

Sheltered from the Storm?

Signs of slowdown are everywhere. Professional services firms downtown are shedding staff; hotel occupancy has dropped; retailers are struggling and local government is contemplating Draconian cuts. While economists differ on the duration of the recession, most agree it will get worse before it gets better. But as bad as news has been, there are definite bright spots: Philadelphia has performed better than the national economy; our housing market is light-years from the collapsing conditions in speculative exurbia; and municipal government's fiscal woes neither mirror nor are symptomatic of structural weaknesses in the local economy.

Employment

The Bureau of Labor Statistics reports that total non-farm employment nationally declined by 2.9 million in 2008. While the U.S. economy shed 2.1% of its jobs, Philadelphia was down 0.9% in 2008, losing just 6,000 jobs. Center City office buildings ended 2008 with historic highs in occupancy and rents. Education and health care, our largest sector, closed the year with employment up 1.5%. National losses accelerated in the last three months with 598,000 jobs shed in January alone. But again, Philadelphia experienced a less precipitous decline though office subleasing was up. Are we sheltered from the storm or merely late in experiencing its inevitable onslaught?

"The past three months have seen a precipitous drop in production, a staggering loss of jobs, and an unprecedented decline in consumer spending... Unfortunately, the limitations of economic data make it peculiarly difficult to understand what all these grim statistics portend. Think of riding in a car faced backwards, that's a fair analogy of how economic indicators work."

Jon Roberts, Resetting the Economy, February 13, 2009, www.tipstrategies.com

Housing

The New York Times recently portrayed an exurb of Fort Myers, Florida as a "crossroads of foreclosure and despair," with houses selling at 80% below their peak prices. But, home prices in Philadelphia declined just 10.1% from the market peak in 2006, compared to drops of 11.9% in New York, 12.8% in Boston, 13.7% in Chicago, 32.2% in Los Angeles, 38.3% in Miami, 39.3% in Las Vegas and 40.6% in Phoenix.

In Center City, where 40% of residents walk to work, average home prices declined by only 1.1% between 2006 and 2008 and are still 34% higher than 2003 averages. Condo prices were 66% higher than in 2006. Houses in Philadelphia are also selling faster today than in all surrounding suburbs. Downtown houses sold by brokers in 2008 were on the market on average only 9 days longer than in 2006. So too, foreclosure rates in the city in 2008 were just 1%, far below struggling areas like Miami, Phoenix and Las Vegas.

Retail

Discretionary spending is the first to fade and some of the highest profile national job losses have come from downsizing chains. Many publications quoted the prediction by the International Council of Shopping Centers that 150,000 stores will shutter nationwide this year. But few noted the postscript: an estimate that 105,000 to 110,000 new stores will also open. Consider this: even as fine dining restaurants in Center City grew from 175 in 2000 to 221 in 2007, an average of 17.8 restaurants closed in each of those years. But during that period, an average of 29.5 new dining establishments also opened each year. So indeed, there are vacancies on commercial streets, but that's neither new, nor a sign of impending doom. What's new is that the volume of businesses willing or able to get financing to replace them has dropped. But as 2008 ended, there were still fewer vacant premises in the CCD than at the end of 2007, and as noted on page 6, new retailers are still opening.



Will ominous, economic storm clouds continue to pass by or make a direct hit on Philadelphia?

Semantic problems

Over-extended journalists at shrinking local newspapers have echoed national recession stories, latching onto hometown examples that follow the national pattern. But there's been little digging to determine if area trends tell a different tale. Gloom has been exacerbated too, by the tendency to confuse the public enterprise called "the City of Philadelphia" with the private sector economy operative in the place called Philadelphia. Municipal government is an important 28,000 person enterprise; but there are 557,000 private sector jobs within the same boundaries that government serves.

The recession has meant that tax revenues projected by the City of Philadelphia for their July 1, 2008–June 30, 2009 budget have fallen short. Both the City and the Pennsylvania Intergovernmental Cooperation Authority (PICA) report that wage, transfer, business and sales taxes were all below the levels that the City had projected they would be on December 31, 2008. But PICA also notes that in actual terms, wage tax revenues (the City largest source of revenues) were up 3.04% between July and December 2008 over the first half of the year. Since the city lost fewer than 1% of its jobs in 2008, wage increases in remaining jobs probably explain the modest increases in tax revenues.

