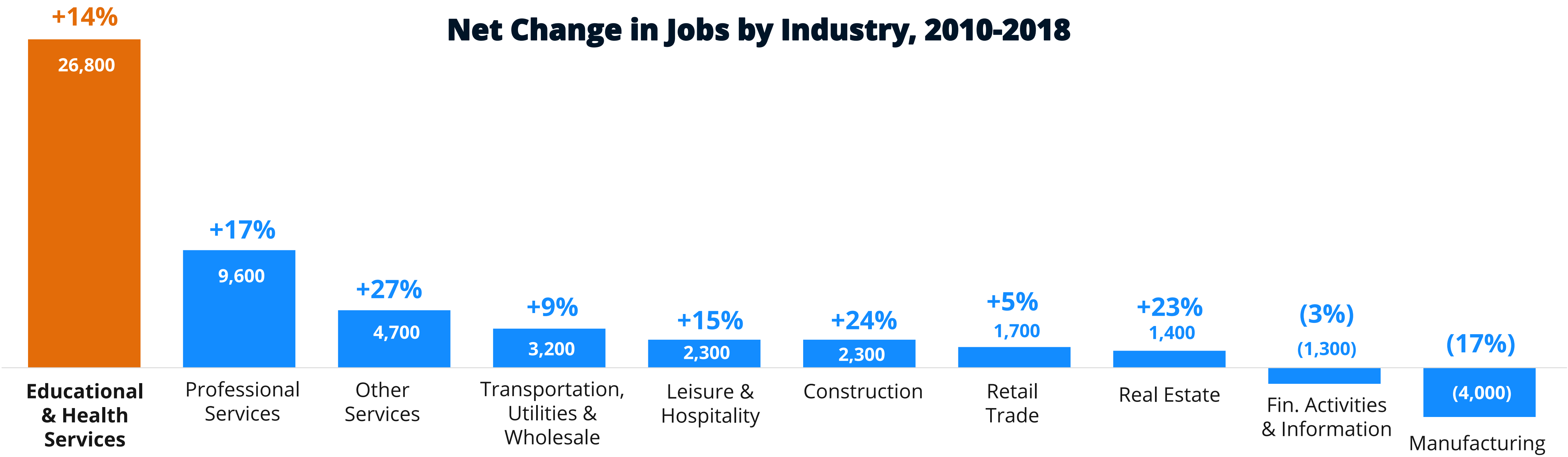
However, in the last three years, between 2015 and 2018, the trends have reversed, with Philadelphia's job growth now outpacing national average. Jobs remain concentrated in few parts of the city, with over 50% of jobs captured by Center City and University City. Philadelphia also competes with its suburbs for jobs; almost 40% of city residents commute to the suburbs for work. While almost half of the jobs in Center City are occupied by non-residents that commute to Philadelphia.

Average Annual Change in Jobs, 2011-2018



BLS: Current Employment Statistics, "State of Center City" – Center City District & Central Philadelphia Development Corporation

The "Eds & Meds" sector has led recent growth in terms of absolute new jobs, owing to the robust institutional presence in Philadelphia.

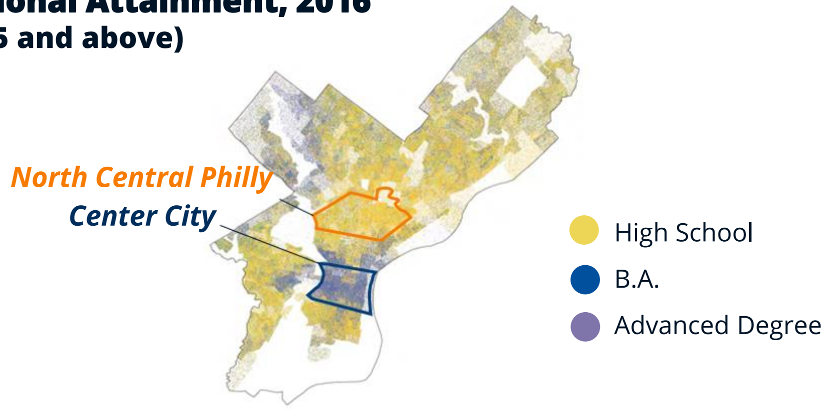


The Educational and Health Services sectors have been key in advancing Philadelphia's growth in recent years. Local research institutions have been instrumental in supporting the growth of startups, attracting talent and pharmaceutical firms as well as venture capital to the city and region. Strong growth from leading institutions including Drexel University and the University of Pennsylvania, as well as a reduced tax burden, have helped this sector in particular thrive. This unique combination of research, medical, and technology-based uses has positioned Philadelphia and the surrounding metropolitan area to emerge as a leading national hub for Life Sciences. Professional Services, a leading recipient of business incentives, has also seen strong growth.

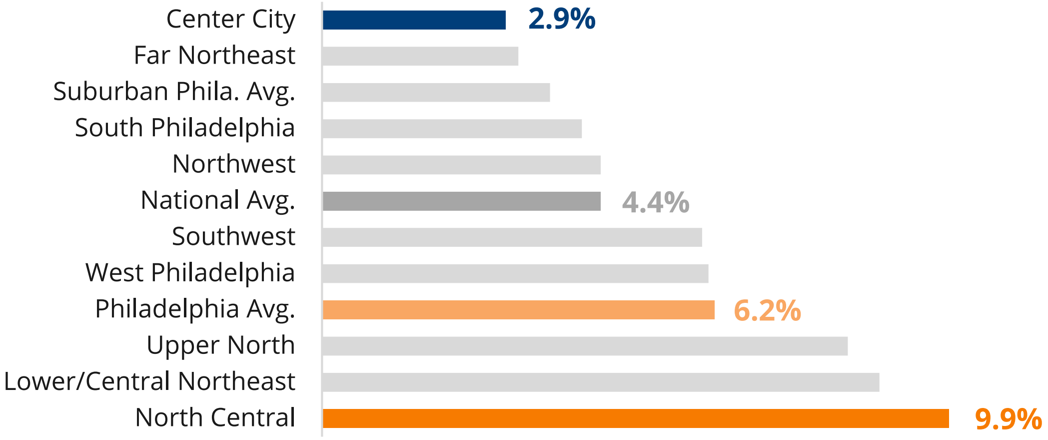
EMSI, JLL, "Connect to Compete"—Brookings

Poverty remains a persistent challenge, requiring concerted strategies to ensure that the benefits of economic growth are equitably distributed.

Educational Attainment, 2016
(Ages 25 and above)



Unemployment Rates by Neighborhood, 2017



Center City District; U.S. Census Bureau, ACS 2017; City of Philadelphia

Recent job growth and development in Philadelphia has not translated into widespread improvements in economic outcomes for many of the city's residents. Center City – an area with among the lowest unemployment rates and highest rates of educational attainment anywhere in the city – was the only neighborhood in Philadelphia to see poverty decline since 1970. Nearly 26% of city residents - or approximately 394,000 people - are currently in poverty, the highest rate among ten largest cities in the nation. Close to a third (31%) of residents in poverty are children under the age of 18, while 70% are people of color.

The return of growth to Philadelphia and a focus to remedy the damage of urban inequality provides the City an opportunity to tackle entrenched poverty through economic growth strategies focused on inclusion, among other important initiatives. Critical to such efforts will be the delivery of quality jobs that pay a living wage and offer opportunities for mobility. Economic expansion is foundational to increased economic opportunity, though growth can exacerbate inequities by creating displacement pressures and failing to mitigate embedded structural exclusion based on race and class and macroeconomic factors such as the departure of manufacturing jobs from cities and overall stagnation of wages. Earlier this year, the City unveiled *Growing with Equity*, a plan for collective action among local employers, educational institutions, and political, philanthropic, civic, and innovation leaders to advance growth alongside equity.

Center City District; U.S. Census Bureau, ACS 2017; City of Philadelphia

Attempts to address persistent challenges; within the confines placed by the state constitution that bars variable rates; has resulted in a complex tax structure levied upon a limited base of people, jobs and businesses.

Philadelphia's Municipal Taxes

Business	Income	Entertainment	"Sin Taxes"	Real Estate	Auto-related
Bus. Income & Receipts	Wage	Amusement	Tobacco	Property	Vehicle Rental
Hotel	School Income	Outdoor Advertising	Liquor	Use & Occupancy	Valet Parking
Sales & Use	Net Profits	Mechanical Amusement	Sweetened Beverages	Realty Transfer	Parking

As Philadelphia saw a significant amount of its population and wealth flee to the suburbs in the post-war era, the taxes generated by commuters became increasingly important for the City's financial well-being. However, business taxes like the Wage Tax and Net Profits Tax (which both tax non-resident workers in Philadelphia) represent an additional financial hurdle to operating a business within the city. Control over a flexible taxation structure is also constrained by the State's Tax Uniformity clause, which prohibits taxing different taxpayers at different rates (for example, preventing taxation of certain types of real estate at higher rates or progressive income rates).

City of Philadelphia – Business Services

In 2016, the Pew Charitable Trusts completed a study noting that Philadelphia taxes an inordinately wide range of business activities compared to other large cities and is the only large U.S. city to tax both corporate receipts and income.

Business Taxes in Competitor Cities

(Does not indicate rates or intensity of taxation)

*Note that, unlike Philadelphia, several other cities do not have consolidated city-county structures; their taxation structure may be intended to fund fewer activities than Philadelphia's, which must assume both city and county obligations.

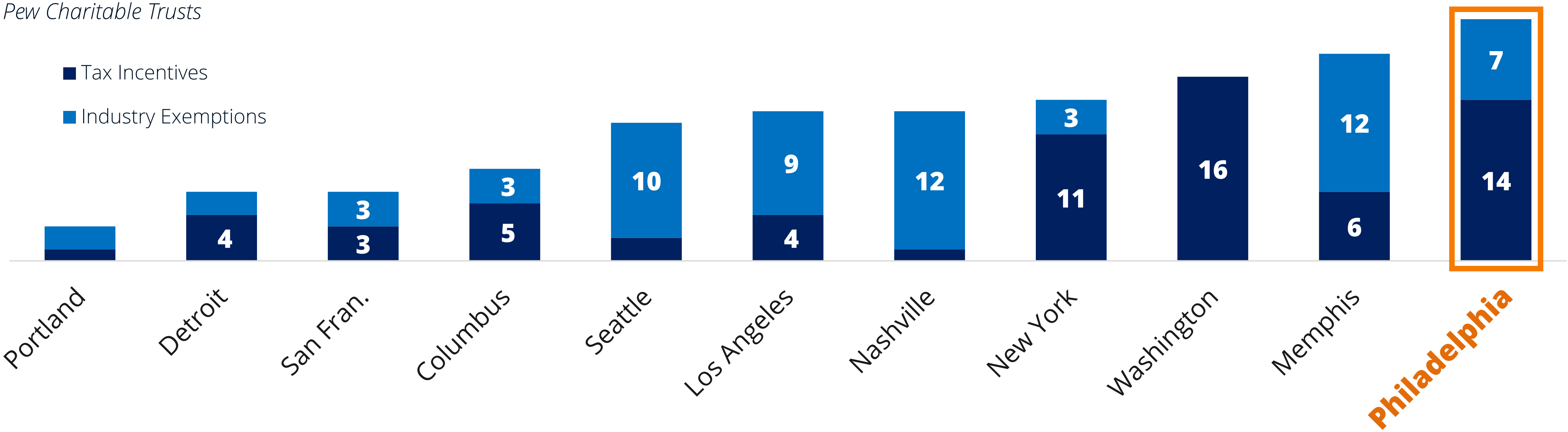
	Portland	Detroit	San Francisco*	Columbus	Seattle	Los Angeles	Nashville*	NYC*	Washington*	Memphis	Philadelphia*
Business Income	●	●		●				●	●		●
Business Sales/Receipts			●		●	●	●			●	●
Profits of Partnerships	●			●				●	●		●
Commercial Real Estate	●	●	●	●	●	●	●	●	●	●	●
Commercial Use of Property					●	●		●			●

Pew: "Philadelphia Business Taxes: Exemptions & Incentives" (2016)

As Philadelphia competes for new businesses and investment, a patchwork of incentive programs has emerged, the most of any large city.

Incentives & Exemptions in Competitor Cities

Pew Charitable Trusts



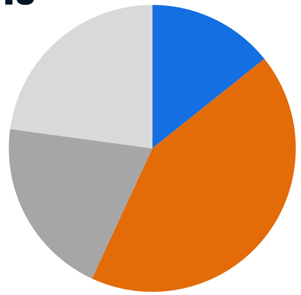
As Philadelphia competes for jobs with cities nationwide and internationally, the city has employed a set of incentives as expansive as its tax regime. The Pew Charitable Trusts found that Philadelphia deploys more tax incentives and industry exemptions than any other major U.S. city. Philadelphia's broad portfolio of incentives is meant to remedy its piecemeal tax structure, though the sheer number of programs leads to overlapping and oftentimes redundant incentives that contribute to limited overall portfolio efficiency.

Pew: "Philadelphia Business Taxes: Exemptions & Incentives" (2016)

Philadelphia relies disproportionately on taxes that affect highly mobile assets such as business and personal income.

ATLANTA

General Fund FY 2018

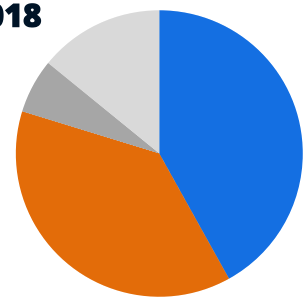


43%

of General Fund tax revenues in Atlanta are derived from property taxes

PITTSBURGH

General Fund FY 2018

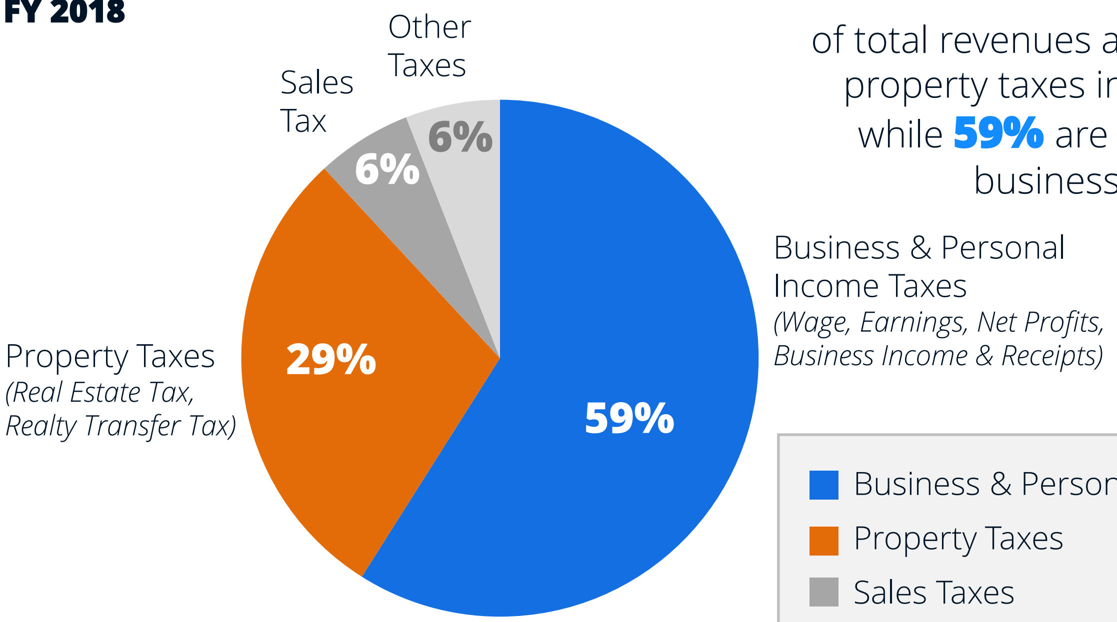


38%

of General Fund tax revenues in Pittsburgh are derived from property taxes

PHILADELPHIA

General Fund FY 2018



29%

of total revenues are derived from property taxes in Philadelphia, while **59%** are derived from business taxes

- Business & Personal Income Taxes
- Property Taxes
- Sales Taxes
- Other Taxes

**Unlike Philadelphia, neither Atlanta nor Pittsburgh are coterminous with their respective counties. While Fulton County (Atlanta) and Allegheny County (Pittsburgh) do not rely on business taxes at all to fund County functions, Philadelphia's analogous county-level functions are supported by a General Fund that is disproportionately reliant on business taxes.*
Philadelphia Dept. of Revenue, City of Atlanta Annual Report, City of Pittsburgh CAFR

Incentives Program Analysis

Key questions about Philadelphia's incentives portfolio guided our analysis of the seven selected incentive programs.

1. How well does Philadelphia's economic incentives toolkit **align with the City's current core policy objectives**?

2. How effective are existing programs in achieving core policy objectives? How do **costs and benefits** compare across each?

3. Going forward, what principles should guide decisions regarding when and how to deploy incentives? What guidelines can improve **performance**, **transparency**, and **accessibility** of the City's incentives toolkit?

The HR&A Team worked with City of Philadelphia staff to compile project-level information on projects that originated between 2008 and 2017.

Analysis period

The analysis considered projects that originated between 2008 and 2017, with the following program-specific parameters:

- The **KOZ** analysis includes projects located within KOZs where benefits began between 2008 and 2017. Forgone City tax revenues were projected for 10 years following the KOZ start year. City benefits were calculated over 15 years; the additional 5 years used to calculate benefits derives from the conservative assumption that, for a portion of tenants locating on the site in the middle of the KOZ benefit period, a standard 10-year lease would ensure they remain on site after the KOZ term ends. Additionally, to garner the KOZ full benefit, firms must stay on site for 5 years, meaning that firms locating during the latter half of a KOZ's term are bound to stay for some time past the end of the benefits period.
- The **JCTC** analysis includes projects that certified as creating jobs between 2008 and 2017. Benefits were calculated beginning in the year prior to certification, as proof of employment during the 12 months prior must be provided for verification, and were calculated over the 5 years following, or the minimum amount of time in which business operations are required to be maintained. To provide for the most conservative estimate of project returns, the analysis is agnostic as to whether jobs were maintained after the required five-year period.
- As only one **TIF** deal occurred between 2008 and 2017, tabulations consider all projects since 1996, with project-level return metrics (rather than the program-wide average) calculated over the entire 20-year subsidy term.
- The **Forgivable Loan** analysis includes projects approved within the last 10 years, with benefits calculated over the duration of the loan term (typically 5 years).
- The **Jump Start** analysis considers businesses receiving exemptions in the years 2014 through 2017. The years 2012, (when the program began) and 2013 are excluded due to data limitations.
- The **SBTC** analysis covers projects awarded credits between 2012 (when the program was first introduced) and 2017.
- The **Philadelphia Works Fund** analysis relied on quantitative data for projects between 2016-2018, which, due to data limitations, was complemented with qualitative information from Philadelphia Works staff due.

The HR&A Team worked with City of Philadelphia staff to compile project-level information on projects that originated between 2008 and 2017.

Data sources & collection process

The HR&A Team partnered with the City of Philadelphia to collect and analyze data from existing tax records and self-reporting information.

- The City maintains strict confidentiality requirements pertaining to the use of sensitive or personally-identifying tax information. As many of the programs under study abate BIRT and/or NPT taxes, which can in turn be indications of business profitability, all data analysis and aggregation for these programs had to be conducted onsite at the Department of Revenue and aggregated to sufficient levels to preserve anonymity.
- Subsidy self-reporting data collected by the Department of Commerce for the years 2016 and 2017 were used to supplement the analysis where pertinent information was spread across multiple datasets lacking a common identifier.
- For certain programs such as Forgivable Loan and TIF, fiscal data were supplemented by documentation provided by the City for each project, including loan agreements and individual project plans.
- For some projects, it was not possible to obtain complete and/or verified data, as full records were not available or could otherwise not be matched to a firm or location. These projects were excluded from quantitative metrics wherever noted.
- Given the objectives of this study, HR&A focused its analysis on City subsidies, not federal or state subsidies that may have been used in combination with any of the local subsidies under consideration. Owing to data limitations and the desire to preserve comparability across and within programs, HR&A evaluated the net returns of each program independently and did not consider the combined forgone tax revenues from projects accessing multiple programs simultaneously. The incidence of multi-program use is likely limited given redundancies between the programs selected for consideration, which renders combined use statutorily or practically infeasible in most cases.
- The analysis considered direct project impacts only; it did not consider potential indirect and induced economic activity catalyzed through City subsidy, nor the potential added fiscal costs to the City associated with increased public services or infrastructure strains owing to growth.

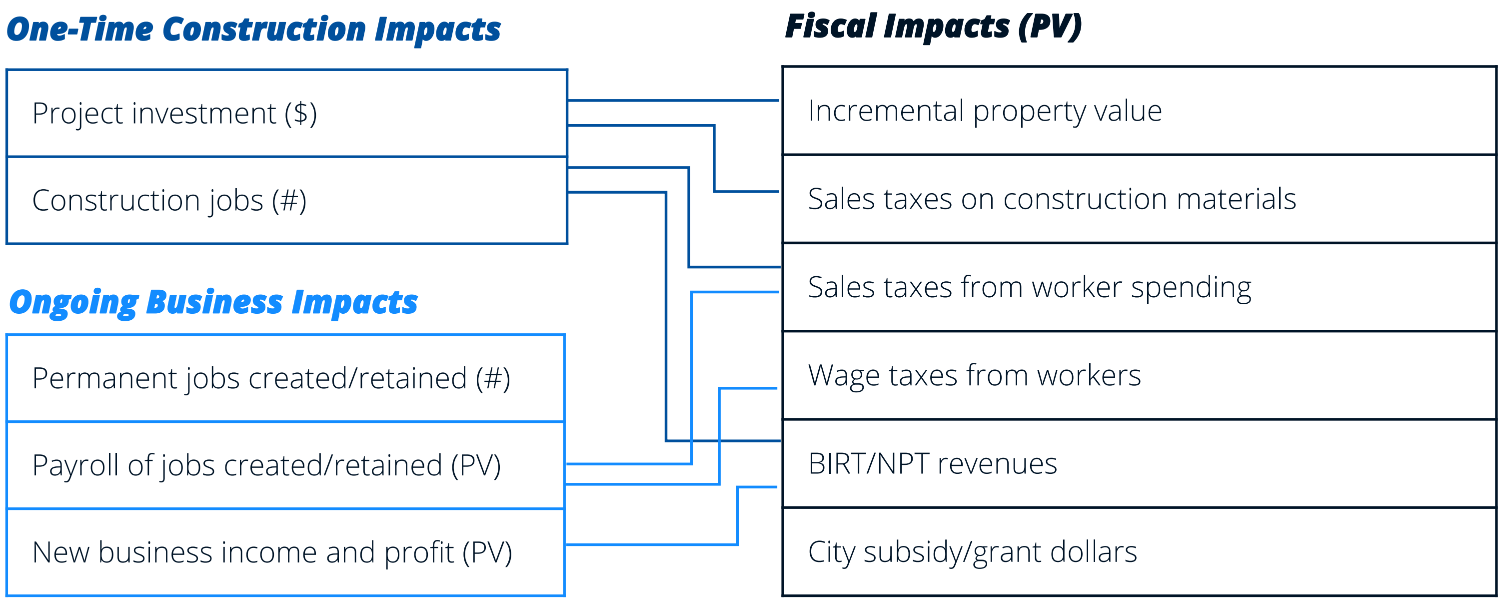
Return metrics pulled in project-specific indicators and reasonable assumptions of future activity to estimate one-time and ongoing fiscal impacts.

Fiscal impact assumptions

Forgone tax revenues are defined as the total incentive value or value of forgone tax revenues over the abatement term.

Fiscal benefits refer to the incremental local tax revenues generated through the one-time capital investment and permanent operations of incentivized activities over the applicable study period, including post-abatement period where applicable. All cost and benefit figures reflect local taxes only.

Categories of fiscal costs and benefits vary by program depending on program structure and data availability. Depending on the length of the study period in relation to the abatement period, fiscal impacts may be calculated as the net sum of both forgone revenues during initial years as well as incremental benefits in future years.



**Fiscal impacts can refer to forgone and/or incremental tax revenues depending on the type and duration of incentives offered under each program.*

The HR&A Team utilized standardized output metrics to compare relative levels of efficacy, efficiency, and accountability.

Efficiency

Evaluates a program's ability to drive economic returns at a reasonable cost for the City and can be measured through one of several return metrics. For the purpose of this study, the HR&A Team has utilized a simple ROI metric. This have been applied depending on applicability and data availability.

