



PENN IUR BRIEF

Philadelphia's Triumphs, Challenges and Opportunities

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Photo by Joseph Wingefeld, via Flickr.



Introduction

The second half of the 20th century was largely characterized by an exodus out of the great cities of the industrial age, and the consequent growth of the suburbs. Philadelphia saw its population decline from 2.1 million in 1950 to 1.6 million in 1990, with accompanying declines in its economic base, public safety, and the fabric of many of its traditional neighborhoods. Despite widespread predictions about the continuation of this state of affairs, Philadelphia has joined many cities in reversing this trend. In fact, current economic and societal preferences, when viewed in a broader historical context, suggest that the post-war period of suburbanization may have been an aberration, with today's younger generation of Americans increasingly seeking the amenities and opportunities of urban life.

Despite these broader trends, the mixed experience of American cities suggests that this progress was in no way inevitable for Philadelphia. Instead, a series of public choices and commitments have helped to restore confidence in the City's government, re-position the City's employment base, and improve quality of life for citizens. Together, these improvements have allowed Philadelphia to compete as a location of choice for residents, as evidenced by, for the first time in decades, eight consecutive years of population growth.

Despite these gains, Philadelphia still faces considerable challenges as it seeks to continue its momentum. These include issues of shared economic prosperity, public education and safety, and fiscal management. None are likely to be solved by the urbanist trends described above alone, but instead will require political will and concerted action on the part of the City and other actors. Fortunately, however, Philadelphia has begun to benefit from self-reinforcing cycles of investment and improvement as it increasingly becomes a place of choice, and opportunities exist for bold action to continue this progress.

Evolution of a City: Philadelphia's Triumphs

Philadelphia's years of population and economic decline led to a municipal fiscal crisis at the onset of Mayor Edward Rendell's administration in the early 1990s. A combination of reforms to spending, union contracts, and tax policies led by Rendell and instituted over the course of Rendell's two terms as Mayor, helped to right the ship and allowed Philadelphia to emerge from near bankruptcy. As a result, the City began to develop a newfound optimism about its future in the late 1990s. Rendell spearheaded a downtown redevelopment strategy built around Arts and Culture (notably the development of the Avenue of the Arts) and hospitality (including the opening of the Convention Center and increased amenities for visitors). This, buttressed by a "clean and safe" strategy, enlivened the City's downtown business district that had previously been dormant after 5 pm.

This strategy, along with Philadelphia's strength and anchor institutions in eds and meds, continues to this day to drive the transition from traditional sectors like manufacturing to a service economy. Education, medicine, hospitality, and professional and business services are now driving job growth within the City, offsetting the continued declines in manufacturing¹.

The physical deterioration that occurred through the decades of decline has also begun to be addressed. The administration of Mayor John Street from 2000 to 2008 distributed public investment more broadly through the Neighborhood Transformation Initiative (NTI). This program spent nearly \$300 million to encourage clean and safe neighborhoods and to create housing opportunities through extensive demolition and construction, paving the way for additional private investment. Investment was also aided by the ten-year tax abatement on improvements to real estate, which, along with the work of the downtown business improvement district, catalyzed Center City development, building on the momentum of the Rendell years.

Current Philadelphia Mayor Michael Nutter has been at the City's helm since 2008. Starting in a period of a national recession, he has been able to bring about continued city-wide growth through improvements in public

safety, educational outcomes, pension funding, investments in place-making and a quality-of-life strategies focused on green infrastructure and amenities. In addition, the City has made great strides on transparency and ethics aimed at increasing trust in municipal functions. The City has also sent clear signals of inclusivity through executive and legislative action on issues like immigrant and LGBT rights.



Aerial view of the Philadelphia skyline at sunset. Image source: Bob Snyder via Flickr.