Seeing Through the Fog

Philadelphia's municipal fiscal crisis thus does *not* result from precipitous job losses *nor* from plummeting real estate values (which actually inched up 0.3% between 2008 and 2009). Rather, municipal woes are driven by three factors:

- a 25% decline in value of the City's pension fund investments, forcing a diversion of \$239 million from operations to meet fixed pension obligations;
- a 31.2% decline (\$58.3 million) in real estate transfer taxes, a result of reduced transaction volume, not falling prices;
- a 17.4% drop (\$77.2 million) in business privilege tax collections below original projections, a clear indicator of business slowdown.

Adding to the confusion is PICA's requirement that the City present a balanced five-year forecast. While this discourages gimmicks, it has led to talk of a \$1 billion shortfall, when this year's

deficit is just \$47 million out of a \$3.9 billion budget and next year's projected deficit is \$169 million.

Restarting the Engine for Growth

None of this minimizes the serious implications of the recession, the challenge of making cuts mid-year, nor should it obscure the profound systemic challenges Philadelphia confronts:

- a significant portion of our residents and their earning capacity is constrained by low levels of educational attainment;
- 24% live below the poverty level and because Philadelphia is both a city and a county, it must finance social and legal services that in Chester or Pittsburgh are partially funded by the suburbs;
- the city faces an \$866 million annual price tag for police, courts and prisons.

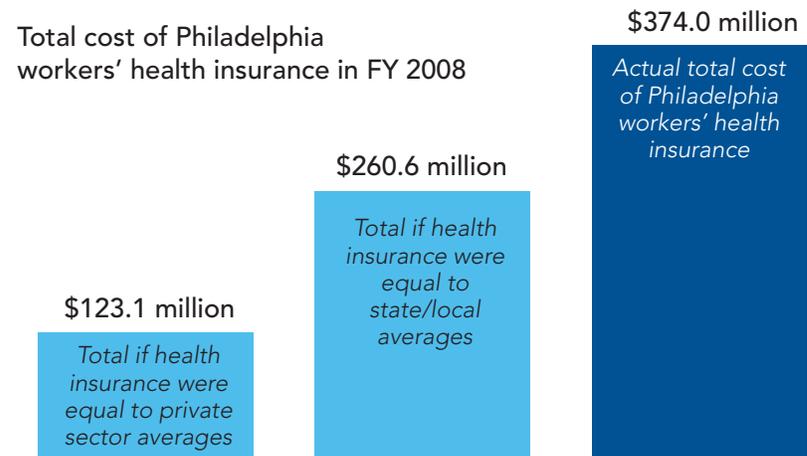
But since much economic behavior, from home purchases to business location decisions, is based on consumer and business *confidence*, everyone's rhetoric needs to be tempered if indeed the sky is not falling.

There are important distinctions between *civic education* to prepare voters for tough budget choices and *investor marketing* to stimulate the private economy. So far, Philadelphia fundamentals have proven sound: a diversified economy, extraordinary education, research and health care institutions, an excellent regional workforce, a very competitive cost of living, a regional transit system that brings over 300,000 riders downtown each day, and dense, walkable neighborhoods that are holding up better than auto-dependent exurbs. So as the 28,000-person municipal government prepares to address its challenges, it must be extraordinarily careful not to adversely impact the employers of 557,000 other workers.

PHILDELPHIA'S QUIET CRISIS (CHART 1)

According to a recent Pew Charitable Trust/Economy League of Greater Philadelphia study, Philadelphia municipal worker health benefits are 44% higher than state and local government averages and three times typical private sector costs in the region.

Worker group	Number of employees	Health insurance cost per person	Total cost (millions)
IAFF (Fire)	2,270	\$17,328	\$39.3
FOP (Police)	6,851	15,636	107.1
AFSCME DC 47	3,360	11,709	39.3
AFSCME DC 33	10,000	11,709	117.1
City-administered plan	6,220	11,430	71.1
City totals	28,701	13,030	374.0
State/local averages		9,082	
Private sector averages		4,292	



SOURCE: The City of Philadelphia Five Year Financial Plan, Fiscal Year 2008–Fiscal Year 2012 (including Fiscal Year 2007), as approved July 25, 2007, 82-86. Comparison data is from the Bureau of Economic Analysis 2007 data released September 2007.