A simple return-on-investment (ROI) metric is used to quantify the approximate economic benefit resulting from the program investment. It is calculated by dividing the direct fiscal benefits created for the City by the full fiscal "cost" of a project (e.g. forgone tax revenue or subsidy).

For example, a return on investment of 1.50x means that for every $1.00 the City forgoes in tax benefits or grants in awards, it receives $1.50 in return through taxes generated by the incentivized investment. The calculation of this return reflects the present value of future tax revenues over the applicable study period (e.g. 15 years for KOZ, 20 years for TIF).

If an award has an ROI greater than 1.00x, it was a fiscally rational decision to grant the incentive. However, a low ROI does not automatically indicate an inefficient program, as many projects that do not produce high financial returns may still advance City policy goals. Indeed, projects that are in difficult-to-develop areas that most require incentives may exhibit lower ROIs yet remain essential for bringing jobs and investment to communities in need.

When paired with other efficacy and accountability metrics, as well as a broader understanding of local economic conditions and other non-quantifiable factors, the ratio can provide a standardized method for comparing performance within and across programs.

Efficacy

Efficacy evaluates a program's ability to drive intended results. Because the focus of this study is around business attraction and retention, this metric focuses on the programs ability to drive business location decisions and to drive job creation and retention. Job creation or retention is defined in terms of full-time equivalents (FTEs), or the number of employees working full-time, year-round.

Accountability

Accountability evaluates a program's success in ensuring that outcomes are met by the incentive recipient. Evaluation looks at general program design (e.g. through built-in claw-backs or contractual agreements), program administration, oversight and tracking of outcomes and performance, as well as transparency of the program.

Evaluation Summary Key

■□□ *Needs Improvement*

■■□ *Satisfactory*

■■■ *Highly-Effective*

Keystone Opportunity Zone

KOZ is a State-run, place-based incentive encouraging redevelopment of vacant or underutilized properties.

Purpose	The program serves to **attract** investment and new economic activity to disinvested portions of Pennsylvania.
Eligibility	Firms located on specially designated KOZ parcels that have relocated from elsewhere in PA must **increase employment +20%,** invest at least **10% of the value of its gross revenues** into improvements on the property, or enter into a lease worth at least **5% of its gross revenues** from the previous year. The program is as-of-right for firms that are relocating to within a KOZ from outside PA.
Benefits	KOZ provides total abatement of multiple City and State taxes, including: City: • BIRT • NPT • Real Estate Taxes– *Property, U&O* (net of 110% PILOT payment) • Sales and Use Tax State: • Corporate Net Income Tax • Personal Income Tax (for Partnerships) • Sales and Use Tax • Thrift Institutions and Insurance Premiums Tax
Requirements	Business operations **must be maintained on site for at least 5 years.** Recent City legislation encourages that new KOZ applicants provide **apprenticeship and internship opportunities** for Philadelphia high school students. Subject to **annual self-reporting** requirements for firms with gross revenues of $2 million+


FMC Tower

KOZ is the city's largest place-based incentive tool, used to encourage redevelopment of vacant or underutilized properties.

$645M

Total BIRT/NPT Credits (2008-2017, PV)

~690

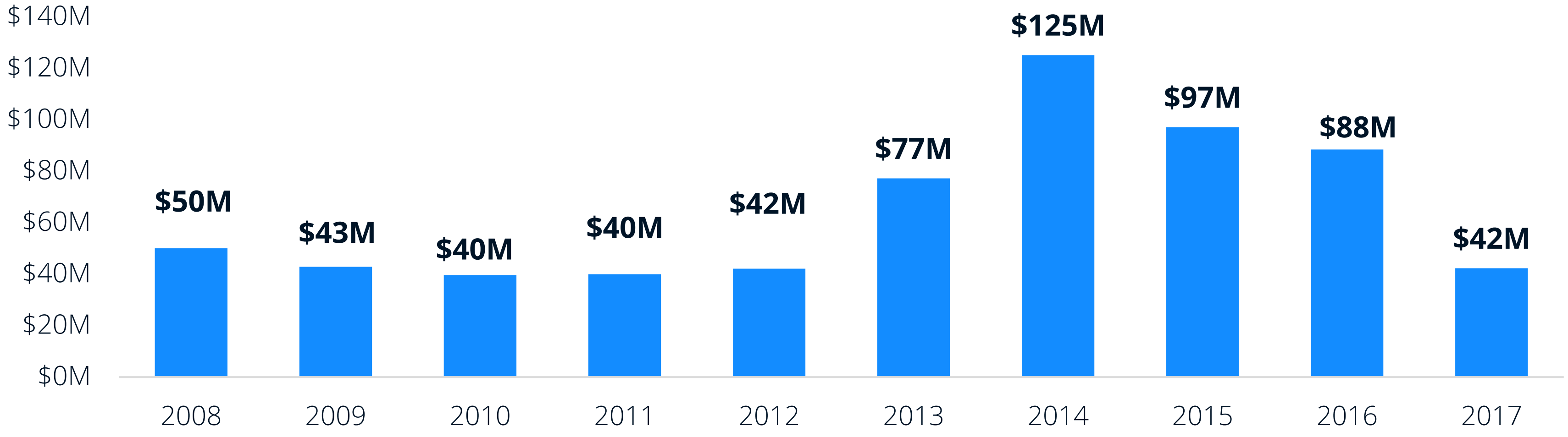
Total business accounts (2008-2017)

9,025

Full-time-equivalent jobs among KOZ recipients (2017)[1]

KOZ BIRT/NPT Credits by Year

(Present Value)

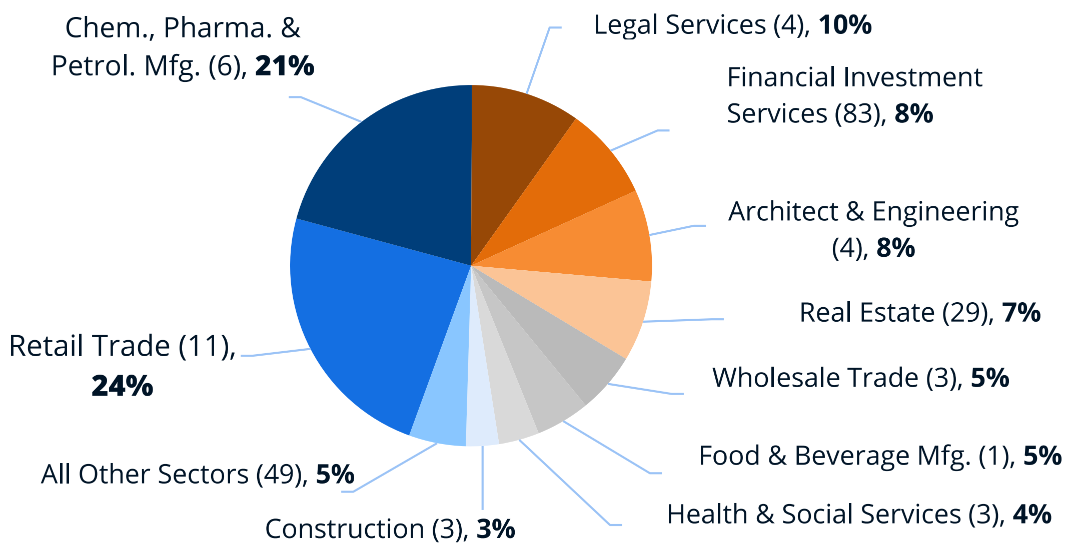


Total BIRT/NPT Credits, which make up a subset of total tax abatements available through KOZ, totaled **$645 million** across all firms located within a KOZ between 2008 and 2017 on a present-value basis. Employment among firms located within a KOZ who had $2 million or more in gross revenues equaled **9,025 on a full-time-equivalent basis** in 2017.

[1] Based on 2017 self-reported subsidy data only, which covers firms located within a KOZ who had $2 million or more in gross revenues. Part-time, temporary, and third-party employment weighted at 0.5 jobs; full-time equivalents and independent contractors weighted at 1.0 jobs.
Philadelphia Dept. of Commerce, Philadelphia Dept. of Revenue.

KOZ recipients employed more than 9,000 workers in 2017, concentrated in the advanced manufacturing and trade sectors.

Jobs by Industry among KOZ Recipients (2017)
(project count in parentheses)



Retail and **Wholesale Trade** accounted for nearly 30% of total full-time-equivalent jobs located within KOZs in 2017, with **Manufacturing** sectors accounting for more than one-quarter of total KOZ jobs. Both were also among the largest employers, employing, on average, approximately 175 workers and 305 workers per firm, respectively.

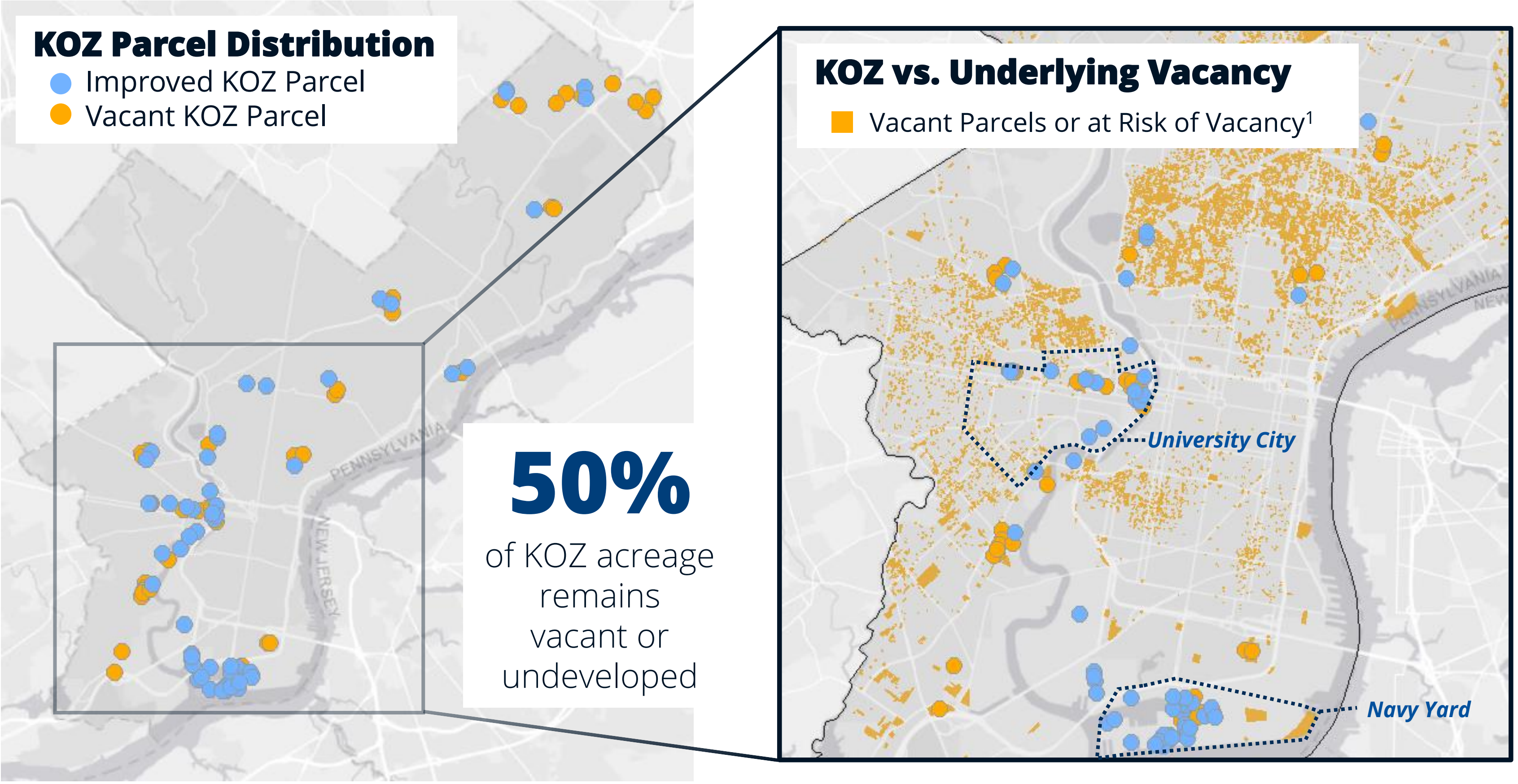
Approximately 1,740 FTEs in the **Chemicals, Pharmaceuticals & Petroleum Manufacturing** sector were located in a KOZ in 2017, representing a **majority of the sector's overall employment base** in Philadelphia (~63% of total workers in sector)[2].

[1] Based on 2017 self-reported data only, which covers firms located within a KOZ who had $2 million or more in gross revenues. Part-time, temporary, and third-party employment weighted at 0.5 jobs; full-time equivalents and independent contractors weighted at 1.0 jobs.
[2] 76% if based on total KOZ jobs (rather than those that are converted to FTEs)
Philadelphia Dept. of Commerce, Philadelphia Dept. of Revenue.

KOZ has helped areas on the cusp of development feasibility to flourish, though designated areas in submarkets where there is less demand remain vacant.

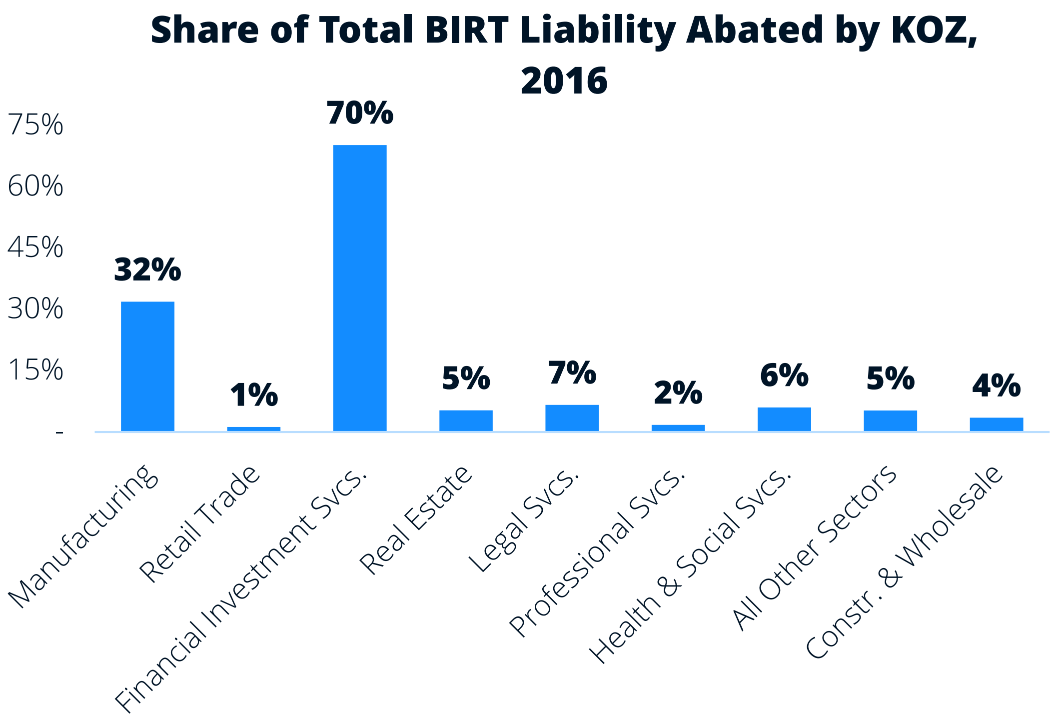
There are almost **1,100 acres** of actively designated KOZs located across the city. Of that, **50% have been developed**, while the remainder remains vacant or unimproved under the program.

The parcels that have been developed have produced **13 million SF of space,** much of it office or industrial use. The program has been particularly effective at inducing office development, with **45% of all new office product** built citywide since 2008 located within a KOZ (5.7 million SF out of 12.8 million SF of newly developed office citywide).



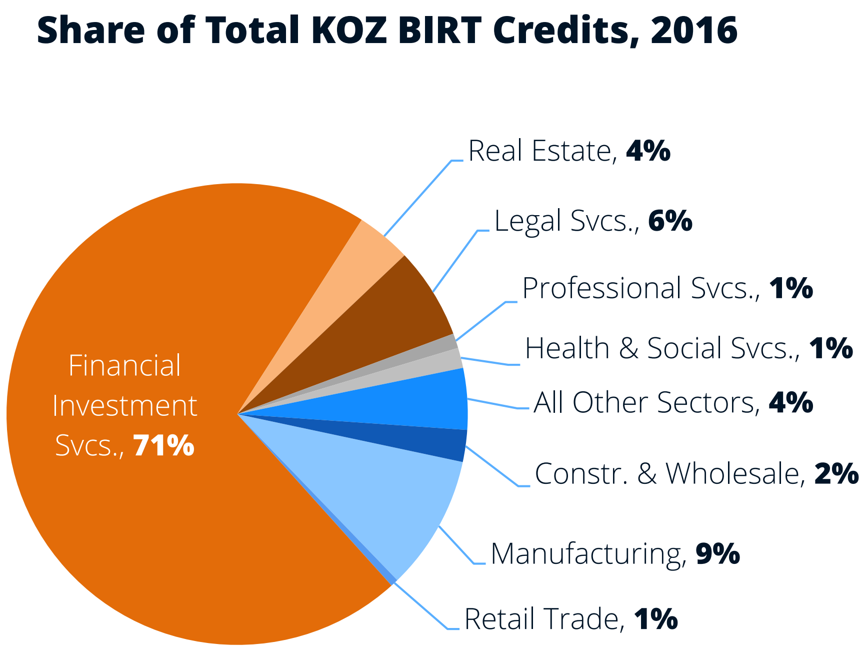
[1] Risk of vacancy, as assessed by Office of Innov. & Tech., based on payment of tax bills, frequency of L&I violations, and field inspections.
Philadelphia Dept. of Revenue; Philadelphia Office of Innovation & Technology

Approximately 70% of total BIRT liability among Financial Investment firms located in KOZs was abated in 2016, making it the single largest beneficiary.



The majority of total BIRT liability among **Financial Investment Services** firms in 2016 (~$62 million) was abated through KOZ in 2016. Just under one-third (32%) of total BIRT liability for **Manufacturing** firms was abated through KOZ.

Philadelphia Dept. of Revenue; HR&A Advisors



Financial Investment Services firms captured a **large majority of KOZ credits** in 2016 (~$54 million or 71% of total BIRT credits), despite comprising a relatively small share of total employment (8% of self-reported jobs in 2017). It should be noted that these jobs tend to be higher paying than other industries, and thus produce greater incremental wage tax revenues on a per-job basis.

Information on jobs, capital investment, and credit amounts for KOZ recipients is spread across disparate datasets that lack a single common identifier.

Dataset	Source	Common Identifier
Real Estate Assessments	Office of Property Assessments	KOZ Address
Subsidy Self-Reporting	Department of Commerce	KOZ Address KOZ Firm Name
KOZ Transactions	Department of Revenue	KOZ Firm Name

Used to Measure....

- Real estate and U&O taxes by KOZ address
- Total construction costs based on improved value by KOZ address
- Real estate, U&O, and construction impacts by firm based on share of total onsite employment
- Total jobs by firm (parent company + subsidiary) & business address
- Total wages based on average annual wage by sector multiplied by total firm jobs
- Annual BIRT/NPT Credits by firm (parent company + subsidiary) & sector
- Industry sector (5-digit NAICS) by firm; average annual wage by sector per QCEW

Place-based

Business-based

On average, KOZ has positive net returns to the City, the result of wage and sales taxes collected while KOZs are active, as well as continued economic activity post-abatement.

***Forgone City Tax Revenue (10-Yr. PV)*[1]** **($627M)**

BIRT/NPT Exemption

Property Tax Abatement (net of PILOT)

U&O Exemption

STX Exemption on Constr. Materials

***Incremental City Tax Revenue (15-Yr. PV)*[2]** **$676M**

Wage Taxes from Temp. + Perm. Workers

Sales Taxes from Temp. + Perm. Workers

Future BIRT+NPT Revenues

Future Property, U&O Taxes

Program ROI **1.1x**

Total forgone tax revenue associated with KOZ projects with $2 million or more in annual gross revenues over the duration of the 10-year benefit period were approximately **$627 million** in present-value terms, made up of:

- **($565 million)** in BIRT and NPT credits
- **($55 million)** in use and occupancy tax abatements
- **($11 million)** in forgone sales taxes on construction materials
- **+$4 million** in real estate tax revenues net of PILOT payments

Forgone tax revenues to the City are balanced against incremental wage taxes and sales taxes on the spending of those wages over a 15-year study period, which assumes that 50% of tenants remain in the KOZ for an additional 5 years following the 10-year abatement period, incremental benefits also include future BIRT, NPT, property, and U&O tax revenues collected in years 11 through 15.

Total benefits to the City per self-reporting projects are projected to be **$676 million** over the study period, compared to **$627 million** in forgone tax revenue, as outlined above, for an overall ROI of **1.1x**. This means that for every **$1.00** in abatement, the City can expect to receive **$1.10** back in incremental tax revenue. Put another way, the **City earns 10 cents on every dollar invested** in KOZ.

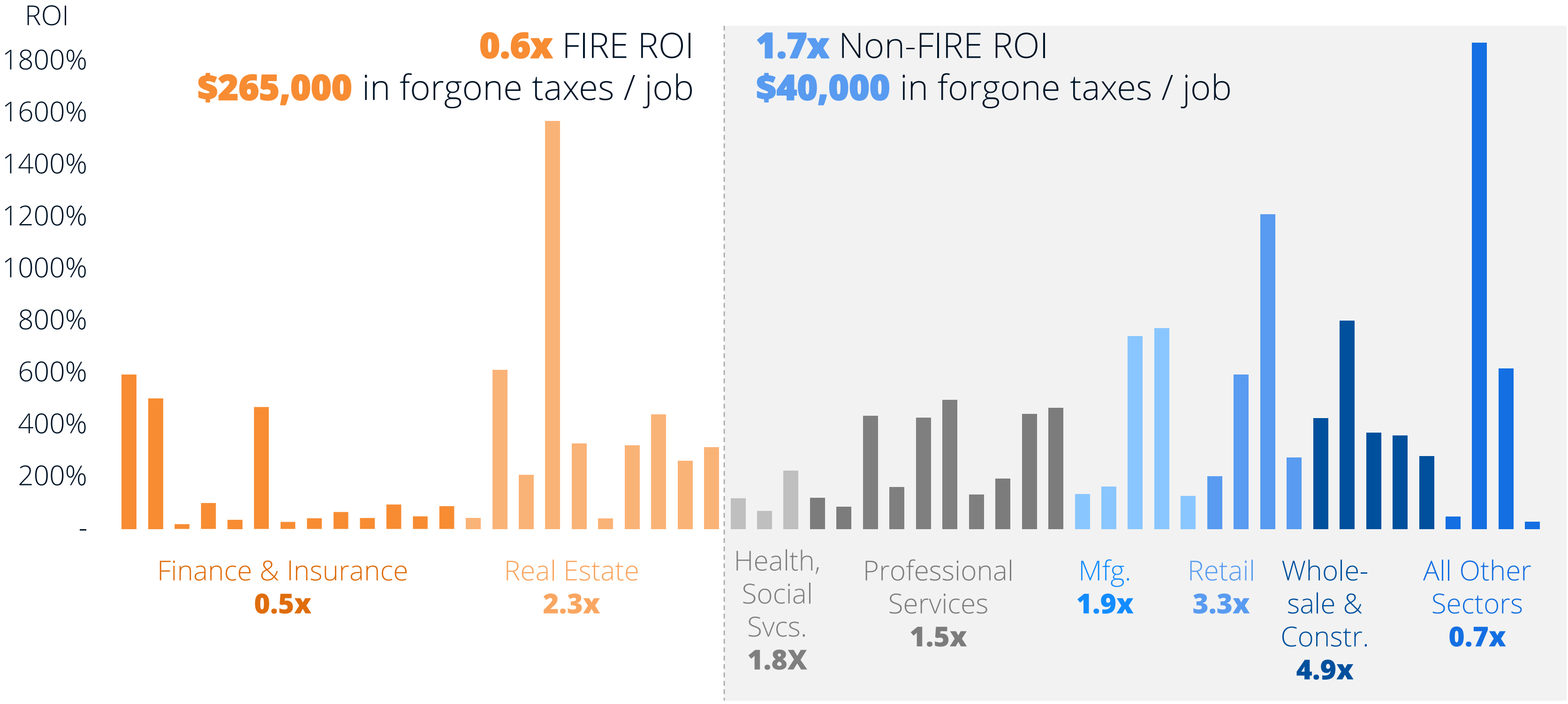
[1] Forgone and incremental tax revenues associated with self-reporting projects active in 2017.
[2] 15-year benefit period reflects 10-year abatement period plus additional 5-year period, assuming 50% of tenants remain within KOZs five years following expiration of benefits. For reference purposes, total benefits to the City if restricted to the 10-year abatement period total $462M (PV), reflecting a 0.7x ROI.
Philadelphia Dept. of Revenue; HR&A Advisors, Stakeholder Engagement

Average ROI and forgone tax revenues per job vary greatly by sector, with differences between Finance & Insurance (FIRE) and non-FIRE industries among the most pronounced.

Among non-FIRE firms, the City's ROI for KOZ projects is **1.7x**, which suggests that the **incremental returns are approximately two-thirds greater than the initial investment**. Due to a predominance of high-grossing firms with relatively few employees proportional to their share of total BIRT/NPT credits, **FIRE firms typically need longer than 15 years to generate a net positive return** to the City. Even though FIRE firms do produce high-earning jobs, incremental wage taxes are not sufficient to offset the total amount of forgone revenue over a 15-year period. There is much variation among FIRE firms, however, and the City has recently prioritized growth of the sector. Some stakeholders assert that the longer-term impacts of these firms will offset the initial high costs, and further suggest that many of these attraction deals may never have happened without the program considering that financial firms tend to locate outside of City limits.

KOZ ROI by Project & Sector (15-Year PV)

(2017 Self-Reporting Projects)



[1] Forgone and incremental tax revenues associated with self-reporting projects active in 2017.

[2] 15-year benefit period reflects 10-year abatement period plus additional 5-year period, assuming 50% of tenants remain within KOZs five years following expiration of benefits.

Philadelphia Dept. of Revenue; HR&A Advisors, Stakeholder Engagement

Local stakeholders indicated that KOZ is effective at encouraging new development, though noted structural and administrative challenges to its use.

Stakeholder Perspectives

- Developers noted that KOZ is **essential for new ground-up office development**, affording the ability to charge **higher rents** that make development feasible.
- KOZ is effective at inducing **large-scale projects** that can have a **catalytic effect** on nearby development and encourage investment throughout the surrounding neighborhood.
- KOZ works well for partnerships that can **maximize abatements on corporate income,** with high earners not paying wage tax*.
- The City does **not properly market benefits** to prospective tenants, with the onus often falling to developers or brokers to "sell" the program.
- Developers face increased risks owing to KOZ's single expiration date, as the **benefits to tenant attraction diminish over time**, and tenants become flight risks upon cessation of benefits.

*Wage tax is not abated for employees under KOZ.

KOZ is an important tool for catalyzing growth in distressed areas, though its low ROI for FIRE firms, and low utilization outside of development-ready markets warrants revision.

EVALUATION SUMMARY

Efficacy

KOZ is effective in encouraging real estate development and influencing business location decisions. However, Finance and Insurance industries produce minimal return on the City's KOZ investment owing to low job generation.

Accountability

The City recently began encouraging annual subsidy self-reporting documents, however there is still limited information available to measure job-creation or other return indicators. Claw-backs for minimum job creation and/or investment are ambiguously enforced. Self-reporting is published, yet little additional data is publicly available.

ROI **1.1x**

KEY FINDINGS

- As one of the City's **deepest incentives**, KOZ can be effective in influencing business location decisions at the margins, with attraction of KOZ sites closely **tracking new development activity** across development-ready and emerging submarkets.
- The high rate of vacant KOZ sites in deeply-distressed areas suggests the program may not be sufficient in moving the market absent **parallel public investments** or other interventions.
- **Financial Investment Services** firms receive a **disproportionate share of KOZ benefits** relative to their share of total job creation and fiscal revenues over the near-to medium-term.
- Despite the high amount of credits associated with the program to the City, there is **no direct mechanism** for ensuring that KOZ recipients **deliver broader public goods** alongside development (in addition to qualifying thresholds for investment or job creation).
- Municipal administration of the tool is **limited by State legislation**; the most effective recommendations for this program will result from **amendments** made to the enabling legislation at the State level.

KOZ Recommendation #1: Propose the designation of future KOZ sites in deeply-distressed markets where public investments are already being made.

Realign Future KOZ Selections & Renewals with Program Objectives

Build of off current work by the Department of Commerce to **limit proposed new and renewed KOZ designations** to sites where new development would not have occurred but for the incentive based on recent development trends, with the objective of de-prioritizing areas where new development actively occurs.

Should the State legislation prove immune to future amendment of KOZ, the City should judiciously select sites where the KOZ benefit will "tip" market conditions over the feasibility threshold, or those sites for which development would not be feasible over the next 10 years based on local market conditions such as rents, occupancy, and construction costs. The City should avoid proposing sites in markets where prospective land buying has already started to occur or markets where development with no public assistance actively takes place. The City should be cognizant that KOZ sites in the least development-ready markets must be **coupled with additional targeted public investment** to affect change and should be prepared to commit to investing in these sites if they choose to pursue designation there. These targeted investments might include capital improvements to infrastructure (e.g. roads, sidewalks) as well as operational improvements (e.g. community-based services, safety improvements).

KOZ Recommendation #2: Quantify and market average KOZ benefits for different user types to increase awareness and demand for the program.

Quantify & Publicize Average Annual Savings from KOZ

Quantify the benefits of KOZ for different types of firms to ensure that businesses fully understand the depth of the incentive when considering KOZ sites. Options include hosting an **online KOZ calculator** or pairing prospective recipients with a designated accounting analyst from the Department of Revenue or a third-party entity to project the order-of-magnitude savings that businesses could receive upon locating within a KOZ. Projections can be based off of business income and capital investment information provided by the applicant, else based on historical per-square foot tax liability for businesses of similar size or industry.

Sample KOZ Savings:

Expected KOZ savings can be estimated through multiple methods:

- **Savings per SF**: A metric for savings per square foot by industry can be applied to a firm's prospective lease size. For example, if a firm in industry X stands to realize savings of $10/SF based on average tax liability, it might expect annual savings of $100,000 on a 10,000 SF lease.
- **Customized Tool**: The City can host an online calculator to help firms predict an order-of-magnitude amount of savings that they might garner through KOZ. This online calculator may prompt prospective firms to enter income and employment statistics, before applying generalized benefit figures (like savings per dollar of net income for a specific industry and firm structure) to calculate estimated savings.

KOZ Recommendation #3: Promote specific business behaviors or influence location decisions through place-based incentives.

Create a More Targeted KOZ Tool Through Amended Enabling Legislation

Should the State elect to reopen the KOZ program, or alternatively create a new program to replace it, the City should work with the State to determine how the program could be amended to increase efficacy and flexibility to allow for more targeted utilization. Currently, KOZ has little flexibility in its application once a site has been designated. The City/State should consider investigating how to increase responsiveness to **overutilization** by some industries or **underutilization** in certain target geographies. Possible amendments to KOZ legislation and/or a new place-based program could include:

Allow for Dynamic PILOT Assessments and/or Tiering of Awards: Increase responsiveness to market conditions by allowing municipalities to flexibly offer Payments in Lieu of Taxes (PILOTs) of different proportions to properties depending on geography or accomplishment of City policy objectives. For geographic targeting, request counties designate census tracts as either: (1) development-ready; (2) approaching revitalization; or (3) developable with significant public investment. Progressively greater PILOT payments would be imposed as a geography approaches market-supported developability. Alternatively, lower PILOT payments could be asked of firms that comply with policy goals (e.g., hiring returning citizens or providing public benefits alongside their projects).

Link Benefits to Job Creation: Limit use by firms that produce few jobs (e.g. holding companies or pass-through entities). These firms could still locate within a KOZ and benefit from property-related abatements, but would be required to pay a PILOT equal to their BIRT, NPT, and State Corporate Net Income Tax credit (or a portion thereof).

Job Creation Tax Credit

JCTC provides tax credits based on the number of jobs created by a firm anywhere in Philadelphia.

Purpose	To encourage businesses to **grow employment** within Philadelphia.
Eligibility	Firms that create **25+ new full-time jobs** or increase FTEs in Philadelphia by **at least 20%** within a five-year period. 25% of JCTC approvals in each year reserved for **small businesses** and firms **hiring returning citizens.**
Benefits	Non-refundable **tax credit** against BIRT liability, equal to the greater of 2% of annual wages or $5,000 per new job created. 
Requirements	**Jobs must pay** the greater of 150% of Federal minimum wage or $12/hour times a CPI multiplier. Existing business operations **must be maintained for 5 years.** Total commitments **cannot exceed 2%** of all BIRT revenues collected in prior year ($8,999,000 in FY18, equivalent to 1,800 jobs at current credit level). Subject to **annual reporting** requirements.

Jobs supported through JCTC are concentrated in professional services sectors such as Management Consulting and Accounting.

260

Total applications (2008-2017)

56

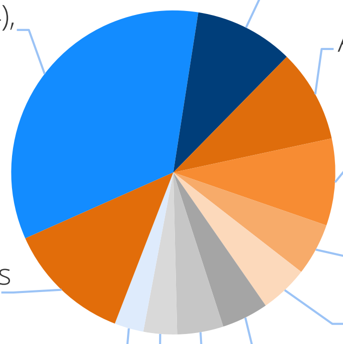
Total credit certificates issued

1,820

Total verified jobs creation

Verified JCTC Job Creation by Industry

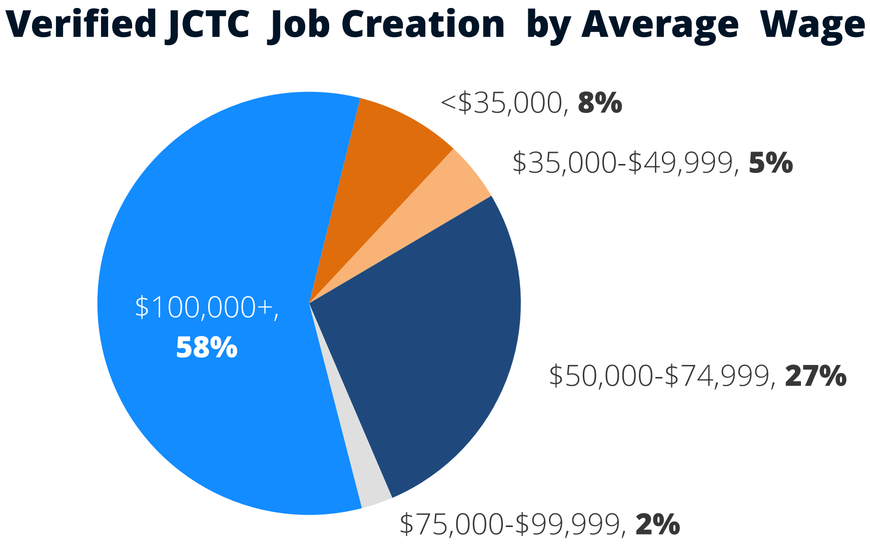
(project count in parentheses)



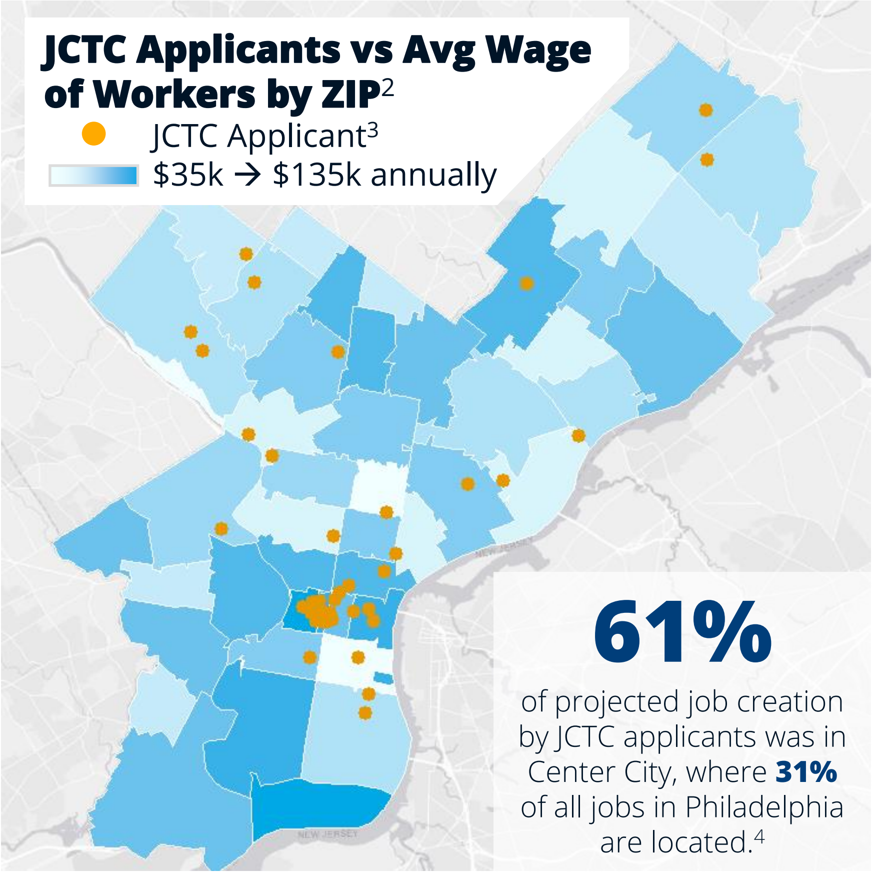
Management and Technical Consulting Services made up more than one-third of all verified JCTC job creation, totaling approximately 620 FTE jobs. **Retail Trade** generated 180 FTEs, equal to 10% of the total, followed by **Accounting, Tax, and Payroll Services** with 170 FTEs (9% of total), and **Food and Beverage Manufacturing** with 160 FTEs (9% of total)

Philadelphia Dept. of Revenue; EMSI: U.S. Census Bureau Quarterly Workforce Indicators (QWI); PA Independent Fiscal Office

Jobs associated with JCTC tend to be disproportionately located in Center City, where higher-paying jobs are also concentrated.



Job creation supported by JCTC is concentrated in high-paying industries, with **58%** of verified job creation occurring in sectors that pay **more than $100,000** per year. More than half (**55%**) of jobs paying at least $100,000 per year citywide **require a Bachelor's degree or higher**, compared to **31%** of jobs across all pay levels.



[1] Verified job creation reflects projects that certified between 2008-2017, assumed to be created in the year prior to certification.
[2] Wage of employees working within a ZIP code, regardless of location of residence
[3] Map only includes applicants with complete local address information. Projected job creation reflects all firms who applied to the program between 2008-2017 regardless of certification status.
[4] EMSI, 2018 employment data.
Philadelphia Dept. of Revenue; EMSI

On average, JCTC agreements exhibit high ROIs, fluctuating in line with changes to the total credit.

($7.7M)

Forgone Tax Revenues (PV)

Tax Credit Certificates

$52.4M

Benefits to the City (PV)

Wage Taxes from New Workers

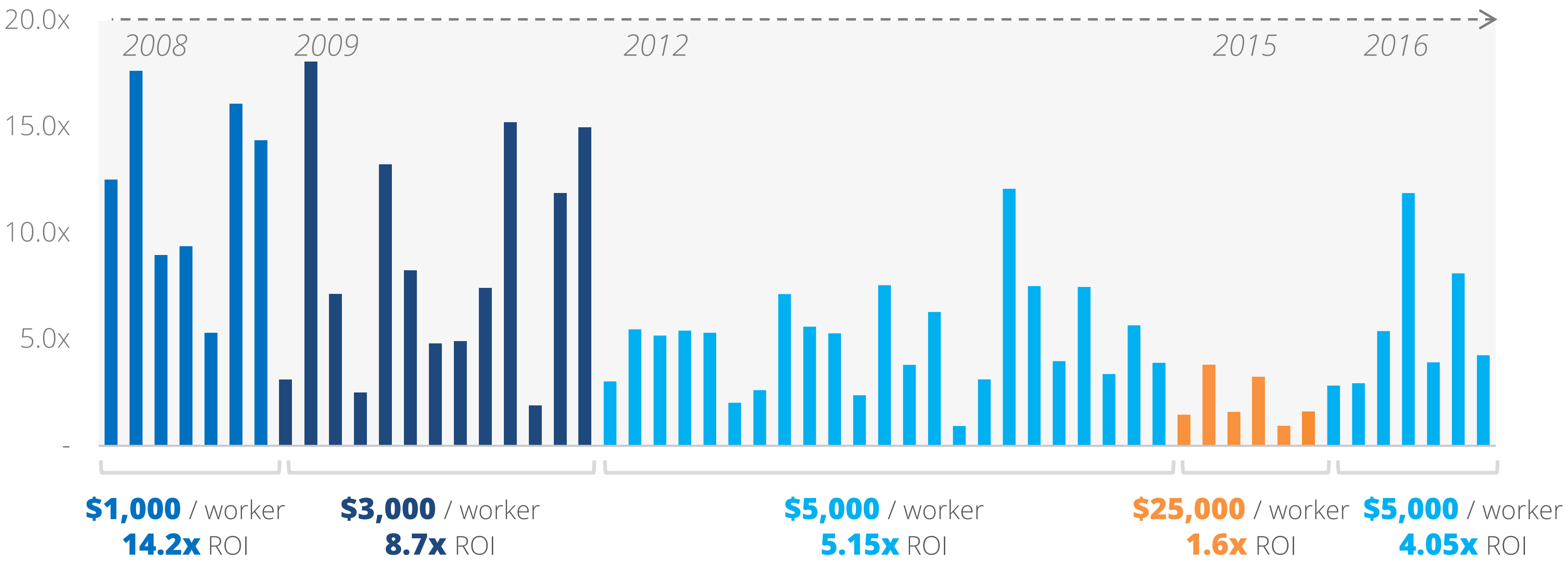
Sales Taxes from New Workers

BIRT+NPT Revenues

6.8x

Program ROI

Project PV's by Year and Benefit Amount

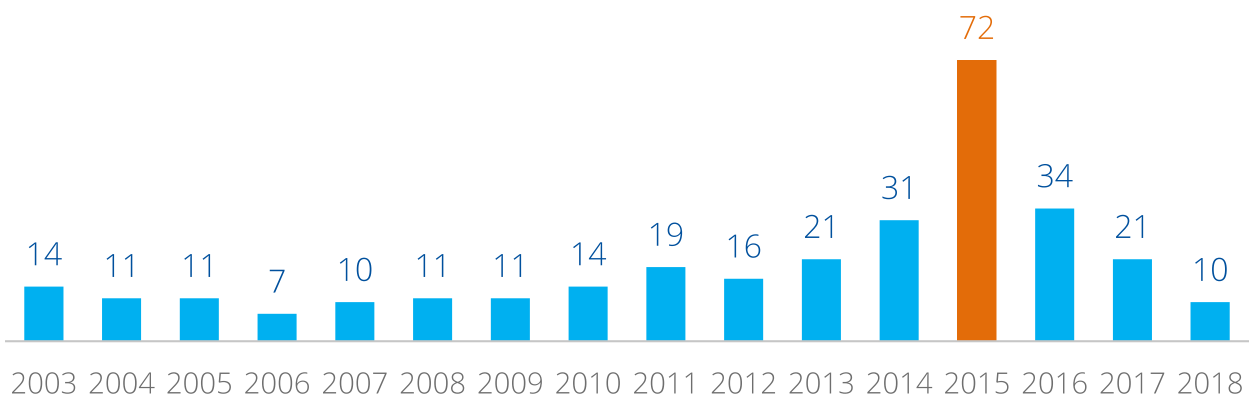


JCTC performs favorably on comparisons of forgone tax revenue versus benefits, owing to its structure as a **one-time credit** that requires jobs (and thus associated benefits) be **maintained for a minimum of five years**. In 2015, when the duration of the $5,000 per worker credit was **temporarily extended from one to five years** (e.g. from $5,000 to $25,000 per worker), the average ROI for the program decreased markedly **from 5.15x to 1.6x.**

[1] All jobs associated with JCTC assumed to be created in the year prior to certification.
[2] All job creation and application statistics cover the period 2008 – 2017.
Philadelphia Dept. of Revenue; EMSI, U.S. Census Bureau Quarterly Workforce Indicators (QWI); HR&A Advisors

A temporary deepening of the Credit in 2015 drove significant leasing volume, suggesting a more robust credit could catalyze growth that would not have otherwise occurred in Philadelphia.

Number of Projects by Application Year



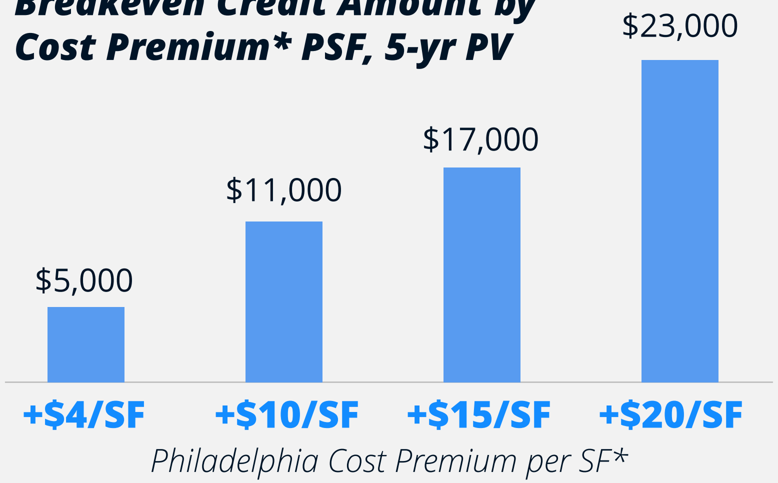
During 2015, the award size was effectively increased to $5,000 for 5 years, or to $25,000 total. Demand for the credit rose so sharply that **40 projects were denied** due to over-subscription of the program. This surge translated to discernable real estate demand, with **1.6 million sq. feet** of new office leasing activity during 2015, a significant portion of which was likely tied to growing JCTC recipients.

For deals occurring that year, the **ROI fell to 1.6x** (from an average of 6.8x for all years). This lower ROI, coupled with significantly increased demand for the credit indicates that the optimal award size (to induce demand without placing undue financial burden on the City) is **greater than the current $5,000 amount**.

Right-Sizing the Credit

For cost-sensitive firms, JCTC needs to sufficiently offset the incremental costs of doing business in Philadelphia vis-à-vis competitor locations. The current credit level of $5,000/worker offsets an annual BIRT liability of $4/SF over a 5-year period, though this award may be right-sized as follows:

Breakeven Credit Amount by Cost Premium* PSF, 5-yr PV



**Cost Premium refers to the estimated incremental cost associated with doing business in Philadelphia in comparison to the surrounding suburbs. Comparisons consider relative tax burden, rent, and the cost of labor and construction. This premium will vary by industry; the City should reassess these estimates against data from sample firms to inform the optimal size of the award. Breakeven credit calculation assumes 250 sq. ft. per worker and a 3.0% discount rate.*
Philadelphia Dept. of Revenue; JLL

More strategic use of jobs-based tax credits may help to induce incremental economic activity and better serve targeted populations.

EVALUATION SUMMARY

Efficacy

While JCTC provides a favorable ROI, the credit amount is too small to induce business expansion. Additional findings suggest that the current award size does not effectively counter increased costs of doing business in Philadelphia.

Accountability

The City issues a report about utilization each year, however, the city does not publicize data on job creation or award amounts as the State does. There is limited communication between administering agencies on details, limiting accountability for firms that benefit from multiple programs. The city no longer requires self-reporting due to legal limitations.

ROI **6.8x**

KEY FINDINGS

- In its current form, JCTC likely offers **too small an award** to induce business expansion when used in isolation.
- JCTC recipients are **concentrated in high-paying sectors** and tend to be **located in Center City**, suggesting that firm expansion decisions among recipients are driven more by talent attraction than by cost.
- Nonetheless, JCTC is **one of a limited set of City tools** that can be used to influence business location decisions, and should be made more effective for the purposes of doing so.
- JCTC's efficacy is **undermined by redundancies** with most other growth incentives, including KOZ, Jump Start, SBTC, and TIF, all of which are mutually exclusive.
- JCTC **does not effectively target growth** to drive towards broader policy goals, whether geographic or industry-based.

JCTC Recommendation #1: Right-size JCTC benefits to meaningfully reward firms that demonstrate good business behavior.

Right-Size Benefit Level

Set benefits for JCTC recipients at levels that **sufficiently offset the incremental cost of doing business in Philadelphia** over the required 5-year employment period. This would mean increasing the credit above $5,000/worker. Alternatively, the **wage threshold could be raised** above 2% so that more middle-income jobs are able to access deeper benefits (e.g., if set at 10%, creating a new $75,000-a-year job would generate a $7,500 credit. This percentage could be capped above a certain salary level). The City should consider increasing the amount incrementally over time to test its effectiveness, rather than jumping benefit levels too excessively as first.

Deepen Credit for Firms Conducting "Good Business Behaviors"

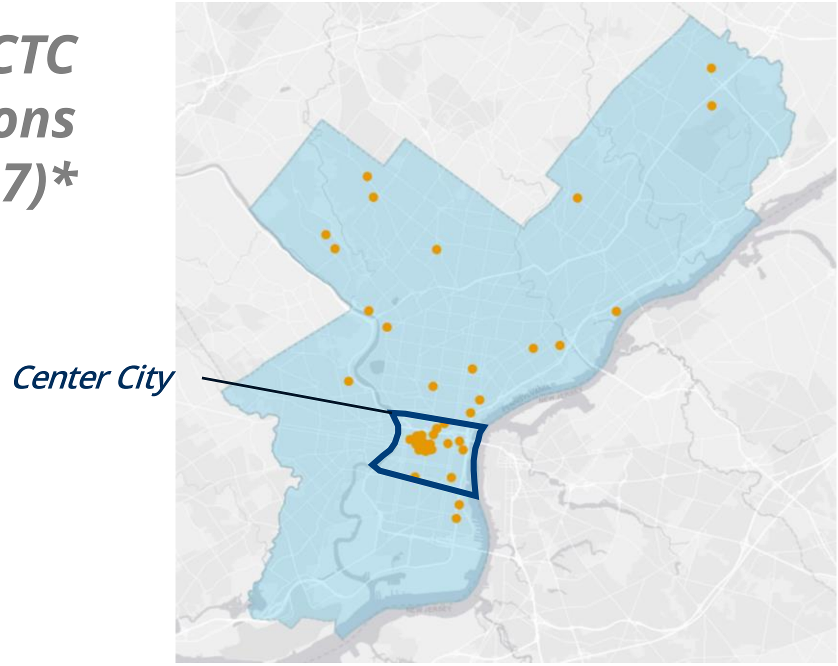
A dynamic credit that has the flexibility to better reward certain business practices based on the fulfillment of different criteria can better support inclusive economic development. Specifically, the City may choose to **deepen the credit for firms practicing "good business behaviors,"** or practices that fulfill City policy goals. For instance, the credit may increase in size when new jobs are filled by returning citizens; alternatively, the threshold for applying (creating 25 new jobs or growing employment by 20%) may be loosened for firms that hire from one of Philadelphia's workforce development programs. See Portfolio-wide Recommendations #1 and #2 in the final section of this report for further information.

JCTC Recommendation #2: Offer deeper tax credits for jobs relocating from outside Philadelphia or from within Center City to areas outside the CBD.

Target JCTC Benefits Geographically

Offer **deeper benefits** (higher credit amount per worker or longer duration) for jobs created outside of the Central Business District or within specific target geographies to encourage **investment and job growth in neighborhoods that have seen less commercial growth**.

*Approved JCTC Applications (2008-2017)**



The majority of projected job creation among JCTC applicants is set to occur in high-growth areas such as Center City District, limiting the program's efficacy in facilitating economic growth in underserved areas.

**Of applications listing a Philadelphia address*

JCTC Recommendation #3: Expand program accessibility by exploring salable tax credits, reducing credit redemption guidelines, and substituting in grants for credits, where applicable.

Consider Salable Tax Credits

Explore the use of **salable tax credits** to preserve utility of the program for firms with limited tax exposure. Non-transferable tax credits are limited by the tax liability of receiving firms. To ensure that firms practicing good business behaviors can take advantage of deeper tax credits, a transfer mechanism must be set up to **allow well-deserving companies with insufficient tax liabilities to be incentivized for their actions**.

As with Keystone Innovation Zones (KIZ), allow credits to be **passed through to the owner of the LLC or S-Corp** to apply against their personal liability, or else be **sold to an identified pool of buyers** that pre-registers with the Department of Commerce and qualifies under a set of policy-focused guidelines. For KIZ, this optionality encourages recipients to first apply the credit against their BIRT liability to realize the maximum value of the credit. It should be noted that salable tax credits can contribute to a leakage of City subsidy dollars, as some credits may trade at a discount to face value.

Convert Tax Credits to Grants

Amend the program to function like a grant, eliminating the potential for leakage or purchasing of credits by entities engaged in activities misaligned with City values. A grant structure would also allow non-profits and those without BIRT liabilities to benefit from the program. A revised program cap should be implemented to protect against oversubscription.

Extend Expiration Date

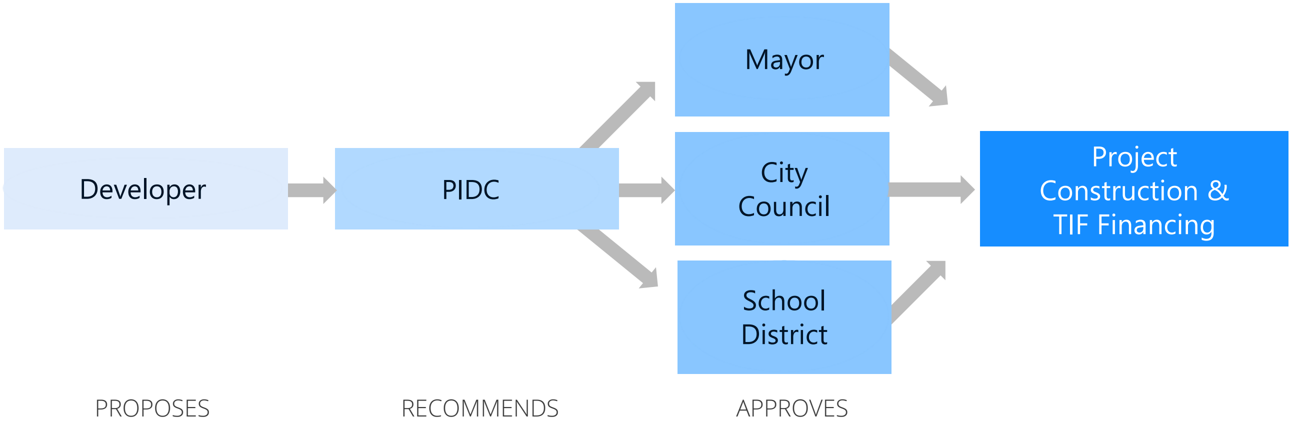
Consider allowing firms to apply for an extended expiration date to **carry forward unused credits** should limited tax exposure preclude use at deeper benefit levels.

Tax Increment Financing

Tax Increment Financing (TIF) has focused primarily on gap funding for significant projects and requires a transparent political process for approval.

Purpose	TIF diverts certain taxes generated within a defined district and applies their revenues to project development costs. TIF is meant to **induce development** in blighted areas, reactivating them, increasing the tax base, and improving the economy.
Eligibility	The PA Tax Increment Financing Act allows for a **particularly wide range of uses**, including new construction, rehabilitation, site improvements, equipment acquisition, operations and maintenance, and settlement and professional fees. Philadelphia TIFs have been used to fill financing gaps in significant real estate projects in blighted areas, with few TIFs enacted to-date at a **district scale**, owing to the city's practice to not guaranty private debt.
Benefits	The project developer obtains debt secured by 20 years' worth of tax increments for taxes that may include **Property Tax**, **Use & Occupancy Tax**, **BIRT**, and **Sales Tax** generated by development within the TIF district's boundaries.

Approval Process



Gallery at Market East

TIF in Philadelphia relies on developer-backed debt, thereby focusing the value of the program on individual projects.

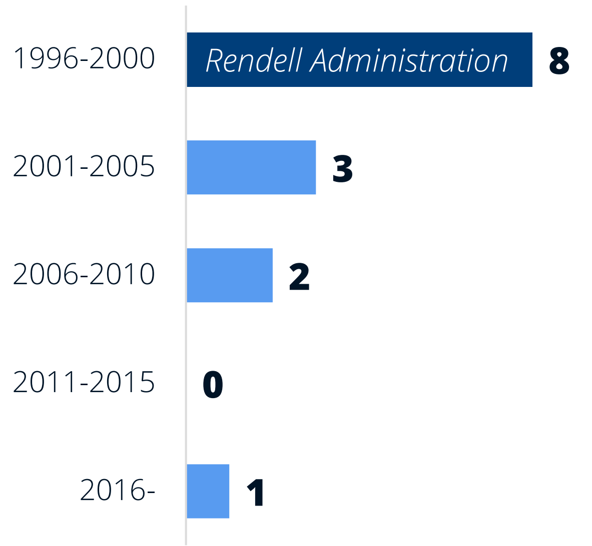
Of **14 successful TIF deals** implemented since 1996, over half occurred during the Rendell mayoral administration, while only 6 successful deals occurred over the 19 years since. Of these 14, only **one occurred at a true district scale** and was enabled by single ownership of a public authority in the area; the rest were limited to site- or project-specific tax increments.

The City's practice to not back bonds for private development, combined with its focus on completing projects in blighted areas that would not otherwise proceed, has **concentrated the use of the program** on projects that require cash-flow and collateral support. Additionally, program efficacy is limited by TIF's interaction with the **10-year tax abatement**, an attractive as-of-right tool whose use is precluded by law among TIF participants.

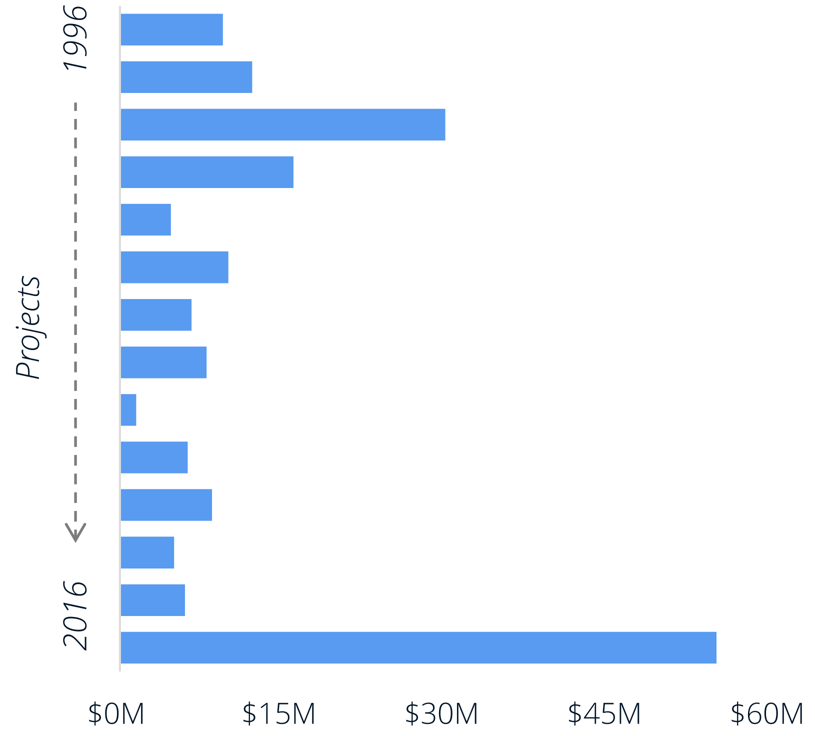
TIF has been used effectively for several large-scale projects. Since 1996, TIF recipients have projected the creation of **6,950 FTE jobs**, with **$1.5B in real estate investment** (2017$) expected to occur.

City of Philadelphia: TIF Legislation by Project; HR&A Advisors

Number of Successful TIF Deals by Year



TIF Bond Amt. (Nominal $)

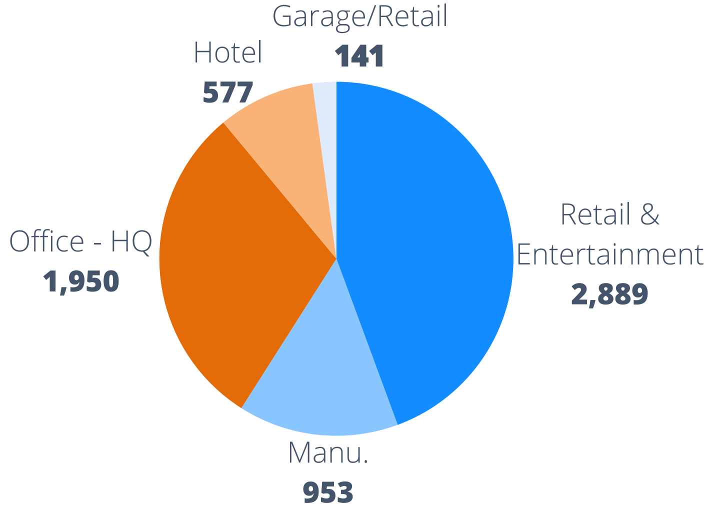


Usage is skewed towards industries that produce lower-paying jobs, with three-quarters of total projected job creation paying less than the citywide average.

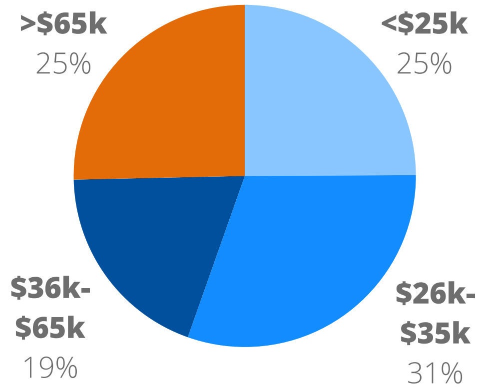
of Deals by Project Type

Retail/Entertainment:	**6**
Office (HQ):	**3**
Garage (w/ Retail):	**2**
Hotel:	**2**
Manufacturing:	**1**

Projected Perm. Job Creation by Project Type



Projected Perm. Job Creation by Wage Interval (2017$)



Recipient projects, which often have financing gaps and are in markets that cannot readily support development, tend to support uses such as retail, hospitality, or entertainment, which do not rely as much on nearby amenities as an office development would. With **6 out of 14** successful TIF projects focusing on the development of **retail and entertainment uses** (and 2 more supporting retail as an ancillary use via garage development), the program is skewed toward projects that provide jobs with few pathways for advancement or growth. Unlike incentives programs that focus only on the creation of high-paying or mid-level jobs, TIF projects typically promote a diversity of wage levels, which is of value to many Philadelphia residents seeking employment.

City of Philadelphia: TIF Legislation by Project, EMSI, HR&A Advisors

Only one TIF project was executed over the 10-year study period, with nearly a decade lapsing between the two recent deals.

	 The Gallery at Market East	 ParkWest Town Center	 Avenue North	 Ace American Insurance
YEAR	2016	2007	2006	2005
PROJECT TYPE	Retail	Retail	Retail	Office - HQ
PROJECT AREA ***(Re)developed SF***	1,289,000 SF	308,000 SF	92,000 SF	324,000 SF
PROJECTED JOBS ***Permanent***	1,400 FTE	597 FTE	225 FTE	150 FTE
PROJECTED WAGES	$29k	$20k	$31k	$96k

City of Philadelphia: TIF Legislation by Project, HR&A Advisors

The City's use and assessment of TIF relies on a but-for argument and a projection of base-line revenues to calculate the City's incremental benefit from activating blighted properties.

**Analysis Based on Project Plan Estimates*	 **The Gallery at Market East**	 **ParkWest Town Center**	 **Avenue North**	 **Ace American Insurance**
YEAR	2016	2007	2006	2005
PROJECT TYPE	Retail	Retail	Retail	Office - HQ
VALUE OF DIVERTED TAXES (*PV*)	($96.0 M)	($32.9 M)	($8.5 M)	($15.4 M)
PUBLIC VALUE CREATED (*PV*)	$192.5 M	$18.0 M	$13.8 M	$88.9 M
PROJECTED ROI	**2.0x**	**0.5x**	**1.6x**	**5.8x**

City of Philadelphia: TIF Legislation by Project, HR&A Advisors
**Present value (PV) based on a 20-year TIF term and a discount rate of 3%. *Public Value Created includes post-abatement revenues from Real Estate, Sales, BIRT (Landlord + Tenant), FTE Wages, Construction Jobs Wages.*

TIF has been used primarily to fund financing gaps for specific projects or buildings in blighted areas rather than to facilitate district-wide improvements.

EVALUATION SUMMARY

Efficacy

Benefit depends on the quality of the but-for argument & projection of baseline tax revenues submitted with the application. The 10-year tax abatement offers a by-right alternative to TIF, circumventing the need to rely on developer-backed bonds and a rigorous approval process.

Accountability

The Pennsylvania TIF Statute requires a very transparent approval process which includes a mutual contract that obliges businesses to meet certain requirements. Individual TIF project plans are publicly available, and TIF Agreements are executed and monitored by the Philadelphia Authority for Industrial Development on behalf of the City.

ROI **2.0x**

KEY FINDINGS

- After an initial surge during the Rendell Administration, **new TIF proposals have severely declined**, particularly following the adoption of the 10-Year Real Estate Tax Abatement in 2000.
- **Political uncertainty** during the approvals process further constrains the attractiveness of the program.
- By nature, TIF has typically supported relatively **low-paying jobs**. Nonetheless, it is important to create a diversity of job types in Philadelphia. **Retail projects** have benefitted from the ability to capture sales tax revenue, making TIF more valuable than the 10-Year Tax Abatement.
- Use of TIF as a **district-wide tool** to fund up-front capital improvements would require the City or an alternative resource to provide security for debt.

TIF Recommendation #1: Encourage geographically targeted investments to promote district-wide economic development.

Encourage Prospective TIF Projects to Co-locate with City Investments

Ensure that City resources are maximized by encouraging TIF projects to co-locate with active City investments.

This may involve focusing on alignment with the following:

- **Neighborhood commercial corridors**, introducing grocery stores, restaurants, services providers, and other neighborhood-serving uses to disinvested neighborhoods
- **Employee training programs** to connect local residents to jobs created within the District
- **Grant funding** for other projects identified by the local community as meeting their goals
- **Infrastructure investments** such as new parks and open space and transit improvements

Forgivable Loan

Forgivable Loan is a fully-discretionary tool for job attraction and retention, and operates as a flexible closing fund.

Purpose	To compete in business attraction and/or retention projects, the Forgivable Loan is used as a supplementary tool, most often in conjunction with other incentives.
Eligibility	The program is utilized on a case by case basis and is restricted for companies that present a compelling case that they would not choose to locate or expand their business in Philadelphia but for such an incentive. Additionally, the Loan Review Committee evaluates the following factors: number of jobs retained/attracted, range of salary levels and benefits provided by those jobs, educational attainment required, capital investments, lease terms, and geographical location.
Benefits	Loan forgiveness is contingent upon job creation/retention and/or other terms agreed upon within the provisionary note. **Most loans are sized based on a figure of $1,000 - $2,000 per job created**, depending on the preponderance of the criteria enumerated above. The City typically recoups the investment made through additional wage and business taxes within 3-5 years. Funds are typically repayable after the fifth anniversary of the issuance of a certificate of occupancy (or other agreed upon milestone) with 0% interest.
Approval Process	As the need arises, the Department of Commerce completes a Business Growth Forgivable Loan Company Review Form, to be reviewed by a Loan Review Committee, which makes a final determination on the terms to be included in the proposed PIDC loan offer, along with the maximum allowable loan amount and deadline to offer. PIDC ultimately administers and deploys the program.

Rendering by Gensler, Varenhorst Architects

To-date, Forgivable Loan has prioritized large, high-profile projects in key sectors.

17

Total projects (2008-2018)[1]

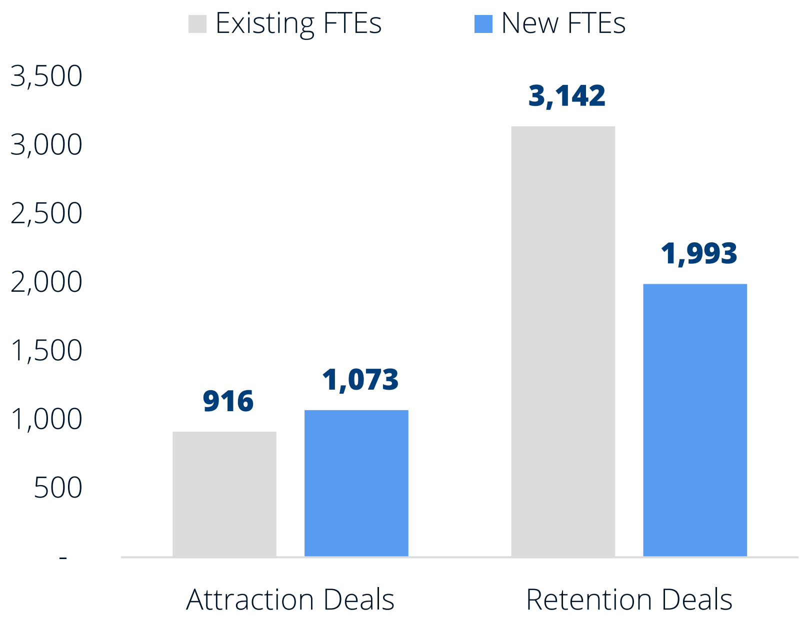
3,066

New full-time equivalent jobs created, plus an additional **4,058** jobs retained

2.3M

Leased square feet, with **$565M** of private capital investment

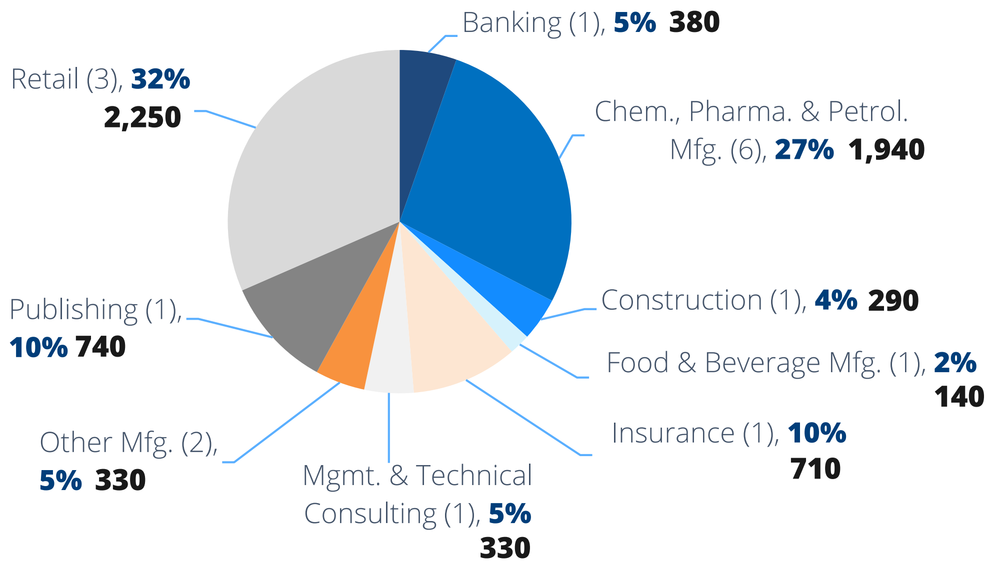
Job Creation by Deal Type



Retention accounted for a majority of Forgivable Loan deals (**59%**). All but one project committed to new job growth in Philadelphia.

Total Jobs by Industry

(project count in parentheses)



Nearly **60%** of total jobs, including more than **two-thirds** (68%) of new jobs, were concentrated in two sectors: **Retail** and **Chemical, Pharmaceutical, and Petroleum Manufacturing**.

[1] Excludes three projects that were terminated and/or paid back in full.
PIDC, HR&A Advisors. EMSI

Dual beneficiaries, or those partaking in at least one other large City incentive program, receive larger loans on a per-project and per-capita basis.

($9.2M)

Award Amount (PV)[1]

Total Loan Amount

$141.0M

Benefits to the City (PV)[2]

15.4x

Program ROI*

[1] Total award amount does not include the cost of additional incentive programs (e.g. KOZ, JCTC, TIF) used in conjunction with the Forgivable Loan, under the assumption that the Forgivable Loan amount was necessary in order for project to move forward. The benefits associated, however, do not include taxes abated under the respective programs.

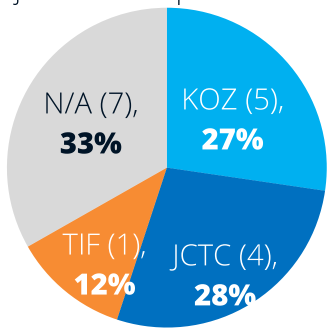
[2] Calculated benefits included construction impacts, property and U&O taxes, wage taxes from new workers, sales taxes from new workers, and BIRT+NPT revenues.

Philadelphia Dept of Revenue, PIDC, HR&A Advisors

Interaction with Other Incentives

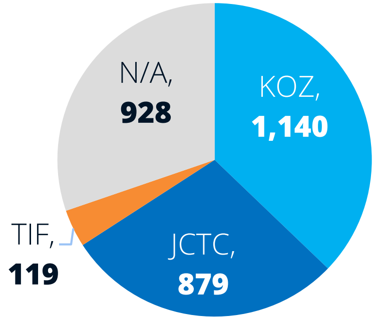
Total Loan Amount Received

(project count in parentheses)



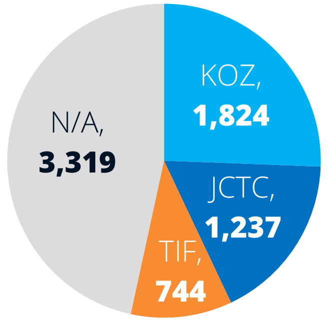
New Jobs Created

new FTEs



Total Jobs

new + retained FTEs



Other Program Accessed	*Avg. Loan Amount (PV)*	*Avg. Award/New FTE (PV)*	*Avg. Award/Total FTE (PV)*
KOZ	*$501,000*	*$2,200*	*$1,370*
JCTC	*$636,000*	*$2,890*	*$2,060*
TIF	*$1,075,000*	*$9,030*	*$1,440*
Other/None	*$435,000*	*$3,280*	*$920*

Forgivable Loan is **used to close deals** that fulfill key City policy objectives; accordingly, it interacts with other programs extensively. With the exception of the single TIF project it overlapped with, Forgivable Loan has a **low incremental award size per job**.

**It is important to note that the ROI for Forgivable Loan is very high- possibly due to the fact that it is often combined with other incentives. As a result, the cost relative to the benefit may be artificially low (as compared to the ROI for a stand-alone program).*

The Forgivable Loan program provides the City with necessary discretion and flexibility to target incentives packages towards priority deals.

EVALUATION SUMMARY

Efficacy

■■■

The tool's flexibility allows for discretionary financing to close the gap on deals. There are opportunities for the City to improve initial evaluation to ensure that deals produce a return and pass the "but for" test.

Accountability

■■□

The program's design and built-in ability to utilize a claw-back mechanism to ensure that agreed-upon goals are met creates accountability for recipients. Public reporting has been limited, though this will improve as data is collected through the self-reporting requirement.

ROI **15.4x**

KEY FINDINGS

- It is valuable to have a **discretionary tool** for closing high-value deals that closely align with the City's economic development strategy.
- Forgivable Loan has the **flexibility** to support targeted growth sectors and investments in priority markets.
- The program's simple structure and adaptability makes it **easier to deploy for attraction prospects.**
- The Forgivable Loan program has a **sustainable ROI** and relatively a **low award size-per-job**, owing to its use in conjunction with other incentives as a gap-filler.

Forgivable Loan Recommendation #1: Prioritize allocating a recurring amount for the Forgivable Loan budget to sustainably support the incentive.

Establish a Budget for Forgivable Loan Fund

Currently, program funding is allocated on a project-by-project basis from a larger pool of dollars budgeted for economic development. Establish a budget to sustain the Forgivable Loan program. Given the tool's efficacy and cost-effectiveness, the establishment of a budget will preserve the program's defining feature - flexibility - while allowing economic development decision-makers to **prioritize among investments based on performance goals.**

Create an Alternative Grant Structure Through Wage Tax Diversion

If increased funding for the Forgivable Loan program cannot be secured long-term, the City should explore gap funding for catalytic projects (e.g., those that create 200+ jobs) through a grant program supported by the **temporary diversion of net-new local wage tax collections generated on-site**. The City could issue a grant to pay down no- or low-interest loans based on the amount of wage taxes generated by businesses on-site during the preceding fiscal year.

Such a program would be inherently **tied to performance**, since the amount of grant monies offered would be in equal proportion to the amount of wage taxes generated. The percentage of the wage tax increment diverted could be determined based on **delivery of multiple public policy objectives** and could be scaled for catalytic attraction efforts.

Forgivable Loan Recommendation #2: Build on program guidelines to increase accountability and transparency.

Formalize Program Benchmarks for Funding Projects

PIDC and the Department of Commerce have taken a number of steps to develop a structured evaluation protocol for potential Forgivable Loan candidates. The department should continue to build upon its existing use of qualifying criteria, self-reporting, and program requirements, ensuring satisfaction of minimum standards that preserve the flexibility and discretion of the program's use. In addition, Commerce should refine specific guidelines in conjunction with the Finance Department for instances in **which projects may be allowed to deviate from established benchmarks** based on alignment with multiple City policy goals and local economic development needs.

The evaluation process should leverage **project scorecards to assign weights** based on performance benchmarks to assist in determining the appropriate loan amount, as described further under Portfolio-Wide Recommendation #2 in the final section of this document. Among factors currently considered:

- Current and projected FTEs
- Alignment of new employment opportunities with education and skill levels of residents
- Correlation with industry clusters and local supply changes
- Capital investment amount
- Historical job growth
- Neighborhood/location
- Additional incentives being offered/accessed
- Award size per job
- ROI

Jump Start Philly

The Jump Start Philly program offers BIRT relief to new businesses during their first two years of operation within Philadelphia.

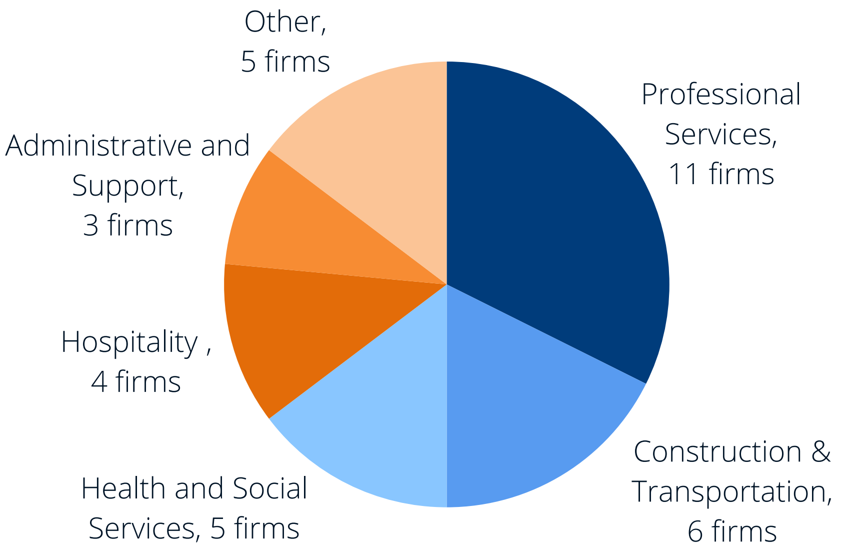
Purpose	Jump Start Philly provides **new businesses with 0% tax rate for BIRT and NPT and an exemption from some City licensing fees.**
Eligibility	Businesses younger than 2 years of age are eligible as-of-right, on the grounds that they have more than **3 employees by the end of the first year** and more than **6 by the end of the second year**. Firms that acquired an existing Philadelphia business or that were created through an ownership change are not eligible. Businesses affiliated with another business that has already been registered for more than 2 years are not eligible (such as subsidiaries). Businesses primarily engaged in holding, selling, leasing, transferring, managing or developing real estate are not eligible. Sustainable businesses are eligible a for a more flexible version of this credit, Sustainable Jump Start, with a lower job creation threshold.
Benefits	Jump Start provides **relief of a firm's entire BIRT liability** for the first **2 years** of existence. The abatement ceases after the firm's first two years.
Requirements	Firms are subject to a **claw-back** of their abated taxes if they are found to have not created the requisite number of Philadelphia-based jobs.

Jump Start deals achieve a positive ROI at an average of 10 jobs created within 2 years; however, only a portion of recipients have met this threshold.

Despite the attractiveness of its deep abatement, Jump Start has limited utilization, with **only 34 recipients** since the program's current format was adopted during FY2014. Structurally, the number of firms eligible for Jump Start is directly linked to the number of business formations across the city. As Philadelphia continues its modest job growth trend, the pool of candidates remains limited. However, the tool can be viewed as a powerful attraction tool, providing full abatements to incoming established firms that have larger tax liabilities.

The tool leverages a total abatement of BIRT and NPT liabilities against the potential for additional wage tax revenue generated by new jobs. However, the tool is unable to discern between firms creating high-paying and low-paying jobs, and thus the City's gain from different deals is uncertain. Program-wide, an **average of 10 new jobs** are needed to offset abated tax revenues, which have **totaled $1.6 million** (PV) since 2014.

Jump Start Philly Utilization by Industry, 2014-2017



The breakeven of 10 jobs created per business reflects the average abated BIRT liability divided by the average wage tax revenue generated per worker in Philadelphia in 2017. Program-wide between 2014-2017, 344 jobs would need to have been created to offset the present value of forgone taxes.
Philadelphia Dept. of Revenue; Breakeven job creation based on wage taxes only.

Jump Start Philly's structure limits the benefit size that small businesses can leverage, and the program is made redundant by tools that overlap with Jump Start's BIRT abatement, like KOZ, JCTC, SBTC and the $100,000 BIRT exemption.

EVALUTAION SUMMARY

Efficacy

Eligible businesses often have smaller BIRT liabilities, limiting recipient capacity to enjoy full intended benefits. Program overlaps with other incentives offered by the City.

Accountability

There is no formal process to track the program and there is no appointed administrator, which compromises program transparency and accountability. The program has a built-in claw-back, however limited capacity for enforcement.

KEY FINDINGS

- The abatement **is redundant with multiple other programs**. Its effectiveness is undermined by KOZ or JCTC where the programs overlap, and its attractiveness may suffer in comparison to these programs with lengthier durations.
- Based on historic utilization trends, total BIRT liability among Jump Start participants **could be fully abated under JCTC for firms creating at least 9 new jobs**.
- More accurate **tracking measures** should be implemented, including job creation tracking for abatements over a certain size. Program advertisements should provide for a **clear program administrator** or point person.
- Jump Start is a candidate for program **consolidation**, as firms may be better-served through a program **tied to job creation** rather than business income during initial years when BIRT liability is limited (see Portfolio-Wide Rec. #1 and SBTC Rec. #1).

Sustainable Business Tax Credit

The Sustainable Business Tax Credit (SBTC) was designed to encourage sustainable behaviors from businesses in Philadelphia.

Purpose	SBTC incentivizes sustainable business practices in Philadelphia.
Eligibility	**Certified B-Corporations** or other businesses that conduct business in a sustainable manner, as defined by the incentive legislation and interpreted by the Office of Sustainability are eligible.
Benefits	Non-refundable **tax credit against BIRT liability** (both receipts and income portions) up to an annual maximum of **$4,000 per applicant**. Applicant must reapply annually and must be current on other City financial obligations. There is no limit to the number of years that a firm can apply. Unused credits may not be carried forward to future years. Credits are awarded on a first-come basis. While the program was initially limited to 25 companies per year, a 2016 City Council ordinance expanded this cap to 50 businesses in tax years 2017 and 2018 and 75 businesses in tax years 2019 through 2022. 2016 legislation also expanded the program to both parts of the BIRT, as the credit could only be applied to the receipts portion under the initial legislation. The program expires in 2022.
Requirements	An application is submitted to the Office of Sustainability, and certified B-Corporations automatically receive the credit (subject to availability). Non-B-Corporations must provide narrative evidence of sustainable business practices based on listed criteria provided on the application, including a range of sustainable employment and community-supporting practices.

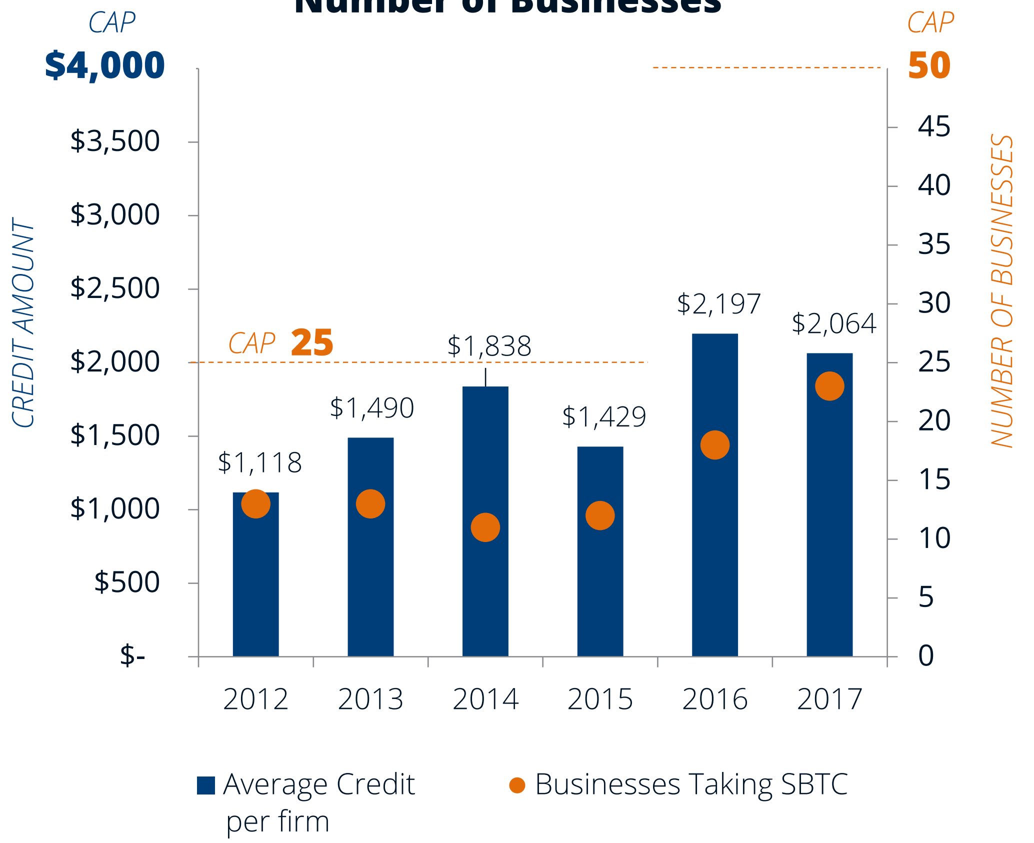
SBTC is utilized primarily by B-Corps in the professional services sectors, and falls well short of maximum utilization.

Since the program's inception in 2012, a total of **$158,000 of SBTC credits** has been awarded to Philadelphia businesses.

The program has exceptionally high utilization among certified B-Corps, with **100% of Philadelphia B-Corps** applying in 2017. However, only 84% of B-Corps received the award, with the remainder ruled ineligible due to tax compliance or application issues.

The program focuses heavily on socially and environmentally minded firms in the Professional, Scientific and Technical Services sector, with **47% of awards** dedicated to firms in that industry.

SBTC Average Credits Awarded & Number of Businesses



Philadelphia Dept. of Revenue

SBTC demonstrates the City's commitment to sustainability, yet the incentive is not seen as an attraction or retention tool by businesses.

EVALUATION SUMMARY

Efficacy

The SBTC sends a signal that Philadelphia values sustainability. The program structure (with automatic eligibility for B-Corps.) has resulted in utilization primarily by small professional services companies who are located in (or planning to locate in) the city.

Accountability

Split responsibilities between departments limits internal accountability and capacity to track performance.

KEY FINDINGS

- Extension of credit to the income portion of BIRT has increased utilization, but **maximum participation has not been reached**.
- A high percentage of B-Corporations located in Philadelphia have applied, but not all are awarded SBTC due to application or tax-compliance issues.
- Most firms utilizing the credit **are already located in the city** or reportedly would locate in Philadelphia with or without the credit.
- On average, only **half of allowable credit is taken**, suggesting that firms have relatively small tax liabilities after receiving the statutory $100,000 BIRT exemption.
- **Professional, Scientific and Technical Services firms** are the largest share of businesses using the SBTC.
- Split responsibilities between the Office of Sustainability and Department of Revenue may make it more difficult to **promote and track program**.

JS/SBTC Recommendation #1: Incorporate Jump Start Philly and SBTC programs into a combined/tiered benefit structure.

Combine Programs to Eliminate Redundancies & Streamline Administration

Consolidate Jump Start, Sustainable Jump Start, and SBTC under **a new tiered benefit structure**, adding new business designation and sustainable business practices as criteria for unlocking deeper incentives. This recommendation is described in further detail under Portfolio-Wide Recommendation #1 in the final section of this report.

Moving to a combined jobs-based incentive structure will dually ensure that **program outcomes are adequately measured**. Presently, few outcomes are tracked among Jump Start and SBTC participants aside from the credited or abated amount; job creation should be monitored on an ongoing basis across all programs to ensure that investments are delivering on City growth objectives.

This change will also allow good business behaviors encouraged under programs such as SBTC to be **promoted more widely** among larger business attraction and retention deals.

Shifting expenditures from the underutilized Jump Start program to a consolidated program will increase efficacy in achieving the City's goal of supporting new businesses.

Philadelphia Works

Philadelphia Works provides the city's primary workforce development incentives, targeted for medium-to-large companies.

Purpose	Philadelphia Works subsidizes the cost of **on-the-job or customized training**.
Eligibility	Businesses that hire employees meeting **Workforce Innovation and Opportunity Act** (WIOA) criteria are eligible, including low-income, homeless or dislocated workers (displaced homemaker, laid off, Armed Forces spouse, formerly self-employed). To qualify for subsidy, there **must be a gap between candidate skills and the competencies needed** for the job.
Benefits	Philadelphia Works, Inc. pays **50% of employee wages** and benefits during training period for firms larger than 50 employees. For firms with fewer than 50 employees, reimbursement is **75%**.
Requirements	The employer must contribute **50%** (25% in the case of smaller companies) of costs towards training. Positions hired must be full time and **pay at least $13/hour**. The training must have a formal curriculum focused on eliminating a skills gap and requires pre- and post-assessment reporting to Philadelphia Works. There is no reporting required to the City unless job is filled by company receiving other funding under First Source program.

Philadelphia Works' workforce training services packages are rarely accepted up front by targets of the City's business attraction and retention efforts.

From 2012 to 2018, **15 firms were offered** incentives packages by the City that offered job training. However, **only one company**, Frontida, has utilized the training incentive offered. Because of a database system change in 2017, further information on the program prior to 2016 is incomplete.

Aramark also utilized Philadelphia Works training and recruitment several times subsequent to the term of the incentive letter, primarily for food service worker training.

Frontida BioPharm, Inc.

Frontida, a manufacturer of biopharmaceuticals, is the **only recipient** of Philadelphia Works funds offered for attraction/retention since 2012.

In 2016, Frontida received training services valued at approximately **$335,000**. This deal was part of a retention effort. Frontida, an Exton-based company, purchased two Mutual Pharmaceuticals plants in Northeast Philadelphia in 2016.

COMPARABLE PROGRAMS

Federal WIOA funds are allocated to states for distribution to local workforce development boards, in line with an approved formula. Both national and regional peers utilize this funding source for workforce development and are subject to the same federal eligibility and reporting requirements.

Like Philadelphia, other cities and counties are turning to **industry partnerships** as an alternative approach to developing talent pipelines in targeted industries.

In southern New Jersey, several counties have partnered with local power companies on **Quick Path to Energy**, a free training program that prepares workers for employment in high-wage energy sector jobs.

Philadelphia Works, Inc.

The City should continue to promote Philadelphia Works' incentive programs in order to further leverage federal funds.

EVALUATION SUMMARY

Efficacy

Philadelphia Works' workforce development services are primarily utilized by existing, established businesses. These services are not typically used by business attraction prospects.

Accountability

Philadelphia Works is required to track data and report on program performance. Additionally, businesses are required to match contribution which ensures some accountability for recipients. However, weak tracking practices decrease transparency between Philadelphia Works and City departments, and comprehensive program data is not available prior to 2016.

KEY FINDINGS

- Low utilization of this incentive by newly attracted businesses. Philadelphia Works reports **more interest from retention prospects** who have a better sense of their operations and labor force issues.
- WIOA-required **customized learning plans** and **pre- and post-assessment reporting** may be overwhelming for employers. Some businesses initially interested in the incentive offered misunderstood and believed they would be handed a check for this amount.
- Not all companies **target WIOA-eligible workers**. Some companies only recruit employees with advanced degrees, while others target employees with lower income and skills levels to fill part-time positions with lower wages, making them ineligible for these funds.
- Training services are **available outside of the attraction/retention process**. Most of the utilization is from supermarkets and food service firms.

PW Recommendation #1: Offer deeper benefits to projects that provide training opportunities to local residents, with a focus on disadvantaged populations.

Leverage Incentives to Extend Benefits of Training to Local Residents

Offer deeper benefits to incentives recipients who agree to provide training opportunities through Philadelphia Works or who directly fund or contribute to another local workforce development provider, with a focus on serving disadvantaged populations (e.g. formerly incarcerated, formerly unemployed).

Case Study: West Philadelphia Skills Initiative

Since 2010, the West Philadelphia Skills Initiative has partnered with local employers to help them fill vacancies with local unemployed and underemployed residents. West Philadelphia is home to the University of Pennsylvania, Drexel University and numerous other medical and research organizations. The area is also home to some of the city's most underprivileged neighborhoods, where unemployment rates can exceed 25% and up to 40% of residents live in poverty. The Skills Initiative—managed by the University City District and funded entirely through philanthropic contributions—is designed to connect these residents to quality jobs in or near their own communities. Employers who partner with the Skills Initiative identify vacant positions, agree to interview program graduates, and give them priority when considering candidates to hire. Participation in the Skills Initiative or a similar program is one example of the type of workforce investments that could be used to prioritize among incentives applicants.

PW Recommendation #2: Streamline program administration to encourage participation by employers and workers as training needs evolve over time.

Promote Employer Participation	Explore opportunities to simplify WIOA-mandated assessment and reporting requirements and as well as the use of other training funding sources that have more streamlined reporting requirements to reduce barriers to employer participation. Raise attraction and retention prospect awareness of other initiatives, such as apprenticeships and industry partnerships, that are increasing the pipeline of qualified workers in Philadelphia.
Broaden Access to Opportunity	Where source funding regulations permits, encourage flexibility in allowable wage and hours worked requirements to provide access to jobs that will provide lower-skilled workers with soft skills and/or future opportunities for career advancement.
Maintain Ongoing Contact with Incentive Package Recipients	Continue regular follow-up beyond the term of the incentives offer letter as new companies become established and begin to understand their training needs.

Peer City Benchmarking

To gain insight into effective incentive deployment, the HR&A Team conducted a benchmarking assessment of five peer cities – two regional and three national.

NATIONAL PEERS

Compare **cost structure** and **recent growth trends** among selected peer cities facing similar challenges and opportunities to Philadelphia

Identify the range of incentive tools used by peer cities to **promote efficiency, inclusivity, and transparency** in the structure and deployment of incentives

REGIONAL COMPETITORS

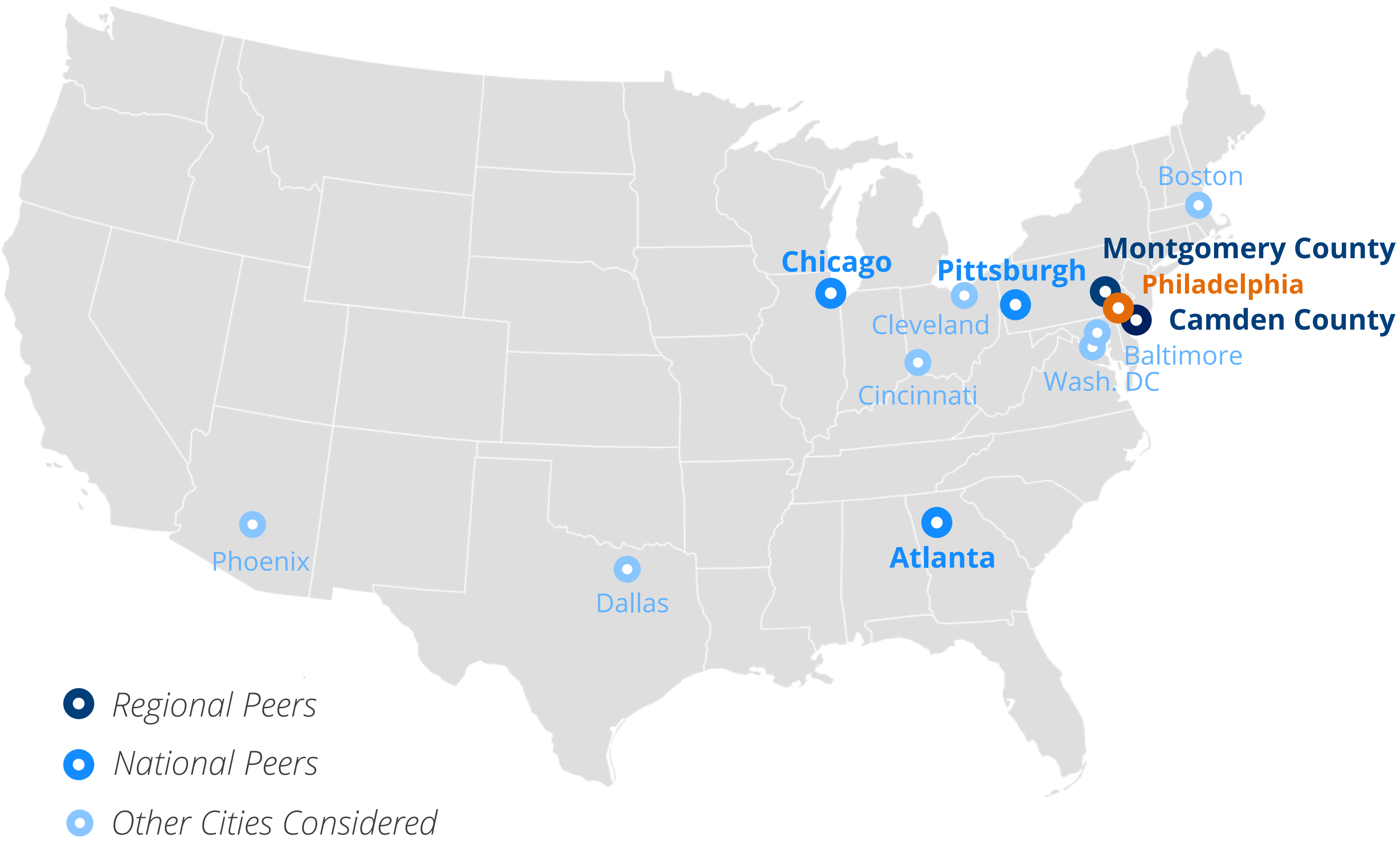
Assess the major **factors that influence business location decisions** at a regional level

Identify the **lessons to be learned** from the use of incentives and overall economic development strategy within the region

The HR&A Team conducted an initial evaluation of competitive dynamics among a long list of peers to inform the selection of peer cities.

Selected cities weigh a number of factors, including:

- Geographic location
- Economic positioning
- Incentive program & tax structure
- Regional competitive dynamics



The Client, with guidance from the HR&A Team, selected the following five peer cities for the benchmarking analysis.

NATIONAL PEERS

Atlanta faces similar competition from suburbs, has concentrated poverty, and relies on a labor pool of in-commuters. Recently, Atlanta has been active in developing its professional services and logistics industries.

Chicago is similarly-sized, receives limited State support, and has seen concentrated growth in a few select geographic areas; the city's political structure features a strong council with Aldermanic Prerogative.

Pittsburgh is also subject to Pennsylvania tax legislation and has similar interactions with State programs; the city has recently seen success in attracting targeted industries, such as robotics.

REGIONAL COMPETITORS

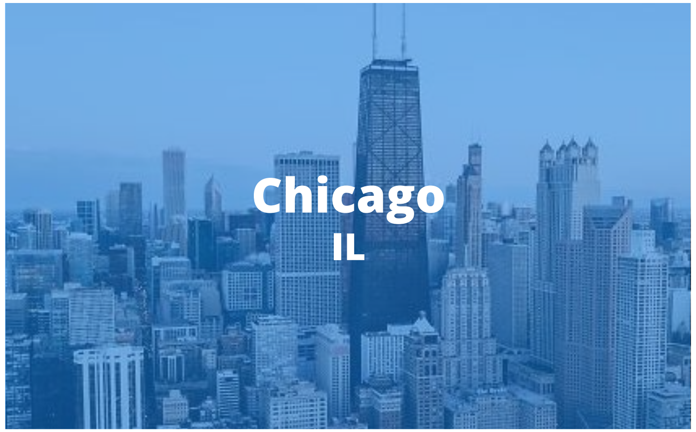
Montgomery County is Philadelphia's largest direct regional competitor and has comparable access to State funding resources. It performs competitively based, in part, on lower income tax rates compared to Philadelphia.

Camden County is an important regional competitor for Philadelphia. Business attraction and retention is well-supported by incentives through the State of New Jersey.

National Peers

Each national peer city has experienced a different trajectory of economic growth that has shaped its approach to incentives policy.

Atlanta has shifted from a regional hub into a **national center for media, professional services, and transportation**. Incentives have grown focus industries, such as Film Production, Logistics, and Broadcasting. Despite the metropolitan region's **rapid job growth**, the city itself deals with much competition from suburban municipalities.



Chicago is the third largest city in the US and the most popular national destination for **corporate relocations**, with Downtown adding more than 110,000 jobs since 2010. The former mayor's **pro-business agenda**, combined with the city's **connectivity and talent pool** have been contributing factors to its success, with local **incentives focused on distribution of growth** to communities outside of Downtown.

Pittsburgh has emerged from deindustrialization with a focus on high-value industries like **robotics, health care, and finance**. It is a model for leveraging **institutional and foundational support** for targeted economic development. The City itself focuses its incentives on financing **small businesses and neighborhood initiatives**.

 Source: WBC, Crain's Chicago

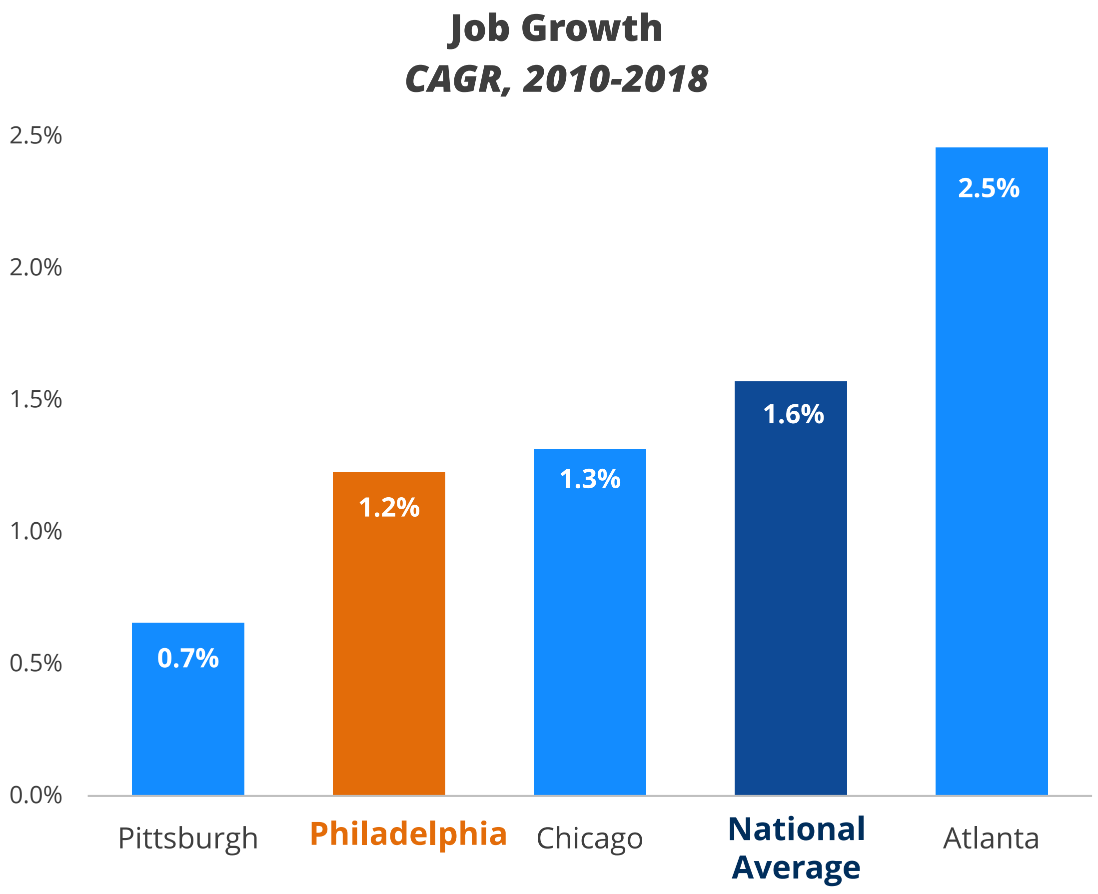
Each peer city faces similar socioeconomic challenges as Philadelphia, often related to concentrated poverty and the resulting economic inequality.

	Philadelphia	Chicago	Pittsburgh	Atlanta
Population, 2018 (#)	1,580,000	2,700,00	311,000	477,000
Pop. Growth, 2010-2018 (%)	4%	3%	2%	12%
Unemployment Rate, 2018 (%)	5.5%	4.2%	4%	4.3%
Median HH Income, 2018 ($)	$40,600	$53,000	$42,500	$55,000
Foreign-Born Population, 2017 (%)	13%	21%	9%	7%
Persons in Poverty, 2016 (%)	26%	21%	22%	22%
Percent Live and Employed Within City, 2018 (%)	61%	64%	54%	43%

- **Healthy population growth.** Compared to its peers, Philadelphia has seen a healthy population growth rate, surpassed by only Atlanta.
- **Lagging economic indicators.** However, Philadelphia has the highest percent of persons in poverty, the lowest average household income, and highest unemployment rate among peers—all keys challenges that pose a serious economic impediment for the city.
- **Poverty challenges.** Chicago, Pittsburgh and Atlanta, however, all have similarly higher-than-average poverty rates at over 20%, leaving them with a similarly low tax base to fund to municipal services (notwithstanding Philadelphia's obligation to provide county services). Consequently, critical public services often go underfunded, limiting each city's ability to sustain and empower impoverished and near-impoverished populations and encourage inclusive economic development.

EMSI, ACS 2017 1-year estimates, Census OnTheMap/LEHD, Esri, BLS

Like other deindustrialized cities, Philadelphia's job growth lags the national average and has been significantly outperformed by Sun Belt cities.



EMSI

Philadelphia saw slow job growth coming out of the Great Recession, but outpaced the national average for the last 3 years. Similarly, Chicago and Pittsburgh have experienced lower-than-average job growth since 2010.

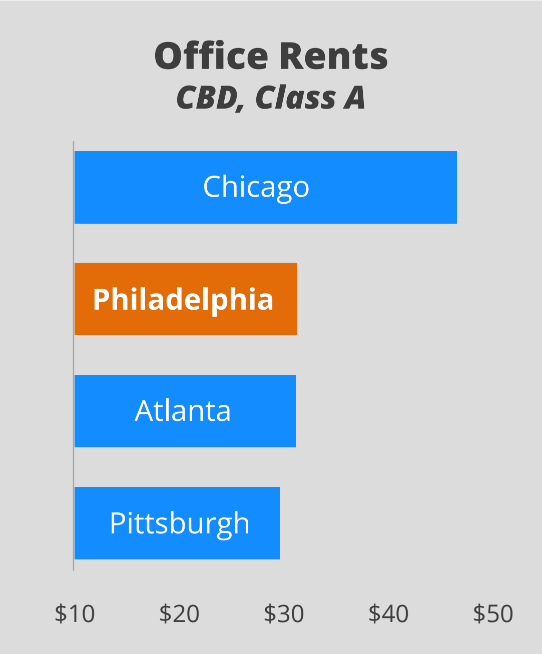
Sun Belt cities like Atlanta, however, are experiencing almost double the average annual job growth. Atlanta has been particularly successful in leveraging its airport to grow accessible jobs in its logistics sector, and has utilized State support to grow its motion picture industry by more than 700% since 2010.

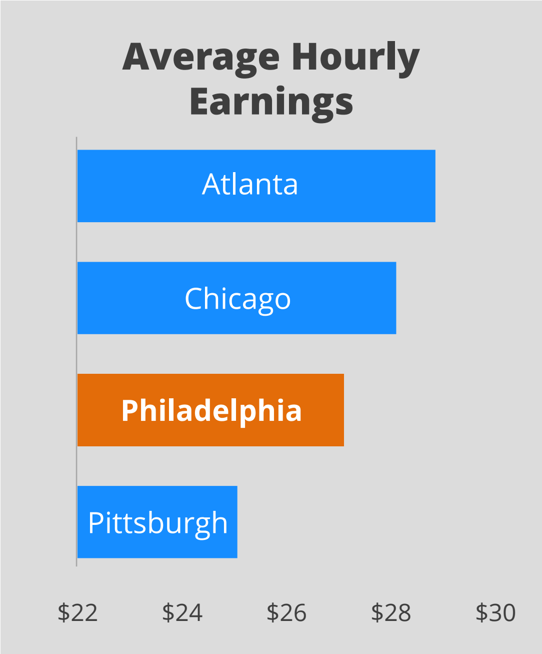
Chicago's steady growth has been led in part by the tech and innovation sector, and it has been named the top metro area for corporate relocation by Site Selection Magazine for five straight years. According to City officials, recruited companies have chosen to relocate to the Loop without heavy usage of municipal incentives.

While Pittsburgh lags Philadelphia in job growth, it has been successful in growing its focus industries, largely through the support of academic institutions and foundations. Its computer systems and design sector has grown by 53% since 2010, highlighted by the opening of Uber's Advanced Technologies Group there in 2015.

Philadelphia ranks higher than most of the selected peers in terms of cost of living and construction, though has lower labor costs.

A city's competitive advantage in business location decisions is dictated by a number of factors, including access to talent, cost of living, quality of life and infrastructure, and cost of doing business. The metrics below consider Philadelphia's relative competitiveness in terms of common economic costs of doing businesses—office rents, construction costs, worker wages, and cost of living. The following section will take a deeper look into the taxes as an additional factor adding costs for businesses.





**C2ER Cost of Living Index is calculated by measuring consumer expenditure for the six major categories and creating weights for the amount each contributes.*
EMSI, JLL

Taxes are a driving component of the cost of doing business; poor perceptions of Philadelphia's business climate likely result from its range of business taxes.

Business Taxes	**Philadelphia**	**Chicago**	**Pittsburgh**	**Atlanta**
Business – Income (Municipal)	X			
Business – Receipts (Municipal)	X	X		X
Partnership or Sole Proprietorship Income (Municipal)	X			
State Corporate Income	X	X	X	X
State Personal Income	X	X	X	X
Local Personal Income	X		X	
Sales (less State portion)	X	X	X	X
Real Estate (Municipal)	X	X	X	X

Note: The chart considers County taxes that are levied within all Cities. Chicago, Pittsburgh and Atlanta, unlike Philadelphia, are not coterminous with their counties.

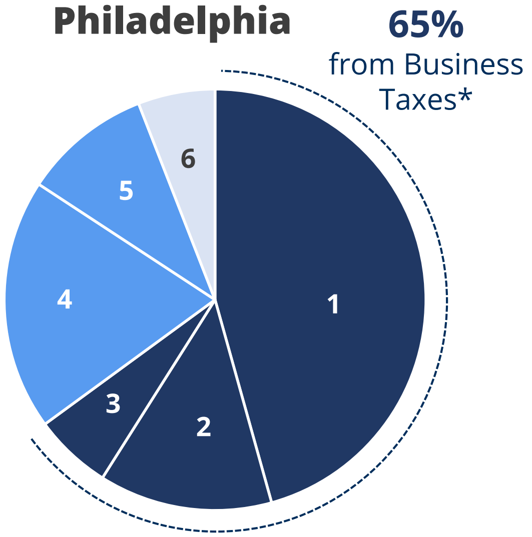
HR&A Advisors Research

Business taxes are a barrier to job growth in Philadelphia, which has among the highest rates in the U.S. The City is also disproportionately reliant on taxes from mobile assets such as personal and business income as compared to its peers.

General Fund Tax Revenues – Sources of tax revenues dedicated to a City's general fund (2018)

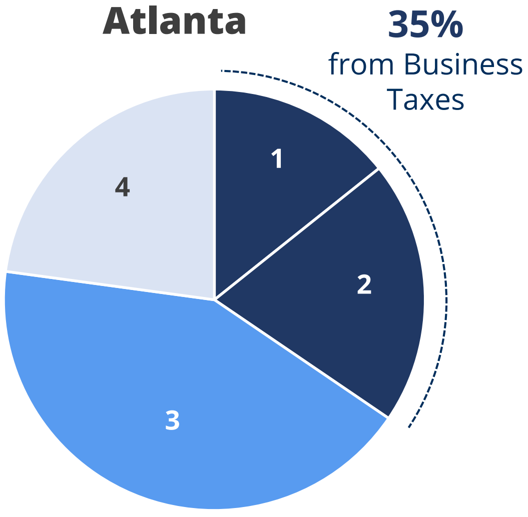
Business Taxes | Property Taxes | General Fund – Other Taxes

Philadelphia



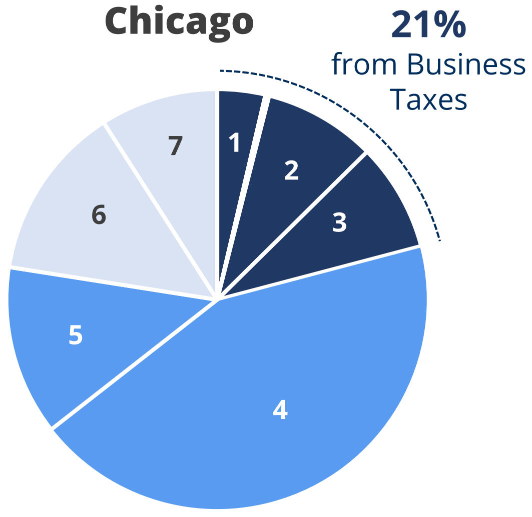
1. Wage, Earnings, Net Profits
2. BIRT
3. Sales
4. Real Estate
5. Realty Transfer
6. Others (Amusement, Liquor, Parking)

Atlanta



1. Business License
2. Sales
3. Real Estate
4. Utility, Alcohol, and Other

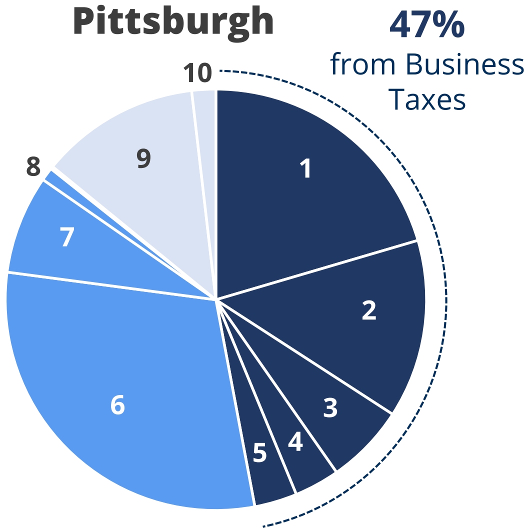
Chicago



1. Hotel
2. Sales
3. Recreation
4. Property*
5. Property Transaction
6. Municipal Public Utility
7. Transportation

Property Tax is dedicated to pension & debt service, in addition to the General Fund.

Pittsburgh



1. Earned Income
2. Payroll Prep.
3. RAD Sales
4. Amusement
5. Local Services
6. Real Estate
7. Deed Transfer
8. Facil. Usage
9. Parking
10. Other

**Business taxes defined as taxes on income, receipts, earnings, and sales. Note that only Philadelphia serves both municipal and county functions out of the above cities.*
Municipal CAFRs, 2018

While peer cities generally deploy similar incentives tools as Philadelphia, the parameters of such programs and the degree to which they are used vary widely.

	Philadelphia		Atlanta		Chicago		Pittsburgh	
Administrative Agency	**Dept. of Commerce, Dept. of Revenue, PIDC** *Public & Quasi-Public*		**Invest Atlanta, Office of Housing & Community Dev.** *Quasi-Public & Public*		**Dept. of Planning & Development** *Public*		**Urban Redevelopment Authority** *Quasi-Public*	
Local Incentives	**City**	**State**	**City**	**State**	**City**	**State**	**City**	**State**
Property Tax Abatements/ Exemptions*	Major emphasis	Rarely used / not applicable	Minor emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable
Business & Earnings Tax Abatement/ Exemptions	Major emphasis	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis
Business Loans or Grants	Major emphasis	Major emphasis	Major emphasis	Major emphasis	Major emphasis	Major emphasis	Major emphasis	Major emphasis
TIF/Tax Diversion	Minor emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable

Major emphasis

Minor emphasis

Rarely used / not applicable

Note: Assessment is based on depth and utilization of incentives by State and Local governments. Particular programs are described further in the Appendix.
**The property tax abatement provided by KOZ is allowed by the State, but is applied to municipal property taxes; accordingly, property tax abatement is assessed as only a city tool.*

Compared to its peers, Philadelphia must contend with several unique challenges in its approach to economic competitiveness.

Challenging Structure & Administration

Few cities **tax both business income and revenues** as heavily as Philadelphia, instead choosing to rely on taxing fixed assets (e.g. property taxes) rather than mobile ones (jobs and businesses).

Although Philadelphia has eliminated BIRT liability for over two-thirds of businesses with an exemption on the first $100,000 of gross receipts, the City's tax structure relies on taxing mobile assets such as jobs.

Multiple program administrators in Philadelphia results in inefficiencies related to program marketing, management and tracking, and overall effectiveness for leveraging on specific deals.

Conflicting Growth Objectives

Alignment on guiding economic development goals between approving bodies is essential to advancing **inclusive growth** and **mitigating risk** associated with negotiating and applying for incentives.

Invest Atlanta **garners early buy-in** from the School Board and County by guaranteeing them representation on its board.

Chicago attempts to gain public confidence in its use of incentives by making **redevelopment agreements available publicly**. New tracking procedures have clawed back at least $65 million since 2011.

Limited Geographic Targeting

Geographic targeting is essential for promoting **growth where it is needed most**, and limiting the possibility of incenting activities that would have occurred regardless.

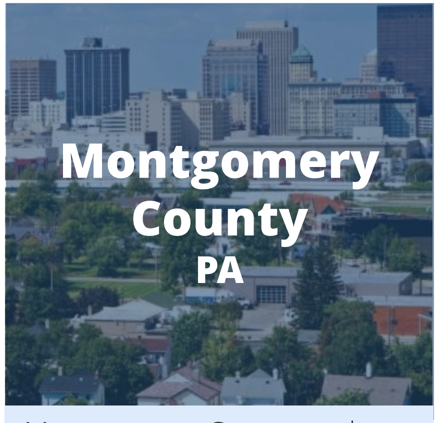
No other peer city participates in a program as **deep *or* inflexible** as KOZ.

Pittsburgh targets development through the Local Economic Revitalization Tax Assistance program. However, it is limited in its ability to keep up with real estate trends; **TIF** allows for more precise geographic targeting than district-wide abatements do. Meanwhile, Chicago suffers from overapplication of TIF, suggesting that some diversity of tools should be maintained in a portfolio.

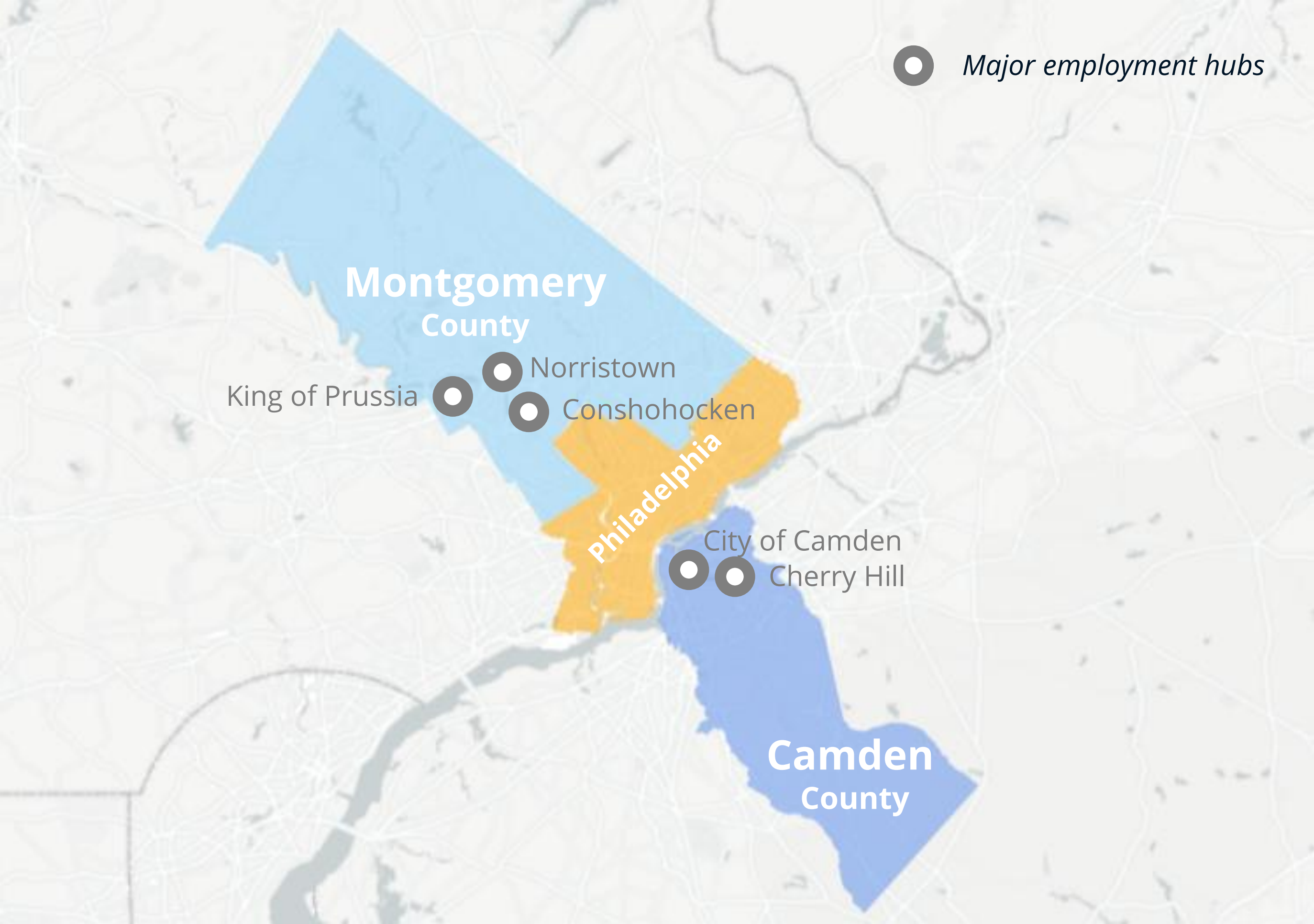
Regional Peers

Regional benchmarking highlights the major competitive advantages of Philadelphia's suburban competitors for local business attraction.

Camden County is the most populous of Philadelphia's suburban New Jersey counties. In recent years, the county has **shrunk in jobs** (-4.5% since 2010) and **population** (-0.5%), despite the City of Philadelphia's resurgent growth. The City of Camden has been the **target of numerous state-level incentives**, while the County itself has focused on growing its **biotechnology, pharma., transportation, logistics and manufacturing** sectors.



Montgomery County, a large suburban county located west of Philadelphia, contains several **employment hubs surrounded by mostly affluent communities**. Many of its residents commute to Center City and other regional employment hubs. Local employers are concentrated in the **health care and social services, retail, professional, scientific and technical services and manufacturing** sectors.



Philadelphia is larger and more densely populated than its regional peers, however higher-than-average poverty and unemployment present challenges.

	Philadelphia	Camden County	Montgomery County
Population, 2018 (#)	1,580,000	520,000	840,000
Pop. Growth, 2010-2018 (%)	4%	-0.1%	3.5%
Unemployment Rate, 2018 (%)	5.5%	4.6%	3.4%
Median HH Income, 2018 ($)	$40,600	$64,500	$89,000
Foreign-Born Population, 2017 (%)	13%	11%	11%
Persons in Poverty, 2016 (%)	26%	12%	3%
Percent Live and Employed Within County, 2018 (%)	61%	37%	49%

- **Lagging economic indicators.** While Philadelphia is the largest municipality compared to its regional peers of Camden and Montgomery Counties, it also has significantly higher rates of poverty and unemployment and lower median household income.
- **Competitive advantages.** Despite these disadvantages, Philadelphia's population density, urban amenities and talent are major attractions for businesses.
- **Higher costs of doing business.** Employers that may be more cost-conscious also evaluate other factors into their locations decisions – discussed further in the following slides.


City of Camden

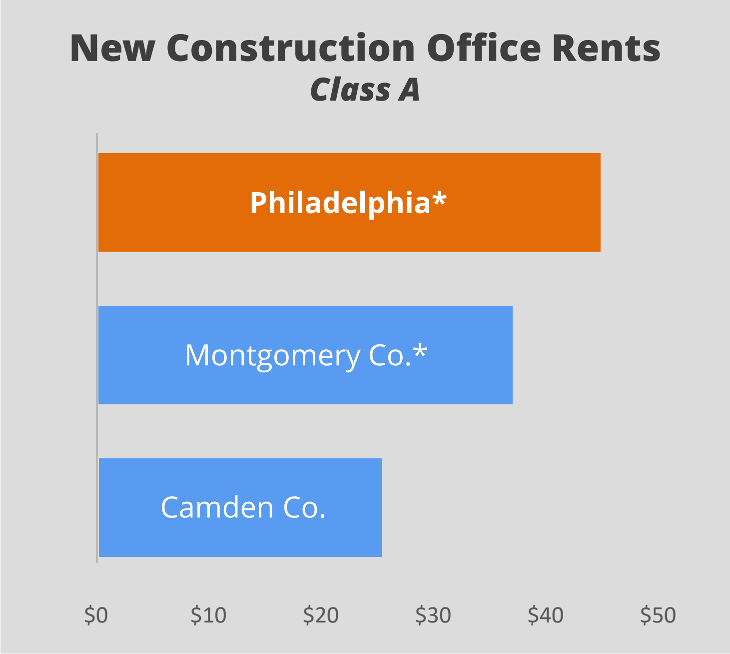

King of Prussia, Mont. County

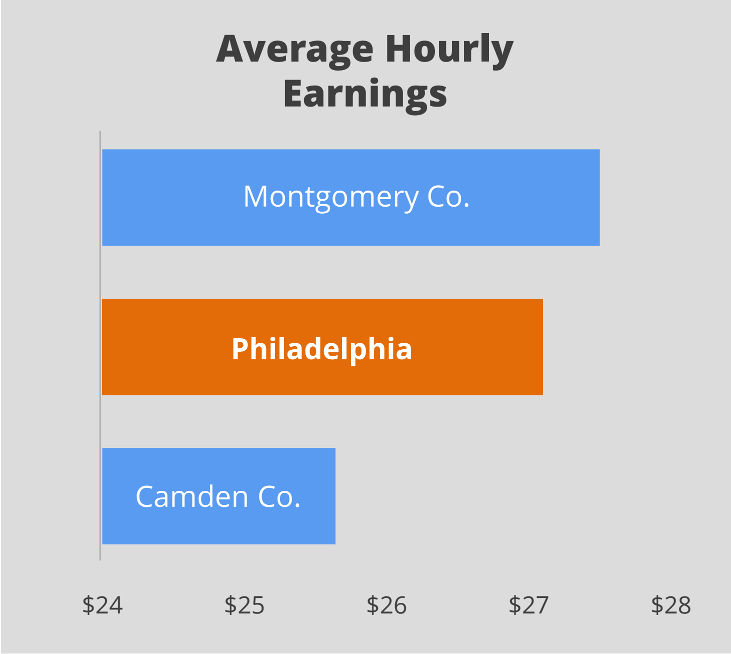

Philadelphia

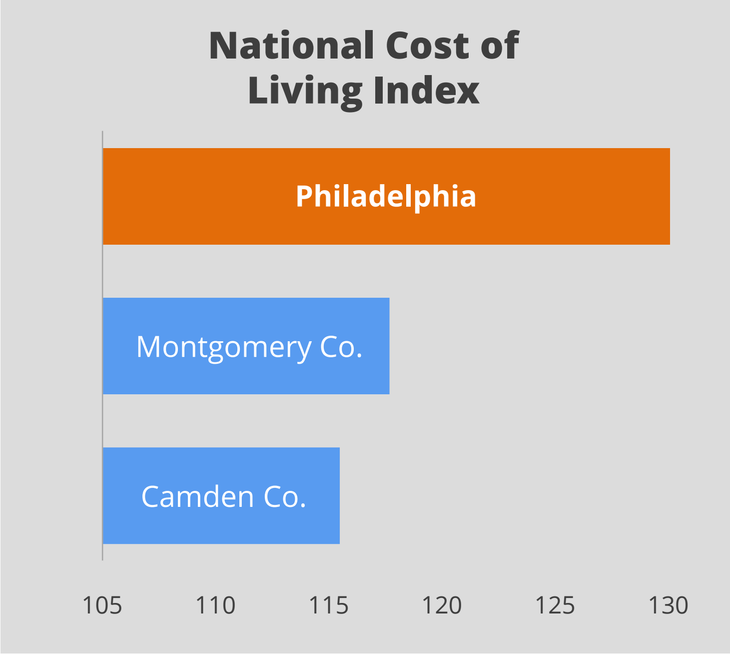
EMSI, ACS 2017 1-year estimates, Census OnTheMap/LEHD, Esri, BLS

In terms of the cost of doing business, Philadelphia has the highest office rents and cost of living among its regional peers.

The cost of doing business often factors in heavily into regional location decisions, especially considering the opportunities for arbitrage as businesses located outside the City take advantage of Philadelphia's deep labor pool without contributing to its tax base. High wage and business taxes in particular add to the cost of doing business in Philadelphia relative to Montgomery County, while the sales tax differential makes it difficult of Philadelphia retailers located near the city borders to compete for sales, particularly for high ticket items.







*C2ER Cost of Living Index is calculated by measuring consumer expenditure for the six major categories and creating weights for the amount each contributes.

*Phila. Class A rents within University City; Montgomery Co. Class A rents within Conshohocken submarket.

Cushman & Wakefield, Q1 2019; EMSI

Even given similar state-level taxes, Philadelphia has a more onerous tax structure than its neighbors.

Business Taxes	**Philadelphia**	**Camden County**	**Montgomery County**
Business – Income (Municipal)	X		
Business – Receipts (Municipal)	X		X
Partnership or Sole Proprietorship Income (Municipal)	X		
State Corporate Income	X	X	X
State Personal Income	X	X	X
Local Personal Income	X		X
Sales (less State portion)	X	X	X
Real Estate (Municipal)	X	X	X

Note: There is a local tax differential between municipalities in Montgomery County and Camden County, versus the uniform tax structure in Philadelphia County, since the City is coterminous with the county.

New Jersey's powerful incentive toolkit has driven a significant amount of regional business location decisions.

	Philadelphia		Camden Co.		Montgomery Co.	
Administrative Agency	**Dept. of Commerce, Dept. of Revenue, PIDC** *Public & Quasi-Public*		**Camden County Improvement Authority** *Public*		**Dept. of Commerce, Industrial Development Authority, Redevelopment Authority, County Development Corp.** *Public*	
Local Incentives	**City**	**State**	**County**	**State**	**County**	**State**
Property Tax Abatements/ Exemptions	Major emphasis	Rarely used / not applicable	Minor emphasis	Major emphasis	Major emphasis	Rarely used / not applicable
Business & Earnings Tax Abatement/ Exemptions	Major emphasis	Major emphasis	Rarely used / not applicable	Major emphasis	Rarely used / not applicable	Major emphasis
Business Loans or Grants	Major emphasis	Major emphasis	Minor emphasis	Minor emphasis	Major emphasis	Major emphasis
TIF/Tax Diversion	Minor emphasis	Rarely used / not applicable	Rarely used / not applicable	Major emphasis	Minor emphasis	Rarely used / not applicable

Major emphasis

Minor emphasis

Rarely used / not applicable

Note: Assessment is based on depth and utilization of incentives by State and Local governments. Particular programs are described further in the Appendix.
**The property tax abatement provided by KOZ is allowed by the State, but is applied to municipal property taxes; accordingly, property tax abatement is assessed as only a city tool.*

To a greater extent than among national peers, regional competitiveness is driven by the cost of doing business.

Limited Local Incentive Capacity

Philadelphia must compete with cities offering **combined benefits** at the state, county, and municipal level.

Efforts are **less streamlined** in Montgomery Co., where the county controls economic development while municipalities control land-use regulations and business taxes. However, suburban communities benefit from a broader tax base with which to fund critical services.

City of Camden leverages **bonus state credits, grants, and loans** available to distressed localities. However, employers have access to benefits even if relocating from other parts of NJ or Camden Co., negatively impacting those locations.

Regional Competitiveness

Business prospects **must balance relative cost of doing business with ability to attract talent** when considering whether to locate in Philadelphia versus the surrounding suburbs.

Primary competitors are urbanized municipalities in Camden Co. (Pennsauken, Cherry Hill, Camden City) concentrated near the Delaware River.

Wage tax differential is a consideration for suburban residents working in Philadelphia, though less of an issue for Philadelphia residents commuting to suburbs.

Wage taxes are not a major deterrent for Camden Co. residents, as NJ residents can apply full amount as credit against state income taxes.

Companies have a **hard time finding entry-level labor** in Montgomery Co. due to high cost of housing. Philadelphia benefits from a more diverse labor force and better transit.

Real estate tax rates are higher in Montgomery Co., and abatements are not offered in all communities. Where they exist, benefits phase down over the term of abatement.

Portfolio Recommendations

The study's program and peer benchmarking analyses highlighted areas for improvement in the administration and efficacy of local incentive programs.

Existing Challenges

1. A **complex business tax structure** may be perceived as inhibiting growth
2. **Intergenerational poverty** creates a strain on resources and economic growth
3. **Heavy regional competition** coupled with **limited State incentives** impair competitiveness
4. **Numerous local incentives programs** overlap, undermining efficacy
5. **One-size-fits-all benefits** do not always provide targeted relief to businesses
6. Program marketing, approval, and administration **spread across multiple departments**
7. **No consistent evaluation criteria** across programs
8. Limited **transparency and accountability** limits public trust in incentives
9. Limited of **political appetite** for continuation and expansion of certain existing programs

A series of improvements can help streamline Philadelphia's incentives portfolio and improve the efficiency and effectiveness of its deployment.

Consolidation

- Centralization of program oversight
- Marketing & program awareness
- Tiering of benefits

Inclusivity

- Leveraging programs to achieve broader goals
- Geographic targeting
- Job quality & expansion of opportunity

Transparency

- Reporting requirements & performance tracking
- Accountability among incentive recipients
- Deal evaluation tools
- Program sunsets & required evaluation before renewal

Based on a review of policy documents, the HR&A and City teams identified eight economic policy objectives to inform the portfolio analysis and recommendations.

Economic Development Goals

1. Improve regional, national and international **competitiveness**
2. Retain and expand employment in **legacy and emerging industries** to grow the number of quality jobs
3. Extend **economic activity to underserved areas**, while maintaining the competitiveness of existing commercial centers
4. Bolster **entrepreneurship** to increase **economic mobility** and foster just, equitable growth
5. Grow Philadelphia's **local talent pool**
6. Ensure **pathways to employment** for disadvantaged Philadelphians
7. Couple **inclusive growth efforts** with broader support systems in struggling communities
8. Support the **green economy** and **sustainable energy use**

Economic Competitiveness

- Policy that counters structural challenges to growing the city's jobs base by addressing obstacles such as increased cost-of-doing-business

Equity & Inclusion

- Policy that drives inclusive economic development by encouraging good business behavior and investment in target neighborhoods or industries

Workforce Development

- Policy that promotes educational investment in Philadelphia residents to connect them to opportunities in the 21st Century economy

Sustainability

- Policy that encourages environmentally friendly business practices and guides growth towards more sustainable and socially conscious outcomes

Our findings inform portfolio-wide recommendations for repositioning the City's incentives portfolios to improve efficacy, inclusivity, and transparency.

Portfolio Recommendations

1. **Consolidate programs** into a combined Quality Jobs Credit Program with **tiered benefits**
2. Establish **common program standards** and **portfolio-wide benchmarks** with which to evaluate and monitor performance
3. **Publicize programs, applications, and requirements** and assist prospective firms in **navigating** incentives regime
4. **Improve coordination** among economic development entities to **streamline** incentives management and implementation
5. Integrate **incentives reporting** with open data portal to improve **transparency**
6. Consider advancing meaningful **reforms to the local tax regime** to drive long-term economic growth

Recommendation #1: Consolidate programs to eliminate redundancies, improve efficiency, and advance parallel public policy goals through benefit tiering.

Consolidate Programs

Combine programs that singularly abate BIRT into a single program (the "Quality Jobs Credit Program") to **streamline administration** and enable the **scaling of benefits** based on strategic objectives. Prime candidates for consolidation include **JCTC**, with **Jump Start** and **SBTC** incorporated as qualifying criteria for accessing deeper benefits based on business attraction and sustainability objectives. Other programs utilizing BIRT abatements or credits to incentivize certain business behaviors may also be considered for consolidation, provided their objectives fit under the umbrella of quality job creation; possible candidates include the **Veterans Employment Tax Credit**, the **Community Development Corporation Tax Credit**, and **Sustainable Jump Start**.

Tier Benefits to Advance Economic & Equity Goals

Align depth of incentives with other economic development and policy goals using a **tiered benefit structure** to engage the business community in supporting broader equity goals while sustaining opportunities for growth. A baseline incentive level (possibly tied to an existing incentive, such as JCTC's $5,000/job award) could be deepened for projects that meet additional optional criteria.

Establish Project Evaluation Framework

Convene relevant City departments to establish a common project **evaluation "scorecard" to guide decision making** by agencies charged with administering programs. The framework should articulate requirements for accessing baseline benefit levels, in addition to scoring criteria and weighting for deeper benefit tiers, which could be refined for use in programs such as the combined **Quality Jobs Credit Program**, **KOZ**, and **Forgivable Loan**.

Recommendation #1: Consolidate programs to eliminate redundancies, improve efficiency, and advance parallel public policy goals through benefit tiering.

Sample Minimum Baseline Requirements for Quality Jobs Credit Program

	Project Score
Job growth above minimum threshold	1
Hourly Wages > $15/ hour	1
$12/hour for jobs filled by returning citizens	1
Healthcare Benefits for All Employees	1
Positive Fiscal ROI to City	1
Baseline Score	**5**

Sample Scoring Criteria for Benefit Tiers

	Project Score	Weight	Total (Score * Wgt)
Place-Based: Located within priority corridors (e.g., within ¼-mile of public transit), underinvested neighborhood	1	5	5
Industry Growth: Creating jobs within targeted growth sectors; building a new HQ; new business formation or attraction; job creation of 150+	1	15	15
Equitable Growth: M/WBE, local hiring, shared ownership, on-the-job training or other workforce initiatives	1	25	25
Built Environment: Bringing underutilized & brownfield sites back into commerce; public amenities such as open/community space, childcare; sustainability features	1	5	5
Total Project Score			**50**

* Projects with <5 points receive no additional benefit above $5,000 baseline
* Projects with 5-10 points receive $3,000 additional benefit
* Projects with 11-25 points receive $7,500 additional benefit
* Projects with >25 points receive $15,000 additional benefit

Recommendation #1: Consolidate programs to eliminate redundancies, improve efficiency, and advance parallel public policy goals through benefit tiering.

BEST PRACTICES

San Diego's Business Incentive Program requires incented firms to create a minimum amount of qualifying jobs, such as those created in a low-to-moderate income area, or make a minimum capital investment related to business expansion, attraction, or retention. Once a firm meets the base criteria, it can receive larger abatements if it meets additional goals in the way of workforce development, education, or community-building.

Austin's tax abatement deals are evaluated using a firm-based matrix on a variety of factors. Projects must meet a minimum score to qualify for an abatement; firms must be located in a desired development area and conduct their business in compliance with environmental regulations. Projects are then scored on a variety of qualitative factors, including linkages to the local economy, character of jobs, labor force practices, and cultural vitality. Bonus categories reward behaviors such as local hiring – a goal of 75% of workers being city residents - or employing returning citizens.

Kansas City has responded to changing economic conditions with increased scrutiny in its review of deals. The City utilizes a scorecard, which includes an evaluation for number of jobs and job quality anticipated, as a first step towards greater transparency in the evaluation and awarding process. Officials also employ a rigorous financial gap test to ensure need for incentive awards.

Recommendation #2: Establish common program standards with which to evaluate and monitor performance across the portfolio.

Evaluate & Track Performance Against Portfolio-Wide Benchmarks

Philadelphia's incentives programs are currently overseen and administered by separate agencies using their own ascribed methodologies, with limited coordination and sharing of information between them. The City should commit to portfolio-wide benchmarks against which to compare and track proposed and historic projects within and across programs.

Performance metrics should include information relating to "baseline" program requirements, as well as additional metrics specified in the project scorecard from Recommendation #1. Key project metrics should be summarized in a user-friendly dashboard that allows users to:

- **Evaluate where a deal falls within program- and portfolio-wide benchmarks,** both with respect to proposed deals (e.g. **JCTC** or the new **Quality Jobs Program**) as well as historical, the latter used to inform future program expansion or renewal (e.g. **KOZ**).
- **Track program performance over time**, ideally improving upon core metrics such as cost per job.
- **Conduct ongoing comparisons between programs** to understand relative effectiveness in terms of ROI.

Revisit & Revise

The City should periodically re-evaluate the appropriateness of program standards and the efficacy and efficiency of its local incentives portfolio to determine whether further changes are warranted. Possible structural changes, such as the conversion of tax credit programs to grants, should be investigated during these re-evaluations. New incentive programs should have a statutory sunset, with an evaluation of the program required before renewal.

Recommendation #3: Publicize incentive offerings, application guidelines, and evaluation criteria, and assist prospective beneficiaries in navigating incentives programs.

Clearly Communicate Qualification & Application Procedures

It is important for the market to understand those things that the City values in terms of its policy goals, and **what requirements need to be met** in order to access benefit tiers/bonus points as part of the process.

Information on all local incentive programs, including how to qualify and apply and how projects will be evaluated, should be made **available in a single online location**. A dedicated entity should be tasked with maintaining the site and liaising with prospective participants throughout the approvals process.

Create New Program Eligibility Tool

Create an **eligibility tool** hosted on the new one-stop-shop website from above that provides a preliminary assessment of **all local, state, and federal incentives that firms may be eligible for** based on their responses to qualifying questions (e.g. do you currently employ workers in Philadelphia or are you projected to grow jobs by at least 20%?). This will be particularly useful for new firms to Philadelphia that are less familiar with the local tax structure and for understanding the benefits achievable through **KOZ**.

Publicize Personalized Assistance for Large Attraction Deals

Advertise the **availability of a dedicated 'concierge'** for prospective attraction and retention deals to assist businesses is obtaining requisite approvals, identifying temporary swing space, accessing local workforce development programs, and assisting in the relocation of new employees from outside Philadelphia.

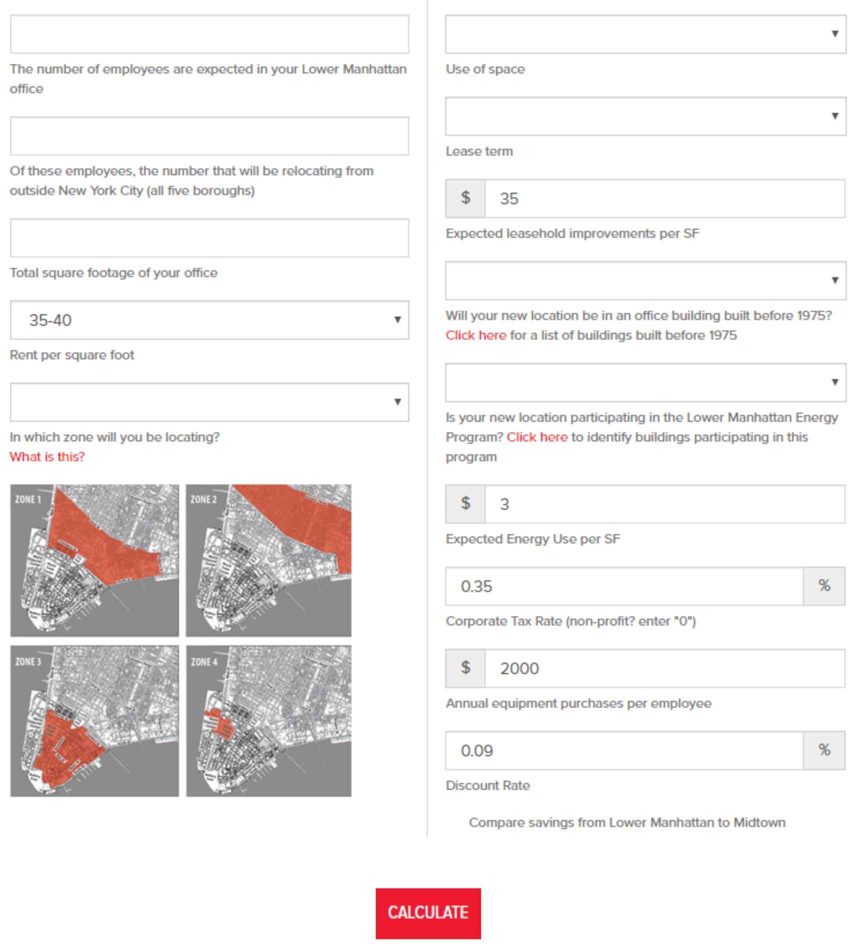
Recommendation #3: Publicize incentive offerings, application guidelines, and evaluation criteria, and assist prospective beneficiaries in navigating incentives programs.

BEST PRACTICES

Boston appoints a dedicated Permitting Ombudsman to assist companies with obtaining requisite permitting, identifying temporary office space during construction, and assisting new employees with relocation through a Boston Home Center concierge.

The **Downtown Alliance** in New York City provides an online calculator for determining eligibility for all local and state incentives for businesses locating in Lower Manhattan. Users can customize fields to meet their specifications, with default assumptions pertaining to the average commercial office tenant provided for certain cost assumptions.

A screenshot of the Alliance tool is pictured to the right. To view the full version, visit: https://www.downtownny.com/why-lower-manhattan/incentives-calculator



Recommendation #4: Improve coordination among entities responsible for program implementation and advancing economic development objectives.

Consolidate Incentives Management & Improve Data Tracking

Clarify responsibilities for program implementation and advancing economic development objectives in line with mutually-agreed upon evaluation framework and benchmarks described above. **Assess governance procedures** to **increase efficacy and accountability**, establishing **formalized procedures** for engaging other local taxing entities and agencies.

Incorporate an **integrated data system** that allows for facilitated tracking of programs by administering agencies, including access to analytics through standardized Key Performance Indicators (KPIs) and automated reporting across deals and programs.

Establish Data-Sharing Mechanism between Decision-Makers

Explore the establishment of **data-sharing agreements** between the Departments of Revenue and Commerce to allow for the sharing of appropriate information as deals are being negotiated, to the degree that this is legally possible. These data are intended to shed light on other programs that beneficiaries may be accessing or applying for, as well as information on firms' existing and historical presence in Philadelphia.

As part of each deal, require applicants to **submit a release allowing Commerce to access relevant taxpayer information**, subject to the same confidentiality provisions as data collected by Revenue. Doing so will significantly facilitate intercommunication between the departments and increase overall program efficiency.

Recommendation #4: Improve coordination among entities responsible for program implementation and advancing economic development objectives.

BEST PRACTICES

Cincinnati utilizes an internal Salesforce database to consistently monitor incentive performance across its incentive portfolio, align key metrics across programs, and measure progress over time. The database allows City staff across different agencies to track individual projects across multiple programs, efficiently measure a project's performance against key benchmarks, and summarize data in an organized manner for City Council review.

Chicago utilizes a centralized database for all incentives programs managed within the Department of Planning and Development's Economic Bureau Department, and uses KPIs to evaluate deals and track their performance. For higher-stake deals, such as TIF, the department hires dedicated staff to oversee reporting and compliance. The City has saved close to $65 million through claw-backs since the department was reorganized in 2011 and strict reporting measures were implemented.

Recommendation #5: Explore possibilities to provide incentives reporting data in a more accessible format.

Integrate Annual Incentives Reporting into Open-Access Online Database

To the degree it is legally possible, publish annual incentives reporting information on an open-access database to encourage trust in government while increasing the efficiency of internal data-sharing between decision-makers. Reporting should include project-level outcomes (e.g. company name, location, and jobs/wages generated), as well as cost information (e.g. total credit amount), where permissible. Currently, the City does make best efforts to report on and publish data on incentives; however, clear justification should be provided wherever data cannot be shared due to security or privacy concerns.

Examples of publicly-available incentives data include:

Pennsylvania Dept of Community & Economic Development Investment Tracker: Project-level metrics for investments, grants, and loans made by DCED going back to 2000. State JCTC reporting specifies the project name, applicant/company name, county, total jobs (existing vs. pledged) and total tax credit amount.

NYC Economic Development Corporation Annual Investment Project Report: Project-level information for all recipients of financial assistance during prior fiscal year. Information on projects for which financial assistance in the reporting year was <$150,000 are reported in aggregate.

Illinois EDGE Agreements: Project-level information including employment targets and estimated credit amounts for each award. Detailed EDGE Agreements (contracts) are also made publicly available for each project.

Recommendation #5: Integrate incentives reporting with open data portal to improve transparency.

BEST PRACTICES

Austin's Economic Development Department hosts a disclosure website for major incentive programs. For instance, ROI analyses for TIF projects must be made available to the public at least 21 days before initial public hearing.

Chicago requires different degrees of self-reporting for different programs, depending on the size of deals. The City also publishes their redevelopment agreements, or contracts, for larger projects such as TIF and NOF (Neighborhood Opportunity Fund) receiving above a threshold of a quarter of a million dollars in subsidies. The City has an OpenData portal as well as dedicated websites for each TIF deal where all of this is made available in a user-friendly manner.

New York City recently passed two legislation requiring detailed reporting for projects receiving discretionary tax benefits under EDC, including fiscal impact statements and analytics on recouping of benefits when the agreements are not met by the benefit recipient.

Recommendation #6: Continue advancing meaningful reforms to the local tax regime to drive long-term economic growth.

Review & Reform Local Tax Structure

The City's challenging tax structure is an unavoidable obstacle and attempting to remedy it through the layering on of different incentives is unlikely to address the fundamental drivers of slow growth and lagging local competitiveness. Regardless of structural issues with the Philadelphia's tax structure, incentives will still be required to give the City a competitive advantage where frictions emerge. The City should consider advancing reforms to the local tax regime to address core constraints on local competitiveness, for which incentives currently serve as a band-aid. Specifically, future actions might address:

- **Possible amendments to the State uniformity clause**, which prohibits variable tax rates for commercial and residential property, as well as progressive business and personal income tax rates
- **Over-reliance on highly-mobile assets** such as wage and business income
- **Concentration of business tax burden** among jobs-intensive sectors
- **Ability to scale back incentive programs** upon reductions in local tax rates and resultant cost premiums
- **PILOT payments for currently-exempt non-profit institutions** who fail to meet constitutional test qualifying them as a "purely public charity"
- **Continued need to fund critical public services**
- **Amendments to enabling KOZ legislation** to allow for greater municipal control

APPENDIX

To support our analysis and recommendations, the HR&A Team, with support from the client, identified eight guiding objectives of the City's economic development strategy.

Planning Documents Reviewed

- Philadelphia 2035 Comprehensive Plan: Citywide Vision (*Philadelphia City Planning Commission, 2012*)
- Shared Prosperity 2017 Progress Report (*Office of Community Empowerment & Opportunity, 2018*)
- Consolidated Plan 2017-22 (*DHCD, 2017*)
- Year 44 (2018-19) Annual Action Plan (*DHCD, 2018*)
- Assessment of Fair Housing (*City of Philadelphia & PHA, 2016*)
- Housing for Equity Action Plan (*City of Philadelphia, 2018*)
- Fueling Philadelphia's Talent Engine: A City-Wide Workforce Strategy (*City of Philadelphia & Chamber of Commerce of Greater Philadelphia, 2018*)
- A Manufacturing Growth Strategy for the City of Philadelphia (*Philadelphia Industrial Development Corporation, 2013*)
- An Industrial Land and Market Strategy for the City of Philadelphia (*PIDC, 2010*)
- Putting Philadelphian's First: An Equitable Growth Plan for Our City (*City Council, 2018*)
- City Council Special Committee on Regulatory Reform 2018 Progress Report (*City Council, 2018*)
- Inclusive Growth Strategy (*Department of Commerce, Draft*)

Economic Development Policy Objectives

1. Improve regional, national and international **competitiveness**
2. Retain and expand employment in **legacy and emerging industries** to grow the number of quality jobs
3. Extend **economic activity to underserved areas**, while maintaining the competitiveness of existing centers
4. Bolster **entrepreneurship** to increase **economic mobility** and foster just, equitable growth
5. Grow Philadelphia's **local talent pool**
6. Ensure **pathways to employment** for disadvantaged Philadelphians
7. Couple **inclusive growth efforts** with broader support systems in struggling communities
8. Support the **green economy** and **sustainable energy use**

Chicago, IL
Incentives and Economic Development Programs

Cook County Property Tax Incentives	Real Estate tax abatements offering up to 12-year reductions (renewable for 12 more years) in real estate assessments for commercial and industrial property located in specific areas. Although the incentive is authorized by the county, Chicago's DPD can prequalify projects to receive the incentive. **Terms:** Duration and level of benefits vary depending on the area and project type.
TIF / Streamlined TIF	TIF provides financial assistance for a variety of purposes usually in conjunction with private development projects within a designated TIF district. **Terms:** 23-year period. Funding levels are coordinated for each project according to area plans and goals. and area TIF projects usually exceed $1 million.
Small Business Improvement Fund	Uses TIF revenues to cover grants for property owners repairing and/or remodeling commercial or industrial facilities within a TIF district for their own business purposes or on behalf of tenants. **Terms**: Grants cover 25-75% of the total cost, capped at $150,000 per project.
TIFWorks	Uses TIF revenues to cover costs for workforce-training programs for businesses located in TIF districts. **Terms:** Duration and level of benefits vary.

Chicago, IL
Incentives and Economic Development Programs

Neighborhood Opportunity Fund	Funds for the program are generated through the Neighborhood Opportunity Bonus, which functions as a density bonus for developers building in downtown Chicago. The program provides resources to incentivize development in targeted commercial corridors located in the West, Southwest and South Side neighborhoods of Chicago. Funds can be used for costs related to new construction and/or renovation. **Terms:** Amounts are awarded on a rolling basis for Large projects (above $250,000); Small projects (up to $250,000) must apply during a 3-month window.
Industrial Development Revenue Bonds	Tax-exempt bonds issued by the City whose proceeds finance qualified development projects, for new construction or renovation, for manufacturing companies. **Terms**: Offers long-term financing at rates lower than those offered by conventional financing.
Local Industrial Retention Initiative	Provides assistance to industrial businesses located in designated industrial corridors, in an attempt to retain those businesses. The program is managed by local non-profits but is funded by the DPD. LIRI delegate agency partners assist businesses in a variety of ways, including but not limited to– identifying resources and funding for business expansion and/or workforce development, securing a property and tenants for vacant spaces, help with city permitting and licensing requirements, and help with a sales expansion strategy. **Terms:** Duration and level of assistance vary.

Chicago, IL
Incentives and Economic Development Programs

Small Business Loan Program	Provides loans for small businesses. **Terms:** Duration and level of benefits vary
Bank Participation Loan Program	Low interest financing for commercial and industrial projects including new construction, renovation and fixed assets. **Terms:** Financing can cover up to 50% of eligible project costs. Limits for commercial projects are $250,000 and $500,000 for industrial.
Laboratory Facilities Fund	Uses TIF revenues to assist technology companies (at “second stage” or “graduate” level) to build lab space of at least 5,000 square feet. **Terms:** Up to 25% of eligible construction costs at a maximum of $1.4 million.
Façade Rebate Program	Tax rebates used for rehabilitation of historic building façades in the City. **Terms:** Industrial buildings are eligible to receive 30% of eligible costs (up to $10,000 per unit); Commercial buildings can receive 50% (up to $5,000 per rentable unit)

Atlanta, GA
Incentives and Economic Development Programs

Tax Allocation District (TAD)	A tax diversion structure that operates like TIF to provide bond financing for infrastructure and development in targeted geographies. The bonds are repaid by the tax increment generated within the district. Georgia law allows for ad valorem taxes on real estate, personal property, and some sales taxes to be pledged as tax increments. A 2007 program review determined that, statewide, TADs generate $5.80 of private investment for ever $1.00 of municipal investment. **Terms:** 30-year period; extensive developer agreements are required to ensure projects are completed as proposed; TAD bond proceeds are typically disbursed over time as construction is phased in and completed.
Urban Enterprise Zones (UEZ)	A geographically targeted incentive that allows property owners to take a 10-year tax abatement for new development. UEZs function as specially designated districts that are typically located within economically distressed areas of Atlanta. Benefits vary based on the real estate asset class. **Terms:** 10-year property tax abatement; abatement amount is scaled down after Year 5; only properties located within an eligible Census block group may take advantage of the program; residential developments must comply with mandatory inclusionary housing requirements.
Economic Opportunity Fund	Discretionary fund used for project financing; award is structured on a project by project basis based upon criteria such as job retention and creation in the City of Atlanta, financial strength of the business, and amount of business investment in the project. Funding of acquisition or construction of land, buildings and equipment, infrastructure or leasehold improvements, parking subsidies, relocation costs, workforce training, etc. **Terms:** Job creation threshold set at the discretion of the Council and Mayor; may be used citywide.

Atlanta, GA
Incentives and Economic Development Programs

Property Assessed Clean Energy Financing

A clean energy loan program that provides property owners with access to private financing to upgrade buildings with eco-friendly features for energy efficiency, water conservation, or installing renewable energy generation.

Terms: Funding for upfront capital improvements; minimum of $10,000, with a maximum of 10% of the building's market value; loan term of up to 20 years; only eligible in Downtown Atlanta.

WorkSource Atlanta

Customized job-based training programs offered to partnering firms. Funds are available for recruitment, job fairs, customized training, transportation assistance, drug screening, and Veterans recruitment.

Terms: Funded on a case-by-case basis; eligible for use citywide; partnering company must submit a detailed job creation and retention plan.

State Opportunity Zone Tax Credit

A state corporate income tax credit that is meant to align with and support the Federal Qualified Opportunity Zone program. In addition to Qualified Opportunity Zones, the City of Atlanta has several districts designated as "less developed census tracts" that qualify businesses for this award.

Terms: Businesses locating in either a "less-developed census tract" or a Federally designated Opportunity Zone are eligible to receive a $3,500 credit per new employee for 5 years.

Atlanta, GA
Incentives and Economic Development Programs

Lease Purchase Bonds

Mechanism through which Invest Atlanta holds title to real and personal property financed through issuance of lease purchase bonds for a 10-year period. Invest Atlanta enters into a Memorandum of Agreement with the Fulton County Board of Assessors to assess the property under a ramp-up schedule starting at 50% in the first year and decreasing by 5% each year for the next 9 years until full taxes are paid in year 11.

Terms: Minimum of $10M (no maximum bond size); 10-year bond term.

501(c)(3) Bonds

Tax-exempt bond issuance for the financing of property for applicable non-profit organizations, such as schools, charities, and healthcare facilities.

Terms: Company must submit a detailed job creation & retention plan; properties citywide are eligible.

Industrial Revenue Bonds

Long-term, low-interest, below-market, no recourse financing for construction of or improvements to manufacturing facilities.

Terms: Bond sizes of between $2M-$20M; bond term is matched to useful life of assets financed.

Pittsburgh, PA
Incentives and Economic Development Programs

Pittsburgh Enterprise Zone Revolving Loan Fund	Offers market-rate gap financing to small businesses based on determination of need. Eligible activities include machinery and equipment, working capital for sales growth and leasehold improvements. Must be located in a designated Enterprise Zone. **Terms:** Terms and conditions vary.
New Markets Tax Credit Loan Fund	Utilizes New Market Tax Credits through Pittsburgh Urban Initiatives, targeting industries such as manufacturing, technology and innovation, and other high-growth potential businesses. Must be located in eligible NMTC areas. **Terms:** Terms and conditions vary.
Urban Development Fund	Offers gap financing for small and medium-sized real estate development located in vacant or underutilized property. Funds can be utilized for loans, building costs, and soft costs associated with development. **Terms**: Maximum loan amount is the lesser of $250,000 of 40% of total costs; must create one new FTE job for every 30,000 of URA Loan proceeds; additional terms and conditions vary.
Micro-Enterprise Loan Program	Offers financing for startups and small businesses looking to launch or grow their businesses. Funds can be used for working capital, equipment, inventory, and leasehold improvements. **Terms:** Up to $30,000; Terms and interests vary.

Pittsburgh, PA
Incentives and Economic Development Programs

Pittsburgh Business Growth Fund

Offers gap financing for small and medium-sized businesses. Covers machinery and equipment, leasehold improvement and/or working capital costs.

Terms: Market-rate financing covering up to 40% of project cost, maximum is $150,000; terms and conditions vary.

Entrepreneur Fund

Offers financing for technology-based start-ups or growing businesses. Covers working capital or equipment.

Terms: Up to $200,000 for 3 years at 8% interest, not to exceed 40% of round/amount being raised. Business must create 1 full-time job within every three years for every $30,000 borrowed.

Business Energy Savings Program

Offers a $400 grant toward an Energy Audit and low-interest financing to help small and medium businesses become more energy efficient. Businesses must participate in one of a selection of activities to be considered (e.g. install energy-efficient equipment).

Terms: Financing up to $50,000 at 3% interest for up to 5 years.

Pittsburgh, PA
Incentives and Economic Development Programs

TIF & TRID (Tax Increment Financing & Transit Revitalization Investment District)	Financing tools used to foster large-scale redevelopment and public improvements through the issuance of bond or bank loans that are repaid by future tax increment resulting from the new development. **Terms:** Terms and conditions vary.
Commercial LERTA Real Estate Tax Credit	Targets commercial districts in the city, offering up to $50,000 in city tax credits for new construction or renovation of commercial space. The City also offers a Residential LERTA program for residential development locates within four neighborhoods in the City. **Terms:** Terms and conditions vary. The City works closely with applicants to navigate the application process.
Local Economic Stimulus Abatement	Offers a 10-year tax credit applicable to renovation or new construction of residential, commercial or industrial uses citywide. **Terms**: Up to $250,000, total construction must cost at least $1,000,000.
Act 42 Tax Abatement	Offers a full, reduction up to $250,000 in assessed value due to new construction or renovation. Applicable for both the City of Pittsburgh and the Pittsburgh School District for for-sale or rental residential property. The Enhanced program only applies to properties located in one of 28 defined neighborhoods. **Terms:** Terms and conditions vary.

Pittsburgh, PA
Incentives and Economic Development Programs

Façade Improvement Programs

Pittsburgh offers a few different façade improvement programs including programs targeted at commercial districts in the city through storefront renovations, as well as renovations for properties in cultural districts. The LIFTS program helps small businesses and property owners cover up to 40% of the improvement costs and provides Honeycomb Credit (crowdfunded funds) to finance the remaining costs.

Terms: Terms and conditions vary.

Allegheny County Gaming Economic Development Fund

Offers grants and loans to businesses, governmental and non-profit organizations for economic development projects that promote local economic activity and create and/or retain jobs as well as for Infrastructure, workforce development, and other public improvement projects in the county .

Terms: Project budget must be at least $500,000. Terms and conditions vary.

Allegheny County Community Infrastructure & Tourism Fund

Offers grants and loans to businesses, governmental and non-profit organizations to carry out significant infrastture projects. Funds can be utilized for acquisition and development of a site for future desired use.

Terms: Terms and conditions vary.

Montgomery County, PA
Incentives and Economic Development Programs

Local Economic Revitalization Tax Assistance (LERTA)	State law that enables local authorities to exempt property tax assessment related to new construction and redevelopment of deteriorating industrial and commercial business property in economically distressed areas. **Terms:** Duration and level of benefits vary
Keystone Innovation Zones (KIZ)	Tax credits equal to 50% of a company's increase in gross revenues up to $100,000 annually for for-profit companies less than eight years old in target industries. **Terms:** Up to five years.
Keystone Opportunity Zones (KOZ)	State and local tax benefits available to businesses located or partially located in zones designated by the Governor of Pennsylvania. Terms: Duration and level of benefits vary
Tax Increment Financing (TIF)	A special tax (typically sales) levied or a portion of incremental taxes diverted to raise funds for public infrastructure or other improvements needed in order to enable new development projects in designated districts. **Terms:** Duration and level of benefits vary.

Montgomery County, PA
Incentives and Economic Development Programs

Montgomery County Opportunity Loan Program (MCLOP)	Gap financing loan equal to the lesser of $250,000 and 50% of eligible project costs. **Terms:** Duration and level of benefits vary
MontcoWorks	Administers workforce development programming and funds available through the Workforce Innovation and Opportunity Act (WIOA) of 2014 **Terms:** Duration and level of benefits vary
PA Industrial Development Loan Program	Low-interest loans and lines of credit for eligible project costs for companies in qualifying industry sectors. **Terms:** Duration and level of benefits vary
PA Brownfields Program	Low interest loans available for remediation of sites for redevelopment and water management. **Terms:** Duration and level of benefits vary

Camden County, NJ
Incentives and Economic Development Programs

Payments-in-Lieu-of-Taxes (PILOT)	Property tax abatement granted to developers by municipalities to incentivize residential, commercial and industrial development in distressed areas or for redevelopment of existing properties. By lowering tax expense, the program also provides an increase in the fair market value of the improved property. **Terms:** 5 to 30 years
Urban Transit Hub Tax Credit	Tax credits equal to 100% of capital investments for large-scale redevelopment or relocation in one of the nine urban municipalities in New Jersey including Camden City. **Terms:** Applicable to investments made over an eight year period. Up to 10% of the credit amount can be applied to corporate business tax, insurance premium tax and gross income tax liability over a 10 year period.
Urban Enterprise Zones (UEZ)	Tax reduction and exemption to incentivize job creation and capital investments for qualifying companies in designated zones throughout New Jersey. **Terms:** Duration and level of benefits vary
PSE&G Area Development Urban Demand Utility Credit	Tax credit available to businesses for energy conservation, that can reduce a company's energy bill by 5-13%. **Terms:** Duration and level of benefits vary

Camden County, NJ
Incentives and Economic Development Programs

Grow New Jersey Assistance Program (Grow NJ)	Tax credits offered to businesses for creation and retention of jobs in New Jersey. Benefits range from $500 to $5,000 per job per year with bonuses available in targeted industries and locations. **Terms:** Up to 10 years for each new or retained job.
Sustainable Development Loan Fund	Low interest loans of up to $500,000 for businesses that support and advance sustainable actions. **Terms:** Duration and level of benefits vary
Smart Growth Redevelopment Fund	Low interest bonds for qualifying businesses and municipalities for redevelopment site preparation costs up to $1 million. **Terms:** Duration and level of benefits vary
Camden City Brownfields & Contaminated Site Remediation Program	Reimbursement funds for remediation and redevelopment of contaminated sites up to $250,000 or 75% of costs. **Terms:** Duration and level of benefits vary

Camden County, NJ
Incentives and Economic Development Programs

Business Employment Incentive Program (BEIP)	Tax credits offered to businesses for creation and retention of jobs in New Jersey. Benefits range from $500 to $5,000 per job per year with bonuses available in targeted industries and locations. **Terms:** Up to 10 years for each new or retained job.
Business Retention and Relocation Assistance Grant (BRRAG)	Grants of up to $1,500 per employee for businesses considering relocation out of New Jersey. Funds can be used for relocation within the state to a new or rehabilitated facility. **Terms:** Duration and level of benefits vary. Businesses must remain in the new location for a minimum of five years and retain a minimum of 50 jobs.
Economic Redevelopment and Growth Program (ERG)	Tax credits for residential, commercial or mixed-use developments as gap financing to cover project costs. **Terms:** Up to 10 years ; the level of benefit varies.