The City and SEPTA have also largely addressed key transit concerns with increased funding allocation provided by the State and record ridership in 2014. This renewal has fed off of and generated demand for the type of amenities that make cities an attractive place to live. The list of new restaurants, pop-up gardens, public spaces and trails continues to grow each year, allowing the City to compete with not just its own suburbs but other great cities as a place where people choose to locate and settle. Philadelphia's quality-of-life improvements have dovetailed with broader societal trends driving renewed interest in cities. Younger workers in particular have shifted away from the car-driven suburban lifestyles of their parents, leading to a repopulation of urban cores and public transit dependent lifestyles.

This so-called "demographic inversion" away from the suburbs has been borne out in Philadelphia where the extended downtown core grew 16% between 2000 and 2014². Philadelphia now represents one of the largest residential downtowns in the country; the majority of these residents walk or take public transit to work, and a growing number take advantage of the City's growing bike infrastructure³.

Taking Stock of Philadelphia's Challenges

Despite this progress, large, structural challenges remain for the City. Notable among these are entrenched poverty, public education, public safety, affordable housing, and municipal pension obligations. Many of these issues do not lend themselves to incremental solutions, nor are they likely to simply disappear based on the urbanist trends described above. Instead, the City's major policy challenges, listed below, will require political will and concerted action on the part of the City and other actors.

- **Poverty:** Despite a relatively successful weathering and recovery from the great recession, Philadelphia's poverty rate remains 26%, the highest among the ten biggest cities in the country, and representing about 400,000 Philadelphians⁴. Further, in Philadelphia poverty is unequally distributed by neighborhood and by demographic group, with 29% of African-Americans and 44% of Hispanics in the City living in poverty, as compared with 19% of Caucasians. In addition, 36% of Philadelphia's children live in poverty, meaning that children in Philadelphia are disproportionately represented among those living below the poverty line. The City has made some strides with its Shared Prosperity agenda, a strategy aimed at fighting poverty in the city. And while the City's economy has developed some growth sectors, and the population is increasing, the total number of jobs in the City has been functionally flat over the past decade and a half. Growing the employment base within the City in a meaningful way is a key step to reducing poverty over the long-term.
- **Public Education:** Improving the City's public education system is essential to breaking the cyclical grip of poverty. In recent years, a series of fiscal crises have consumed the attention of the school district, which has developed a significant structural deficit due to reduction in State support and legacy costs associated with shrinking enrollment as the number of seats in public charters relative to traditional public schools continues to grow. In addition, the district's achievement scores are dismal. Currently, less than 50% of students in the Philadelphia school district are proficient in reading; likewise less than half are proficient in math. The issue of public education is essential for creating opportunity



for current students, developing a skilled workforce, and retaining the young millennial workforce as their children reach school age. Philadelphia must establish a consistent and adequate funding level, and must address the City's dismal student achievement scores, which lag significantly behind state averages.

- **Public Safety:** Safety has long been an issue of central concern in Philadelphia, with violence affecting the lives of many residents and impeding economic development in many areas. The City's murder rate has declined significantly in the past two years to approximately 250 per year, but still remains the highest per capita among the nation's ten largest cities. Violent crimes remain at 69,000 per year, and are unevenly distributed throughout the City⁵. Just as improving public safety was a necessary condition for the revival of Philadelphia's downtown, safety is a central issue in empowering and encouraging investment in Philadelphia's neighborhoods.
- **Affordable Housing:** As Philadelphia's population has grown and certain neighborhoods have become increasingly desirable, the provision of affordable housing for the City's residents has become an increasing challenge. The Philadelphia Housing Authority currently has more than 78,000 residents on its housing waiting list— more than two residents for every unit in operation. Public policy makers are seeking to incentivize the private market to participate on a more robust basis in the affordable housing market. In addition, as housing prices respond to market conditions in improving neighborhoods, policies must be in place to enable existing residents to capture benefits from that value and minimize displacement where possible.
- **Municipal Pension Obligations:** Despite an upgrade in the city's general obligation ratings, from a fiscal standpoint the dominant concern on the City's balance sheet remains an unfunded pension obligation of more than \$5 billion (with current assets representing only 46% of total obligations)⁶. This sum not only represents an expense passed onto future generations, but state mandated payments consume 15% of the City's general fund on an annual basis. While the City has enacted reforms to encourage new hires to enroll in a defined contribution plan to reduce future City liabilities, this option is infrequently exercised and does not reduce the existing obligation. A dedicated strategy to address this issue is necessary to prevent pension costs from crowding out the public investments needed to sustain growth moving forward.