Never waste a crisis

Last year, The Pew Charitable Trusts and the Economy League of Greater Philadelphia warned that municipal employee benefits were triple the cost of private sector benefits with 3 of 4 municipal union contracts requiring *no employee contributions* (see chart 1). Between 2002 and 2007 these costs increased by 80% and now consume 10% of the entire city budget.¹ Municipal employees also enjoy guaranteed pensions to which they make minimal contributions.² By contrast, 85% of workers who live in the city are employed in the private sector and long ago began making matching contributions to their 401(k)s. As the stock market fell, there has been no government bail-out for their shrinking retirement accounts.

Avoiding the Problem

Between 2002 and 2007, there was extraordinary growth in the two taxes — transfer and BPT — that are prime culprits in today’s fiscal crisis (see chart 2).³ But instead of using this windfall to explore a rainy day fund or pay down the pension fund liability, the prior Administration used rising revenues to paper over the problem. Now, that problem has come home to roost.

Today’s Cuts

The Nutter Administration’s November response was to make service cuts and suspend the planned wage and business tax reductions. With financial conditions worsening, the City is now forced to consider Draconian cuts. In the reduction scenarios that Mayor Nutter is presenting at public forums, most focus on cuts in personnel — 929 police, 163 fire fighters, 110 sanitation workers, 67 librarians, and 85 park and recreation staff. But there has been little public discussion of *reducing the cost* of these employees going forward and/or delivering the same services at lower costs by privatizing. These are third rail issues in Philadelphia politics and the reluctance to touch them could easily push the Mayor and City Council towards tax increases.

The Mayor’s budget presentation quotes Wharton economist, Robert Inman’s cau-

GROWTH RATES OF CITY TAX REVENUES (CHART 2)



Philadelphia’s primary tax revenues — wage, property and sales — which account for 70% of locally generated tax revenues, remained very stable from 2000 to 2008, while business and transfer taxes spiked.

tion: “Increasing the City’s business tax rate will result in revenue increases in the short term, but a reduction in revenues in the long term — because businesses become less likely to stay or move to Philadelphia.” So too, increasing the wage tax would undo a decade’s march towards competitiveness. Playing with our share of state gaming revenues without having opened a casino is likely to produce a punitive response from Harrisburg. So the Nutter Administration faces unpleasant options whichever way it turns. But if there ever was a crisis not to waste, this is it.

Laying the Groundwork for Growth

As local government prepares to prune a lot of branches, it should also be prompting new growth and recovery. Federal stimulus legislation defines “shovel ready” as placing at least 50% of funds under contract for activities initiated within 120 days after the passage of the Act. While this time frame is too short to start truly transformational investments, federal funds will enable

PennDOT, SEPTA and the City to address many deferred capital repairs immediately, freeing up resources for longer-term projects. Though this will quickly generate engineering and construction jobs, none of this immediately helps the City’s fiscal challenge. But it does create two major opportunities: since *infrastructure* is now on the national agenda, this is a moment for business, civic and political leaders to think more strategically about investments that can truly lay the groundwork for 21st century growth. And if 18 years of CCD experience teaches anything, it’s that highly visible improvements in the public environment can boost local confidence and spur countless private investment decisions. Large scale and small: both are needed, but there’s little time to waste.

Paul R. Levy
President

plevy@centercityphila.org

1 Philadelphia’s Quiet Crisis: The Rising Cost of Employee Benefits available on-line at <http://economyleague.org/node/94?f=publications/reports>

2 The implications are huge since there are already 34,000 retired pension recipients and only 29,000 active municipal employees.

3 In 2007, 41% of all transfer tax collected was generated in Center City and three quarters of this came from the sale of residential properties.

The 2009 CCD Budget

The Center City District directly bills and collects assessments from 5,118 properties within its boundaries. While the number of residential condos has continued to grow, the office sector generates 66% of all CCD assessment revenues; and 200 large properties pay 79% of District charges.

Assessment revenues are used exclusively to fund services and physical improvements within the boundaries of the CCD with 71% devoted to keeping downtown clean, safe and attractive. The CCD also receives revenue from other sources, such as fee-for-service contracts, foundation, state and federal grants and management agreements.

All owner-occupants of condominiums who purchased after September 13, 2005 are required to pay the charge just like every other taxable property that benefits from District services. The average condo owner is charged \$1 per day. Unlike the City of Philadelphia, the CCD does not grant the ten-year tax abatement to any type of property.

Charges are calculated by a formula established by City Council ordinance. A charge is set by determining the ratio of the assessed value of each individual property to the total taxable assessed value of all properties in the district. (For 2009, the total assessed value of all properties within the district is \$2,032,659,744.) That ratio is multiplied by the total annual amount of assessments billed by the CCD, a number approved by District property owners and by City Council. In 2009, the amount billed is \$14,535,000.

For example, if a property is assessed by the Board of Revision of Taxes at \$100,000, the CCD calculation for 2009 is as follows: $\$100,000 \div \$2,032,659,744 = 0.0049196\%$ x \$14,535,000 = \$715.06 (Total CCD assessed charge for 2009 would be \$715.06.)

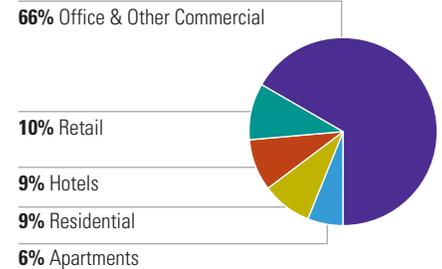
If you are a resident and have questions about the policy or your bill, contact Beck Davis at 215-440-5570 or email beck@centercityphila.org.

For more information about the many services the CCD provides to Center City property owners, visit www.CenterCityPhila.org, or contact Ivy Pete at 215-440-5507, or via email at ivy@centercityphila.org.

Property statistics for 2009

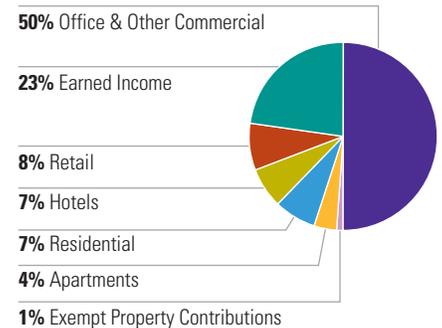
- The top 15 properties pay 29% of total program cost, with an average charge of \$254,200.
- The top 200 properties pay 79% of total program cost, with an average charge of \$57,528.
- The lowest annual charge is \$1.14.
- The highest annual charge is \$415,314.
- The typical Market Street West office building pays \$188,769.
- The average hotel pays \$55,203.
- The average Chestnut Street Property pays \$2,213.
- The average Walnut Street property pays \$2,468.
- The average retail property pays \$1,806.
- The average residential property charge is \$362.

2009 ASSESSMENTS BY PROPERTY CATEGORY



Total Assessment Billing: \$14,535,000

2009 REVENUE FROM ALL SOURCES



Total Revenue: \$17,982,150

WHERE THE MONEY GOES



2008 Operating Budget: \$17,982,150

Center City District Restaurant Week

Due to popular demand from both patrons and restaurants, Center City District Restaurant Week was extended five additional days, adding the week of February 1-6 onto the previously planned period of January 25-30.

Organized by the Center City District and Rittenhouse Row as a way to highlight Center City's impressive array of established and new restaurants and promote night life, the event affords diners the opportunity to try new restaurants. Restaurant Week also offers patrons a great value, requiring each establishment's three-course \$35 prix-fixe menu to have a value of at least \$55. Some participants have even added a fourth course.

Over 100 restaurants participated in week one and 80 restaurants continued the promotion through the second week.

The Philadelphia Parking Association and Philadelphia Parking Authority also worked together again to offer discounted parking of \$9.00 or less at dozens of lots and garages from 5:00 p.m.–1:00 a.m.

Since its inception in September of 2003,



Weaver Lily

the eleven Restaurant Weeks have generated over \$16.4 million in sales for participating restaurants and pumped even more into Center City's economy, as diners remain in Center City to enjoy

everything that Philadelphia's downtown has to offer. This year's two weeks are estimated to have generated \$7–8 million in sales.

TreeVitalize Grant

With a grant from Pennsylvania's Department of Conservation and Natural Resources, the CCD is analyzing why trees are dying along Chestnut Street. Originally installed in 1999 by a contractor working for the City of Philadelphia, the planting trenches have been sinking and trees have not fared well.

In early January, CCD excavated four separate trenches: three on the 1500 block of Chestnut Street, and one on the 1600 block of Walnut Street. Soil conditions were tested and each location was restored using a different depth and mix

of soils. The four areas will be monitored over the next six months to determine which type of soil best supports the health of the trees in an urban environment.

CCD is partnering on this project with the Pennsylvania Horticultural Society, Lager Raabe Skafta Landscape Architects, a Center City design firm, and Bartlett Tree Experts.

Project findings will be available on the Center City District website in June of 2009.

Project Management

- Center City District
- Project Partner: The Pennsylvania Horticultural Society
- Site Design: Lager Raabe Skafta Landscape Architects
- Soil Testing: Bartlett Tree Experts
- Soil Testing: Arvest Associates, Inc.
- Soil Testing: Agronomic Experiment Station
- Soil Testing: Laboratory

Test Site Locations

What?

- The project is funded by a grant from TreeVitalize, a public-private initiative created by the Commonwealth of Pennsylvania through the Department of Conservation and Natural Resources.
- This TreeVitalize project will establish how to enhance the health of our street trees through the improvement of soil conditions within tree trenches. Soil conditions greatly influence the amount of water, air and nutrients available to a tree.

Why?

- The Center City District currently maintains over 800 street trees in downtown Philadelphia and our goal is to determine the best management practices to ensure the health and vitality of the trees in our context.
- This project supports TreeVitalize's goal of increasing public awareness of the importance of community trees and reversing the loss of tree cover in Pennsylvania's metropolitan areas.

How?

- Current soil conditions will be tested and analyzed.
- Trenches will be retrofitted to include structural soils and other soil amendments.

CCD CENTER CITY DISTRICT

For more information about the Center City District, please call us at 215-448-5100 or visit www.CenterCityPhila.org

Attracting New Retail to Center City



In the last half of 2008, some well-known names joined the ranks of retailers in Center City. True Religion, the trendy, high-end jeans retailer, opened their 36th branded store in 1,600 square feet on Walnut Street. "We are confident that Walnut Street's upscale reputation, complementary retail partners and high traffic attributes will support the True Religion brand well," said Jeffrey Lubell, chairman and chief executive officer of True Religion Apparel, Inc.

Further up Walnut Street, Vancouver-based lululemon athletica also opened recently. Lululemon is a lifestyle retailer that sells high-end, high quality yoga inspired athletic wear and accessories. Part of their corporate philosophy/business strategy is to reach out into the athletic community with ambassadors, holding complementary classes, etc.

Their goal is to provide value beyond the merchandise and to create a social experience.

On the corner of 17th & Walnut Streets, Juicy Couture opened in early February. The boutique carries apparel and accessories for women and pets. Other notable national retailers coming soon to Walnut Street will be Barneys Co-op and Theory.

Locally, Philadelphia-based designer Zahra Saeed previewed her debut collection and opened her flagship store on

19th & Walnut in late February.

DelFrisco's Double Eagle Steakhouse continued the trend of reusing former bank spaces and opened at 15th and Chestnut Street.

Early in 2009, Union Trust and Chifa opened on the 700 block of Chestnut Street, adding to the existing mix of nearby successful restaurants such as Jones, Aqua, Morimoto and La Scala's.

To sustain momentum in challenging retail times, the Center City District, the Philadelphia Convention & Visitors Bureau, the Greater Philadelphia Tourism Marketing Corporation and the City of Philadelphia recently jointly funded a study of Center City's retail, analyzing current strengths and weaknesses and outlining a plan to attract new retail to Center City. In developing a proactive strategy, these organizations are partnering with brokers and major retailers to develop a comprehensive strategy that may include a database of available space, a dedicated retail website complete with demographic, development and retail trends, and possibly new financing tools to assist owners and tenants. The goal is to position Center City for a strong presence at the 2010 Spring International Council of Shopping Centers convention and continued growth in the retail sector.



National retailers True Religion (above) and lululemon athletica (below), seek Center City.

Philadelphia Magazine's Open House Promotion

Thinking about moving to Center City? With interest rates low, get a taste of the good life on April 25 & 26 when Center City District partners with *Philadelphia Magazine* to present their semi-annual open house event.

The promotion includes a special advertising section in *Philadelphia Magazine* featuring individual apartment and condo ads, along with editorial about Center City and other Philadelphia neighborhoods. It will also feature a map of Center City, showing participating property locations.

During the two-day event, participating properties will welcome prospective buyers and renters at open house tours.

Many locations will serve food, have entertainment and more.

Properties within CCD boundaries will have our Residential Welcome Kit on-hand for prospective buyers, highlighting all the amenities within easy walking distance. Restaurants, cultural attractions and retailers will also be paired with adjacent properties, highlighting the advantages of living in the center of everything.

For more specifics, visit our web site at www.CenterCityPhila.org.



Phlash Returns!

Phlash, the purple trolley that visitors and residents have enjoyed for the past five years, will be back again from May 1 to October 31, thanks to Governor Edward G. Rendell. Phlash is the economical way to circulate among the major sites of the city, from the historical area to the museums of the Benjamin Franklin Parkway. With a day-pass, passengers can get on and off as many times as they want for only \$5; a family all-day pass (including 2 adults and 2 children, ages 6–17) is \$10. Children under 6 and seniors ride free!

The Phlash will stop at over 20 locations, including a new location serving the National Constitution Center, African American Museum and family-friendly Franklin Square. Also new this year, the CCD, working in partnership with SEPTA, will be extending the PHLASH route to serve the Zoo and Please Touch Museum and will be accepting SEPTA fare instruments as well. Other key stops include the Independence Visitor Center, Penn's Landing and the Philadelphia Museum of Art. Service runs daily, 10:00 a.m.–6:00 p.m.

Driving into Center City? Park once, take Phlash to your destination, and receive a parking discount at participating facilities.



M. Kennedy for GPTMC



B. Kiser for GPTMC

Phlash has added stops at Franklin Square (left), and the Philadelphia Zoo (right).

For a list of Park & Ride locations and other Phlash-related information visit www.PhillyPhlash.com.

Phlash is funded in part by a grant from the U.S. Federal Highway Administration through PennDOT and DVRPC. It is managed by the Central Philadelphia Transportation Management Association.



CSR Gets Four Stars

Our employees go out of their way to make people feel welcome and safe in Center City. Still, it's always nice when people take the time to write about their experience. Here's an e-mail about Community Service Representative Selina Lockwood, who has been with the CCD for 6 months.

I am a former New Jersey resident who has lived in Atlanta for 40 years. Recently I have had the privilege of coming to Philadelphia for business. On one December day (without my topcoat) the cold wind took your breath away. I was looking for the Union League and not finding it.

CSR representative Lockwood not only straightened me out, she walked me four blocks to the front door.

She refused payment, and simply said to say good things about Philadelphia. She is a wonderful representative of your city and your organization.

Give her four stars, and thanks to all of you.



CLEAN & SAFE

CENTER CITY DIGEST

SPRING 2009

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Clean & Safe

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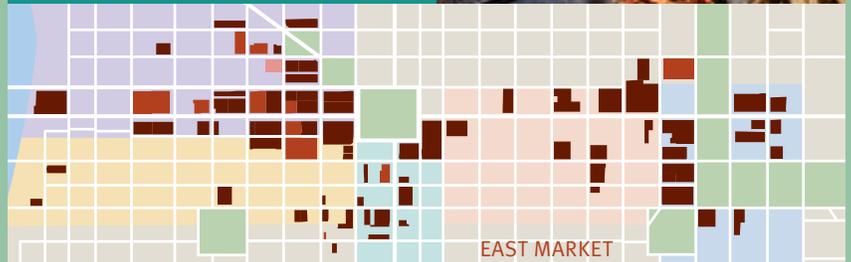
Center City District/Central Philadelphia Development Corporation are teaming up with KYW 1060 Newsradio to co-produce the "State of Center City" forum with Center City District President & CEO Paul R. Levy, several major downtown business leaders and KYW's Mike Dunn as emcee.

April 14, 4pm

The Union League,
140 South Broad Street
Philadelphia, PA 19102

Be the first to know how Center City Philadelphia is faring in today's challenging economy. Join us as we release our annual State of Center City 2009 report with updates on the key economic sectors and trends in the downtown economy.

STATE OF
CENTER CITY 2009



EAST MARKET

STATE OF CENTER CITY FORUM

The *Center City Digest* is a publication of the Center City District (CCD), a private-sector sponsored municipal authority committed to providing supplemental services that make Philadelphia's downtown clean, safe and attractive; and of Central Philadelphia Development Corporation (CPDC) with 50 years of private-sector commitment to the revitalization of downtown Philadelphia.