Opportunities

Despite Philadelphia's challenges, the City has the ability to compete as a residential location of choice. Residential investment can, in many cases, be driven by the internal perception of neighborhoods, with individual homeowners willing to invest in part because of their impression of the area. This process can result in a virtuous cycle of improvement that has already taken root in many Philadelphia neighborhoods, and continues to radiate outward from the downtown core. Continued progress, therefore, to some extent requires leaders and residents to set aside preconceived notions about the City's limitations, and instead adopt a bold vision of future possibilities. Major opportunities for progress include:

- **Waterfront Development:** Despite recent progress, both the Delaware and Schuylkill Rivers remain severely underutilized resources for the City. Burying I-95 below ground and thus removing the significant physical and psychological barrier between the City's downtown and the Delaware waterfront remains a substantial opportunity. Likewise, redevelopment of the Lower Schuylkill, including additional connections to the trail-ways that have already proven popular along other portions of the river offer significant opportunities.
- **Tax Reform:** Numerous high profile analyses have identified Philadelphia's tax structure as a major impediment to economic growth, and successive administrations have embraced this concept



yet implemented only incremental changes. Philadelphia has the opportunity, through a number of proposals that have been advanced into the public dialogue, to alter its tax structure in a way that improves the incentives for profitable firms to locate and stay in the City as they grow, without suffering adverse revenue effects or shifting the burden to the City's residents.

- **Innovation and Higher Ed linkages:** One of Philadelphia's historic strengths has been the concentration of higher education institutions in the city and region. Recent research has demonstrated that strength in the innovation economy is driven not only by the talent of individual researchers and entrepreneurs but by the ecosystem in which they operate, including economic, physical and networking assets. Philadelphia and its anchor universities having increasingly realized the importance of public and private sector linkages around knowledge creation, which can reflect across a variety of growing industries (energy, IT, medicine, etc.). The new Pennovation Center, which mixes university research with entrepreneurs in the same physical space, is an illustration of the City's potential in this area.

After decades of dwindling population, Philadelphia has proven itself to be a city capable of progress and growth. The City's visionary leaders, in both the public and private spheres, have helped to shape the thriving Philadelphia that exists today. But there is much work to be done. Moving forward, Philadelphia's leaders must take stock of the City's considerable challenges and build upon its significant strengths. With strong leadership in coming years, Philadelphia has the potential to enter into a new and exciting era of inclusive, sustainable, urban growth.

This brief summarizes the findings of two recent papers:

Acolin, Arthur, Voith, Richard P., and Susan M. Wachter. "City and Suburbs - Has There Been a Regime Change?" Penn IUR White Paper (2016): http://penniur.upenn.edu/uploads/media/City_and_Suburbs_%E2%80%93_Has_There_Been_a_Regime_Change.pdf.

Voith, Richard P., and Susan M. Wachter. "Urban growth and housing affordability: The conflict." *The Annals of the American academy of political and social science* 626.1 (2009): 112-131.

¹ As identified by Pew Charitable Trusts analysis of Bureau of Labor Statistics data in *Philadelphia 2015: The State of the City*

² As reported by Center City District in *State of Center City 2015*

³ As reported by Center City District in *State of Center City 2015*

⁴ As reported in Pew Charitable Trusts analysis of American Community Survey data in *Philadelphia 2015: The State of the City*

⁵ As reported in Pew Charitable Trusts analysis of Philadelphia Police Department data in *Philadelphia 2015: The State of the City*

⁶ According to Pennsylvania Intergovernmental Cooperation Authority (PICA) analysis, as of January 2015, reported in *Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability*