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# The Philadelphia Case Study

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## Overview

*I think what happened is that we stopped lamenting that Ed Rendell was no longer our mayor. And we stopped complaining that John Street wasn't Ed Rendell. Then a lot of us just looked around and saw all kinds of things that needed doing; so we figured if they were going to get done, we had to get up and do them ourselves.*

That is how one of Philadelphia's "new leaders" summarized one of two remarkable changes since we last assessed these cities in 1998: the transformation of the civic leadership climate in the City of Brotherly Love. The other is a surge of real estate development transforming Center City and spilling over into the neighborhoods. These and other advances led one breathless observer in *National Geographic Traveler* magazine in January 2006 to predict that Philadelphia would be "the next great American city."

One would certainly not have made such a prediction in the late 1990s, and, while things are clearly much better, some say it probably should not be made now. The city's economic, demographic and social fundamentals are still pretty bleak, and even though a new type of civic leadership has stepped into the vacuum, it cannot entirely substitute for an overarching vision from City Hall.

In the last eight years, Philadelphia has traded in much of its negative, pessimistic civic leadership corps for what is in effect a bifurcated leadership. The city has two groups of leaders marching in the same direction down the avenue, but on opposite sidewalks. Over here is Mayor John Street's administration, in its final year, African-American-led but diverse, feeling misunderstood and mistreated, unable to communicate effectively. Over there is the decentralized, often new, largely white business,

civic and community leadership, positive and bustling with projects. There seems to be relatively little contact or communication between these two groups.

To be sure, plenty of good things are happening in Philadelphia these days that can be attributed to the work of those marching on either sidewalk. This progress may well continue. But one wonders what will happen if they encounter a fork in the road, if one group wants to do something the other doesn't want to see happen, or if something needs doing that both support but that would require both to work in close harmony.

How much more good could happen if the mayor—or the next mayor—had the gene to project a vision and recruit others to it, getting both groups of leaders to march together down the road? As one of the founders of the fabled Vault, the business group that worked for several decades to improve Boston, told us eight years ago, "The whole thing starts with credible government."

A major Philadelphia nonprofit leader echoed that belief when interviewed this past fall: "The barrier to another decade of progress here is a lack of public leadership." Which makes 2007's mayoral election critically important.

Back in 1999, we said of the city's civic leadership:

*In Philadelphia, civic leaders are characterized as "second rate" and "disengaged," confining their civic duties to the level of "good works." Meanwhile, business is seen as fragmented and unwilling or unable to take real leadership in confronting the fundamental challenges to the city. Moreover, many of the city's leaders display an almost palpable "defeatist" mentality that undercuts great aspirations and leads to "settling for second best."*

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By that time, the city had lost a third of its population and 250,000 of the jobs it had at its peak. Its taxes were “disastrously” high—including the highest business taxes of any major city. There were an estimated 27,000 vacant houses and 20,000 vacant lots in mile after mile of semi-deserted, trash-strewn, crime-ridden neighborhoods littered with thousands of abandoned cars. In them lived half of Pennsylvania’s poor, most of them minorities. Schools were dismal, crime fearsome. And the city had recently only narrowly escaped bankruptcy.

Into that morass seven years earlier had stepped Edward G. Rendell. We said in our first report:

*It was a perhaps historic meeting of man and moment, for Rendell rose to the occasion as no one could have predicted. Through guile, optimism, and ferocious energy, he wrung unheard-of concessions from the municipal unions, brought the city back from the brink of bankruptcy, restored its credit rating, and produced seven straight years of modest budget surpluses relying on a minimum of gimmicks. Along the way, he completed the Pennsylvania Convention Center, ignited the city’s now burgeoning tourism business, won the 2000 Republican National Convention, built the city’s airport into first-class status, attracted Norwegian shipbuilder Kvaerner to the dry-docks at the federally abandoned Philadelphia Naval Shipyard, improved city services by privatizing or managing them better, attracted or retained good senior staff, presided over ten straight quarters of (very) limited job growth as opposed to the previous decade’s catastrophic job losses, and even began to reduce taxes.*

“Big Ed” was accorded near hero status—the “best mayor in the city’s history” and even “America’s mayor” (long before New York’s Rudolph Giuliani received that appellation in the

wake of 9/11). Rendell, however, told us and others, “What I did was stop the bleeding, but I haven’t really stopped the cancer eating at the city.”

## Mayor Street and his administration

Rendell was thus a very hard act for anyone to follow, and his successor, former City Council President John Street,<sup>4</sup> has generally—and not always fairly—received negative reviews.<sup>5</sup> Now entering the eighth and final year of his tenure (the City Charter limits mayors to two terms), the mayor remains an enigma despite a long career in public service.

A former senior city official said the mayor “tends to generate extremely opposite reactions.” He then offered one of the more balanced assessments we encountered:

*Street is a complicated human being. And, to be sure, any mayor would suffer in comparison to Ed Rendell. There’s a letdown effect. But Street is not a great speaker, doesn’t enjoy it, doesn’t see his role as marketing the city as Ed did. Street is very smart; he’s a public policy nut and gets into issues in excruciating detail. Street figured out how to get the two new stadiums done. He did a lot in the neighborhoods. But he is not perceived well among opinion makers even though he won election twice.*

An academic close to city affairs said:

*There is no single answer to how well he’s done. It’s better than the press would say on most days, but worse than his promise. He picks his friends badly; his inner circle is dodging prison terms.<sup>6</sup> He is smart as hell but really paranoid and really knows he has enemies. He never makes fast decisions, doesn’t speak publicly much, is still in some respects a Council member. He has no grand vision and makes no grand pronouncements.*

4 Despite several direct as well as indirect approaches through top aides, the mayor was unresponsive to requests for an interview for this study.

5 *Time* magazine listed Street as one of the nation’s three worst mayors in the same issue (April 18, 2005) that included the mayors of Baltimore and Atlanta, two other cities in this study, as among the top five mayors in the country. The story also named Mayor Kwame Kilpatrick of Detroit, another city in our study, as one of the nation’s worst.

6 The aforementioned *Time* magazine article said that the mayor’s close friend and fund-raiser, Ron White, partially took control of city contracting and turned the process into a shakedown for donations to Street’s 2003 re-election campaign. White died before going to trial, but former city treasurer Cory Kemp, a member of Street’s administration, and four other defendants were convicted on federal charges.

Present city officials might be expected to defend His Honor, but did so with sometimes surprising passion. They said the mayor, though a product of an insular, ward-based, corrupt pay-to-play system, was personally honest. "I don't need this job," said one, "and I'd be gone in a minute if I saw the slightest hint of dishonesty." Others pointed out that the mayor had made many of his senior appointments after national searches and that most of his senior appointees were of high quality and impressive diversity. He became personally involved in ending the strike of the Philadelphia Orchestra, and what he learned then about the importance of the arts led to his proposal for a \$150 million bond issue to be split between the arts and neighborhood commercial redevelopment. Some also give him credit for behind-the-scenes moves that saved the schools from being assigned entirely to a private contractor and led to a generally well-regarded state takeover.

Mayor Street is said to attend intently to city business; run regular, long, and detailed cabinet meetings; and delegate well to his senior managers. And, he is given credit for the city's progress on the unglamorous (and sometimes controversial) task of "rebooting itself"—reorganizing and combining agencies and combining and computerizing multiple and differing records still being maintained in pencil and paper (and sometimes crayon!).

One current city official said:

*I have complete confidence and admiration of him. He is one of the most undersold, undervalued, and underappreciated political leaders of my lifetime. It is incredible to me that after seven years people can't see through the complete negativism of the press to see his great contribution to the city. He is one of the most sanguine about all that, believing that if he continues to do the right thing, he will get credit eventually.*

Others pointed out that the mayor campaigned on a "neighborhood platform" and carried through on that promise. They feel that Rendell did good work on the big issues and on Center City issues but "never got" to neighborhood revitalization. Street did, mainly through his \$290 million bond-funded Neighborhood

Transformation Initiative. Some city officials felt that civic and business leaders often did not understand, pay attention to, or value its positive impact against some of the most intractable urban problems. For instance, oft cited was the removal of 30,000 abandoned cars, sometimes at the rate of 1,000 a day, which, the interviewed city officials felt, was a major accomplishment more understood and valued in the neighborhoods than by the elites of Center City. If the city did not demolish as many houses and clear, plant and fence as many lots as planned, the reasons, they feel, are entirely understandable. And they assert that more progress had been made here through the neighborhood initiative than in many other cities bedeviled by the same problems, and that progress continues.

On the other hand, many interviewees said that the mayor had a prickly and nasty personality, held grudges, and had an adversarial and antagonistic style. One said that Mayor Street sometimes opposed good ideas advanced by people he considered enemies. A civic leader said that the mayor seemed not to care about the business and civic leaders of Center City and did not return their phone calls. A corporate leader said that when the lease for his firm's Philadelphia headquarters was up for renewal and he was being wooed by the governor of another state, he had called the mayor's office but never got a call back.

Even those closest to the mayor admit to many of his faults and that his bad reputation and low ratings in recent polls are largely "self-imposed." A more important failing for an elected mayor than a prickly personality is the fact that Street seems to lack the gene that most elected executive branch leaders have of cheerleading, fashioning and communicating a vision, and reaching out to and recruiting stakeholders from all walks of life to join them in pursuing that vision. A former city official said Street is "not a good communicator" and is "never good at relationships, a whole part of the job he is lost at." Street, this former official said, "has never accepted the notion that it is part of leadership to work with the press and get it to carry your message; he is just not concerned with press relations."

## The new leadership climate

This brings us back to the remarks that opened this report. That same new leader went on to say, “Street’s reactive style has created a vacuum of leadership, and that has stimulated a large number of new civic networks and organizations that are taking on major issues.” At the same time individual business leaders and business groups, universities, and more established civic organizations of various kinds are exhibiting both greater activism and optimism. Both the new and older leaders reject the fatalism and negativism that we found so common eight years ago. Here we cite examples interviewees gave that represent the ferment of the new leadership climate:

**Community-based initiatives:** A Fresh Food Financing Initiative is working to bring more supermarkets into underserved neighborhoods in the inner city and across the state. The Campaign for Working Families is promoting full access for eligible residents to the earned income tax credit. A city councilman said he had recently attended a meeting of a new neighborhood association in his district that was led by new residents “pushing baby carriages” and committed to an agenda of neighborhood improvements. Several interviewees said that similar neighborhood groups were emerging all over town; and one of them said that such groups were behind the first-time community planning processes now under way in several neighborhoods abutting Center City, filling a vacuum left by the city’s lack of leadership in this area.

**Public policy networks:** Philadelphia Forward is a tax reform group that presses aggressively for continued reductions in the city’s high business taxes. The Design Advocacy Group meets monthly as a voluntary think-tank to discuss and respond to the need for urban planning and design. The Society Created to Reduce Urban Blight (SCRUB) has organized community groups to mount an assault on unsightly and often illegal billboards in neighborhoods. The work done by Hallwatch to post online public but largely unavailable data on property descriptions, transactions and taxes helped persuade the city to do the same on its Web site. The Building Industry Association, with funding from the William Penn Foundation, is facilitating a massive and long

overdue reworking of the city’s zoning, permitting and inspection process. This work, along with cries for help from neighborhood groups and developers, helped persuade Councilmen Frank DiCicco and James Kenney to introduce legislation recently that would overhaul the zoning code itself. The importance of these latter two efforts to transform the very guts of the city’s bureaucracy—while eye-glazing and mind-numbing—cannot be overstated.

**Business leaders:** Over the last decade or two, the city has lost most of its major corporate headquarters (except for Comcast, Aramark, Rohm & Haas and Urban Outfitters) to mergers and acquisitions, and has seen their CEOs replaced by the equivalents of regional vice presidents. It was feared that the newcomers’ concern for Philadelphia would take second place to keeping their bosses at headquarters elsewhere happy. Thankfully, things haven’t always worked out that way. We heard the same handful of names cited several times as new business leaders from elsewhere who did not exhibit the negativism of much of the old corps. And, when we interviewed some of these imported leaders, they were refreshingly energetic, committed, optimistic, and concerned that Philadelphia’s progress continue. In addition, a young generation of homegrown business and professional leaders has emerged, generally in second-tier firms, and they constitute much of the new leadership in the civic advances listed above.

### Established business groups:

- *The Greater Philadelphia Chamber of Commerce:* In 2001, the chamber led a protest march to City Hall to press the mayor to support reductions in the city’s onerous taxes (some of those contacted date the new leadership climate to this event). More recently, under the new leadership of former governor Mark Schweiker, the chamber is aggressively pursuing a tri-state agenda of economic development. It raised an initial \$16 million from the region’s business leaders to create Select Greater Philadelphia to market the region, and hired Thomas G. Morr to lead the effort. Morr had been the head of the successful economic marketing agency in Washington, D.C. Significant results thus far have been slim, but it

is encouraging that Philadelphia has begun to coordinate its job-creation strategy regionally.

- *The Center City District*: This business improvement district provides supplemental security, cleaning, and promotion to the downtown area, 120 blocks running from river to river north and south of Market Street that include more than 2,100 properties. Its founder, president and chief executive officer, Paul R. Levy, was cited time and again in our interviews for his energetic and articulate promotion of Center City. Levy received the prestigious Philadelphia Award this year, presented annually to a citizen of the region who has done the most "to advance the best and largest interest of the community."
- *Greater Philadelphia Tourism Marketing Corporation* is a private, nonprofit organization serving Philadelphia and Bucks, Chester, Delaware and Montgomery counties through integrated marketing strategies aimed at building the region's image and tourism. The number of overnight visitors to the region has expanded by 55 percent since 1997, when the tourism corporation began its research, public relations, and advertising in print and on television, the radio, billboards and the Internet. Its present campaign, "Philly's More Fun When You Sleep Over," has been recognized as the number one tourism recovery generator in the country. President and chief executive officer Meryl Levitz was commonly cited in our interviews as one of the city's most dynamic civic leaders.

**The universities and colleges:** Any listing of the city's major leaders on civic affairs—and development—now includes the presidents of Temple University, Drexel University, and the University of Pennsylvania.

This new and newly-invigorated leadership is not organized and coherent, like the fabled "benevolent cabals" of business leaders that led progress in cities such as Boston, Cleveland and Pittsburgh in prior decades. Rather, it is highly diverse and decentralized, comprising new and rejuvenated private companies, agencies and institutions as well as people stepping forward and taking stewardship of civic issues of concern to them. This new leadership doesn't wait on city government to act; and, fairly or not, it doesn't expect leadership from the city on many of these issues. Indeed, several of these new leaders

expressed attitudes that might be summed up as, "Frankly, we'd just as soon not deal with the city. We hope they stay out of our hair. They'd just gum things up."

Many of those interviewed felt that this new spontaneous network of leaders, with its optimism and "can do" mentality, was "democratic," "healthy," and "good for the city," better than an organized group of business and other elites. A senior philanthropist agreed, but with a major qualification: "You still need some big players who can get together to make really big things happen. I don't see much of that here."

The new leadership climate has contributed to an undeniable buzz about Philadelphia these days. A longtime civic and government leader summed it up:

*The new leadership in the business and civic communities is inspiring; it is recasting the power dynamic. I feel excited about that. Our bid for the Olympics was a joint effort of business, government and civic leaders in a very inclusive and effective partnership that was actually tri-state in nature. It was an extraordinary project! We lost out, but the act of trying was fantastic, showing us all that we could do things like that. And then we had civic and business leaders get together and buy the Inquirer and the [Daily] News, a great thing for the city that wouldn't have happened in the past. And new ethics laws and the prosecution of corrupt politicians. I see a number of things like this and am very encouraged.*

## A surge of development in Center City and elsewhere

In 2000, Philadelphia expanded its 30-year-old property tax abatement program to provide 10 years of relief for all new construction and substantial rehabilitation, whether for sale or rental or whether for commercial or residential purposes. This was on the eve of the national housing boom of the first half of this decade. Almost all those interviewed agreed that the tax abatement expansion allowed Philadelphia to share fully in the housing boom. New and rehabbed condominiums, single-family homes, and rental apartments have sprouted up throughout the city. A former city official said

that market rate housing from new construction and conversions was occurring at a rate “unheard of” in 1998.

A study by the Building Industry Association<sup>7</sup> ascribed two-thirds of all residential development since 2000 to the tax abatement, estimating that by 2008 it will have generated more than \$4 billion in additional economic activity. As of March 2006, 3,358 properties of all kinds, with a market value of more than \$2.1 billion, had tax abatements, many of them residential buildings with 100 or more units. The study concluded that, over 25 years, the tax abatement would more than pay for itself via an estimated \$285 million in increased real estate taxes from the new construction it would generate. A city official noted a more immediate impact: “The city is now largely living off the increase in real estate transfer taxes, which have gone from \$70 million to over \$230 million in just six years.” (Data from the Pennsylvania Intergovernmental Cooperation Agency indicate that this number accounted for 8 percent of total tax revenues in fiscal year 2005.)

Nowhere is all this development more apparent than in Center City. Some of the development is commercial: the new Cira Centre adds a striking silhouette near 30th Street Station, and the new Comcast building will be the city’s tallest. (It should be noted that neither building would have gotten off the ground without significant tax breaks or public subsidies.) But most is residential: since 1995, Center City has gained 8,235 housing units of all kinds, with the number increasing each year since 2000. In 2006, with the national housing boom slowing, a Center City District publication said:

*The number of projects, the number of units, and the average size of the projects took a quantum leap in 2006. As of September 1, 2006, 1,932 new units of housing were completed in Center City. Another 1,189 are under construction and slated for completion by year-end.*<sup>8</sup>

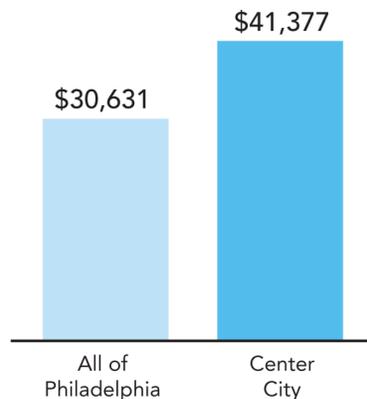
Developers interviewed predicted that even the sharp drop in the national housing industry would result in only a “soft landing” in Philadelphia. Most projects would be postponed or phased in, but 20 to 30 percent were

expected to move forward. Pent-up demand in Center City, developers and others felt, was sufficient to keep residential construction there going, with Center City able to absorb 1,500 units of new housing per year.

This recent surge is a steep acceleration of 30 years of growth in Center City. Philadelphia has the third largest downtown residential population in the nation—88,000 people—and is ranked by a Brookings Institution study as one of just five fully developed downtowns among 45 major U.S. cities (the others being Boston, Chicago, and Midtown and Downtown Manhattan). Sixty percent of Center City residents work downtown, and 40 percent of them walk to work. Almost a third are 25 to 34 years old, and 79 percent of that group have college degrees. A fifth are aging boomers and retirees, many of them empty nesters drawn by the city’s amenities. Indeed, a third of residents have moved in from outside the city. A large proportion of the Center City population is classified as “DINKs”—double income, no kids.

This educated, affluent population supports a “24-hour environment” of cultural and commercial activities, restaurants, and athletic events. A college president said, “Go to Second Street at 2 a.m. on a weekend evening. It is jumping with young people, some of them my students, but

### PHILADELPHIA 2004 MEDIAN INCOME



SOURCE: Central Philadelphia Development Corp.; The Urban Institute

7 See <http://www.biaofphiladelphia.com/pdf/TaxAbatementReport.pdf>, PA 19106; September 2006.

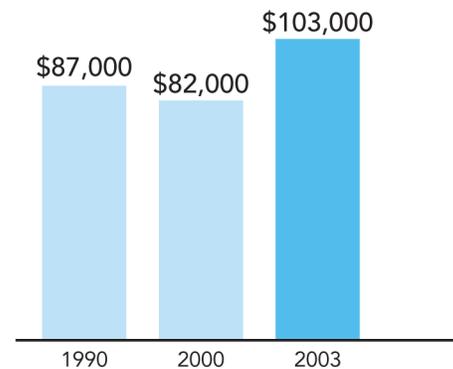
8 “Residential Development: 2006–2008—Sustainable Demand, But Time to Plan,” Center City District and the Central Philadelphia Development Corporation, 660 Chestnut Street, Philadelphia, PA 19106; September 2006.

many of them young professionals living and working downtown." People downtown can now enjoy 187 outdoor cafes in Center City versus virtually none a decade ago. High-end restaurants and entertainment venues abound. Drexel's students used to label Philadelphia as one of the institution's major liabilities, saying the city was "dangerous, dirty, ugly, a hassle, hard to get around in, dull—no life." Now, Drexel's student polls show the city as a major asset in recruitment. A senior nonprofit leader said, "I'm not sure we'll ever be able to attract families with school age children, but we could do quite well by marketing Center City to retirees, singles and childless couples, who want the kind of amenities we offer." A survey of new residents reported in the City Center District publication cited above confirmed that they want "a compact, walkable downtown with convenient access to shopping, amenities, and their place of work."

Some construction and rehabbing is spilling over from Center City into bordering neighborhoods, so much so that Center City's boundaries could justifiably be redrawn north and southward. (Some of it, too, is in older, more well-preserved neighborhoods out on the city's boundaries.) Residential development of all kinds is thus occurring in neighborhoods such as Fishtown, Manayunk, Brewerytown, Northern Liberties, Spring Garden, Queen Village, Girard and Pennsport. And, too, the University of Pennsylvania has stabilized its surrounding community in West Philadelphia and announced a massive new development. Add to this the kudos flowing to Carl Greene, executive director of the Philadelphia Housing Authority, for his almost complete conversion of Philadelphia's high-rise public housing to low-rise, well-designed, mixed income projects—an advance also seen in some of our other cities.

Some potential downsides to this development surge were cited by a few interviewees. Most of this is market-rate housing, and much of it is at the upper end of the scale, still of relatively modest cost compared with other cities but beyond the means of local working-class families. A 2003 University of Pennsylvania study estimated that the city is short about 57,000 units of affordable housing. Inclusionary zoning, which requires new projects to reserve some units for lower-middle- and lower-income people, could help. A very modest \$15 million city fund supports affordable housing; most

### AVERAGE VALUE OF OWNER-OCCUPIED HOUSING UNITS IN PHILADELPHIA



SOURCE: The Urban Institute

interviewees felt more needs to be done on this front. Other downsides include possible inequities and other adverse effects of the tax abatement, the impact of rising housing prices on real estate taxes for those without abatements, and a proposal to reassess real estate at full market value. Experience elsewhere indicates that rowhouse cities like Philadelphia need effective measures to enable lower-income residents to remain in their homes as home prices (and their taxes) increase around them.

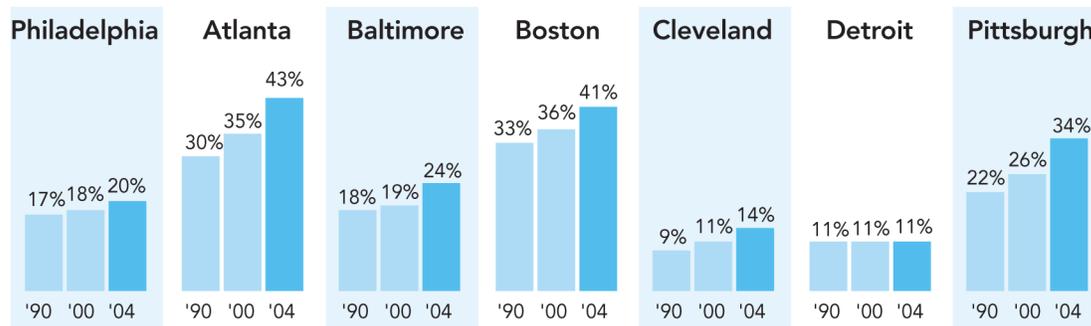
### Progress, yes, but the fundamentals still do not look good

While the sea change in the leadership climate and the surge in residential development are important and welcome, the Urban Institute data, as well as other indicators, suggest that the city still has a long way to go.

For instance:

- Philadelphia is still losing both people and jobs. The city's population of 1.5 million declined by 55,000 between 2000 and 2005, and 37,000 jobs were lost in that same half-decade.
- A quarter of the population lives in poverty, up by 2 percent since 2000 (the city has half of Pennsylvania's poor). Fully 36 percent of children are poor, an increase of 4 percent in this half decade.

## PERCENT OF POPULATION 25 OR OVER WITH COLLEGE DEGREE



SOURCE: The Urban Institute

- In 2004, almost a quarter of residents over age 25 did not have high school diplomas. This is an improvement of 5 percentage points since 2000 but is still a higher percentage than in four of our comparison cities (only Detroit and Baltimore have more adults without high school diplomas—27 percent and 26 percent respectively).
- Only 20 percent of people over 25 in Philadelphia have college degrees. Only Cleveland and Detroit have smaller percentages of college graduates. Atlanta (43 percent) and Boston (41 percent) have more than twice Philadelphia's proportion.
- More than half (56 percent) of all Philadelphia households with children have only a single parent present, up by 5 percentage points since 2000.

More recent data indicate that crime is rising again in Philadelphia and that its school test scores, while improving, are still among the worst in the state, with double-digit disparities between whites and African Americans. And, while the surge in housing construction and rehabilitation is substantial, many neighborhoods can only be termed urban wastelands.

## Other Positive Factors

### 1. Strong natural, historic and institutional assets

As we noted eight years ago, Philadelphia is blessed with strong natural, historic and institu-

tional assets that it is striving to exploit more fully as it shifts from a manufacturing to a post-manufacturing economy. Its location midway between New York City and Washington and between the ocean beaches and the gambling Mecca of Atlantic City to the east and the Poconos and other natural areas to its north and west could make the city a prime center for tourism, but that has not yet been fully exploited. Further, one interviewee seriously suggested that Philadelphia market itself as a bedroom community for young professionals from New York City (it's up to an hour and a half commute by train).

Although the city's natural assets include two riverfronts, until recently it has done very little to improve them. Center City is in essence an hour-glass-shaped peninsula bounded by the Delaware River on the east and its tributary, the Schuylkill River, to the west. Access to the riverfronts—the Delaware in particular—is in most places interdicted by railroad lines, superhighways, and often-decaying industrial and port facilities. Near the start of his second term, Mayor Street proposed a New River City Initiative to encourage residential and commercial use of largely deserted industrial waterfront property. But little happened along the central Delaware until fall 2006 when public pressure calling for planning to control waterfront development and ensure public access along the Delaware River persuaded Mayor Street to create a Central Delaware Advisory Group charged with developing a waterfront master plan. This organization is composed of neighborhood and business representatives, is staffed by Penn Praxis, a nonprofit unit of the University of Pennsylvania in tandem with the City Planning

Commission, and has been funded through a grant by the William Penn Foundation. Elsewhere on the Delaware, the Commonwealth has granted licenses for two casinos, some of whose revenue will flow to the city. How any future master plan will be implemented and how these casinos will be knit into the fabric of the city will be important challenges for the city's next mayor.

And on the Schuylkill, recreational access from Center City has recently been improved, with a trail that stretches from Locust Street to the newly-renovated Fairmount Water Works and beyond.

Philadelphia's unsurpassed Colonial and Revolutionary era sites include Independence Hall and the Liberty Bell in town and Valley Forge National Historical Park nearby. Indeed, in 1998 one local leader lamented, "How did we ever cede being the cradle of liberty to Boston? We've got much more history here to build on." True, and much has been done in recent years to improve the physical setting and visitors' experience of those shrines that are in Center City. Independence Mall now has a modern visitor center and Liberty Bell Center. And the handsome National Constitution Center opened in 2003, anchoring the northern boundary of the revived historic area.

The city's abundance of first-rate cultural institutions includes a world-class art museum and symphony orchestra, and the famous Barnes Foundation art collection is to move from the suburbs to a new museum on the Benjamin Franklin Parkway.

Any listing of a city's institutional assets would include its colleges and universities, but what's happened in Philadelphia in recent years on this front merits separate discussion.

## 2. The "eds and meds" step up

Philadelphia has 83 colleges and universities within 20 miles, placing it second only to the Boston area. It also has four medical schools with affiliated research hospitals. Taken together, these educational and medical institutions bring in more than \$1 billion in research grants each year and probably account for a quarter of the local economy. A recent *Philadelphia Business Journal* article noted that the economic impact of the three big universities (Drexel, Temple and Penn) was \$10 billion per year.

Beyond this basic economic contribution, many of the city's institutions of higher education no longer cloister themselves from the city. Instead, they have become actively involved in improving the communities surrounding them. In part this is a defensive attempt to reduce crime that affects their students and staffs and to turn the community—and the city at large—into an asset that attracts rather than repels students. Whatever the motives, the engagement of these institutions in the broader community is welcome.

One prime example is Penn, which for several years has had an office devoted to investing in improved housing and retail facilities in nearby neighborhoods. Penn even runs a model school (with long waiting lists) for the children of neighborhood residents and university staff members. Penn recently announced what the *Philadelphia Inquirer* called "an epic riverfront development" that will take two decades and \$2 billion to revitalize 40 acres into a 24-hour neighborhood featuring residential and office towers, shops, restaurants, and possibly a hotel.

Penn's examples of community engagement are being studied by Cleveland for application to its University Circle cluster of several major institutions. (Paul Levy of the Philadelphia Center City District is advising Cleveland leaders on both University Circle and their new downtown Business Improvement District.) And one of the officials who led Penn's community investment office now heads a massive redevelopment effort near Johns Hopkins University Hospital on Baltimore's East Side.

Another example often cited was the North Philadelphia area on Broad Street, between Center City and Temple University. In recent years, Temple has transformed itself from a largely commuter school to a residential university and has expanded its enrollment by 5,000 students. This has spurred the development of more than 2,000 student residential units in its environs and made a formerly blighted neighborhood "unrecognizable."

## 3. The Neighborhood Transformation Initiative

While its critics question whether Mayor Street's signature initiative to transform the city's neighborhoods is being well implemented—and whether its accomplishments justify 30 years of debt service on \$296 million in city bonds—few

would consign it to the list of negative factors. The mayor announced the five-year Neighborhood Transformation Initiative in April 2001. Among other things, it would demolish 14,000 dangerous vacant buildings and, instead of leaving heaps of rubble, would clear, landscape, fence and maintain the sites. It would assemble these and other vacant parcels into a land bank for redevelopment and stimulate the construction of 16,000 housing units. It would concentrate on neighborhoods at a tipping point of renewal, using a market taxonomy created by The Reinvestment Fund. And, in a parallel project, the city would remove 30,000 abandoned cars from its streets.

Now in its fourth year, with \$83 million still to spend, the initiative was the subject of a reasonable and balanced two-part assessment of its progress by the *Inquirer* in September 2006. These articles and our interviews indicate that the initiative has had signal successes while falling short, so far, on some goals.

The car removal program was an unqualified success. One city leader noted, "We spent a month removing 1,000 abandoned cars a day," cars that had blighted blocks and harbored drug dealers and prostitutes. Housing starts have exceeded the initiative's goal, with 16,000 market-rate housing units built, planned or under construction, plus 5,500 affordable units with government subsidy, and 4,000 new units replacing the city's high-rise public housing projects. While much of the market rate housing was attributable to the 10-year tax abatement and the national housing boom, city officials and some developers maintain that the initiative's demolitions and land assembly contributed heavily to that growth. To be sure, plans to concentrate on certain neighborhoods were eroded somewhat to mollify City Council members, but it is clear that blight has been substantially reduced in many neighborhoods. One academic estimated that "60 percent of the worst blight is gone." Many neighborhoods just *look* better as one drives through them now compared with in the late 1990s, which makes them better prospects for redevelopment and renewal.

The goal of demolishing 14,000 abandoned buildings, however, has been missed, with only 4,551 demolitions completed and more than 9,000 remaining. And not all of the sites have been cleared, landscaped and fenced. Assembling land

for redevelopment has also been slow. These failings derive from two major factors:

- The city's Byzantine labyrinth of zoning, permits, inspections and property records and the slow process of finding absentee owners and condemning property. The city's Redevelopment Authority was asked under the initiative to condemn 6,500 parcels, double the entire volume of condemnations for the preceding 10 years. It was simply overwhelmed. Just the title searches for the first 4,000 condemnations took from 2002 to 2005. The silver lining here is that much has been learned about what needs to be done to streamline these processes, which, as mentioned above, the Building Industry Association is now addressing. Unfortunately, this task has taken far longer than was anticipated when the mayor announced his plan at the beginning of his first term.
- Demolitions cost on average twice the \$11,500 originally estimated, mainly because exposed common walls abutting uncondemned buildings had to be covered, usually with stucco, at \$9,000 each.

City leaders interviewed say they are now applying the initiative's lessons to the routine day-to-day processes of the agencies involved. The mayor was quoted in the *Inquirer* as saying, "I ask people to remember that before I became mayor, there was no plan to do anything" like this.

#### 4. School reform

In December 2001, the Commonwealth of Pennsylvania took over the public schools of Philadelphia after previous superintendent of schools David Hornbeck had exhausted the patience and tolerance of state officials by demanding more financial support. Stories abound about how this takeover occurred and who gets credit or blame for it and for preventing the schools from being turned over *en masse* to the private contractor, Edison Schools, Inc.

However it occurred, the nation's eighth largest school district, with a \$2 billion budget for 217,000 pupils, is now governed by a School Reform Commission of five members, three appointed by the governor, two by the mayor—and it has substantially more state support. The chief executive of the district, Paul Vallas, was recruited in 2002 from a nationally known and

applauded reform of Chicago's public schools. Vallas was highly regarded by most interviewees, many of whom remarked favorably about what the *Inquirer* called his "peculiar charisma—a hyperactive passion."

Hyperactive passion indeed. Vallas works on many fronts at once, with a torrent of words and with feet that seem scarcely to touch the ground. His fundamental strategy has been to break up major elements of the system and shift their governance and increase their diversity. So, the district now has 291 public schools and 55 charter schools. It has gone from 42 large high schools to 80 smaller ones, many with specific themes and partnerships with institutions and companies such as the Franklin Institute, Drexel and Microsoft. The "atrocious" middle schools (a school leader's term) have been eliminated in favor of kindergarten-through-eighth-grade neighborhood schools. There is a new curriculum and more training for principals and teachers, and a positive relationship with the teachers' union, which has relaxed some of the rules that hamstrung innovations in the past. A \$1.7 billion capital program is rebuilding some of the nation's oldest school buildings. The *Inquirer* called all this "an impressive urban buffet of educational programs."

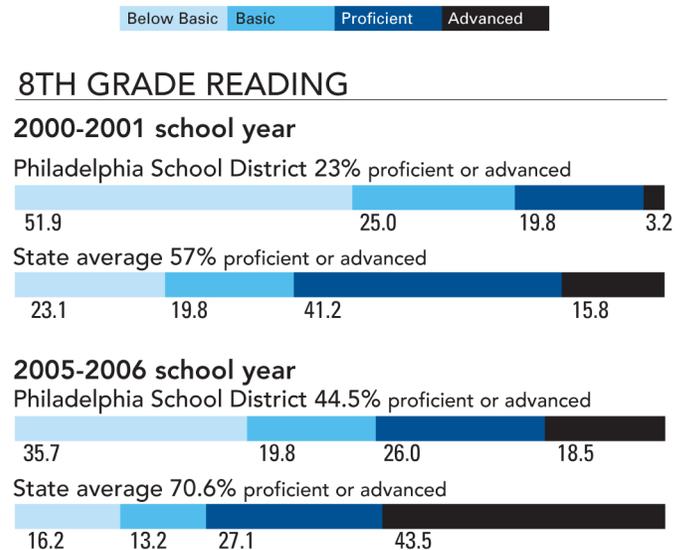
Results to date are relatively positive. Test scores have been up in every year since Vallas' arrival. Retention and graduation rates are up, too, and more schools are meeting the standards of the federal No Child Left Behind legislation. Violence in the schools was down sharply until a spike this fall. Philadelphia public schools had never competed in high school athletics outside the city until Vallas started it. Two years later Philadelphia won a state championship.

Interviewees generally agreed with one nonprofit leader who said, "Philadelphia's schools are doing better than any other major school system in the country nowadays... it's a remarkable transformation." A city councilman said, "Vallas has fixed the schools' finances without alienating the state. He listens and has a great personality, is positive and optimistic." A state official said, "I think the corner is close to being turned here; our test scores compare well with other major cities."

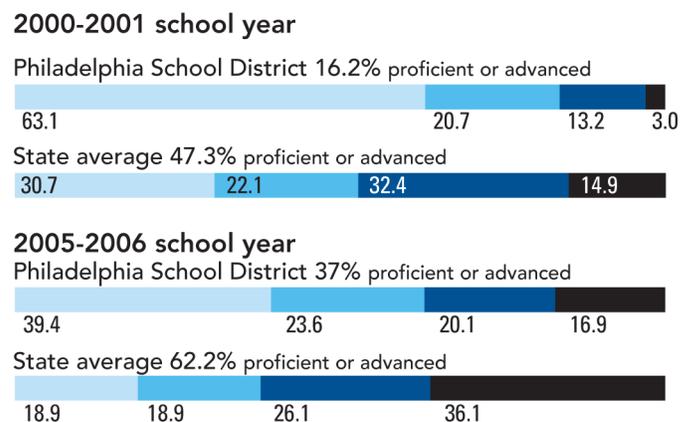
But Vallas' hyperactivity grates on some and he does have some detractors (his five-year contract was renewed in the summer of 2006 for another three years, though on a three-to-two vote). And

## PENNSYLVANIA SYSTEM OF SCHOOL ASSESSMENT TEST SCORES

Percentage of students at each performance level.



### 8TH GRADE MATH



NOTE: Performance levels may not add up to 100 due to rounding.

SOURCE: Pennsylvania Department of Education

while Philadelphia's school performance is improving more rapidly than any other district's in the commonwealth, it is still among the worst on many measures, with double-digit achievement gaps between minorities and whites. Astute observers doubt that a system in which three-quarters of the students live in poverty can be made attractive to middle-income people. (In an effort to keep more young families in Center City, the Center City District and the school district are mounting a range of efforts to improve Center City schools.) Moreover, Vallas is running out of his first injection of state money and needs more to further reduce class sizes, to begin phase two

of his capital plan, and to modernize (with computers and other aids) the “other half” of the city’s classrooms. How much money will be forthcoming from state and local sources is not clear. A \$73 million school budget shortfall caused much controversy in November and December 2006 and left Vallas bruised.

## 5. Ethics reform

Over the last two years, in the wake of another round of scandals in city government, momentum for a fundamental reform of city ethics laws and practices grew, supported by a broad coalition of business and civic groups. In May 2006, Philadelphia voters, by almost nine to one, voted to amend the City Charter to establish an independent Board of Ethics with strong powers. On November 16, 2006, the City Council unanimously approved the mayor’s nomination of the five board members.

The Ethics Board and its staff will oversee rules that require candidates to post campaign donor information online; bar major political campaign donors from receiving substantial city contracts; require firms receiving city contracts for public works projects to disclose their lobbying efforts; require city officials to disclose their finances; and require those seeking no-bid contracts to disclose campaign contributions and lobbying efforts.

While all of this is yet to be tested—and the *Philadelphia Daily News* argued that disclosure should extend to bid contracts as well—supporters are jubilant that they have won a historic change in the city’s notorious “pay to play” system. One academic interviewed said, “Not every negotiation with the city has to be an extortion anymore.”

## 6. Economic drivers: tourism, Navy Yard, airport

The tourism strategy initiated during the Rendell years continues to serve the city well, even though its potential is not yet fully exploited. Still, tourism now accounts for more than 177,000 regional jobs through \$6.8 billion in direct visitor spending. The new historic district venues and a planned expansion of the Pennsylvania Convention Center will continue to attract visitors to the city—though a businessman complained that no one seems to know where the operating funds for the expansion will come from.

The redevelopment of the 1,000-acre Philadelphia Navy Yard has moved into high gear, with 8,000 jobs (out of 20,000 to 30,000 projected), a new business center, people standing in line to buy new and revamped housing, and the Aker shipbuilder (successor to Kvaerner) enjoying contracts to build 10 vessels that will keep it and its workers busy until at least 2010. Philadelphia-based Urban Outfitters recently moved its offices and 620 workers to the yard from downtown, spending upwards of \$40 million to convert old industrial buildings into modern, gleaming offices for today’s creative-class workforce.

Philadelphia’s airport is becoming busier and busier, and is touted as the second fastest-growing airport in the world—after Beijing! Its new International Terminal, new runway projects, and the arrival of Southwest Airlines signal its potential. But negatives such as infamous baggage handling woes, no rational parking system, and alleged corruption continue to impede its progress. (It is worth noting that Philadelphia is one of the few big U.S. cities with only one major airport close by.)

## 7. The arts

Like many cities, Philadelphia has two populations of artists and cultural organizations. On the one hand are the more established artists and well-known institutions such as Philadelphia’s outstanding museums, orchestra, and other major cultural venues. On the other are emerging artists in all genres and newer, often smaller, and frequently community-based arts organizations and entertainment venues that give the city so much of its present “buzz.”

Some interviewees pointed with pride to a massive expansion planned by the Philadelphia Museum of Art, the successful effort to bring the Barnes collection to the city, and, more recently, the successful effort to keep Thomas Eakins’ masterpiece painting *The Gross Clinic* in the city. However, a knowledgeable civic leader said that too many of the city’s established arts institutions are stodgy and old-fashioned, are reluctant to seek and accept new ideas, lack the creativity to generate new techniques and approaches, and fail to reach out to newer and younger audiences—and that this was reflected in their boards, whose members were in place too long. (“The same 40 people sit on all the boards,” this leader said—to which others said, “But they have the money.”)

Some interviewees noted that the city's thriving jazz and youth music scenes—the World Café Live, the University of Pennsylvania's WXPB-FM; younger graphic artists reflecting national aesthetic movements; the Fringe Festival's often edgy and innovative works and groups; African American and other community arts groups—are attracting young audiences, even from New York City!

One interviewee cautioned that surveys indicate relatively few tourists actually visit the city's major art venues, "except for the occasional blockbuster show." A frequent visitor pointed out one likely reason why, saying that the city does not promote its cultural institutions well to tourists, with hotels lacking even basic information on museums and other artistic institutions.

In addition, a few interviewees said that the finances of many of the city's art institutions are precarious—with at least one on the verge of failure—and several African American institutions are endangered. That shaky finances seem to be a fact of life for the arts nationally does not make the situation any less worrisome for a city whose arts and cultural organizations are its "crown jewels," as one top official called them.

### **8. Improved relations with the Commonwealth of Pennsylvania**

Eight years ago, Harrisburg regarded Philadelphia as a kind of Sodom on the Schuylkill and accorded it only grudging attention and support. In this decade, however, the Philadelphia legislative delegation holds key leadership posts and the governor is former Mayor Ed Rendell, who handily won re-election this fall despite being called by some opponents "the governor of Philadelphia." The Commonwealth is still rurally dominated and there is another troubled big city on its western edge, so the Philadelphia-based powers must step carefully and in ways respecting the needs of the rest of the state. Still, the state has been increasingly helpful to Philadelphia, with substantial funding of the schools, new funding for police, and the licensing of two casinos whose revenues will aid the city's tax reduction efforts.

### **9. Philanthropy**

Although the city and region have numerous philanthropic institutions, two were consistently mentioned in our interviews: William Penn, for its

activism in supporting various reforms, and The Pew Charitable Trusts, for its work supporting Independence Mall, the city's major art venues (including its prominent role in bringing the Barnes collection to the city), and social services. (Pew was criticized, however, by the president of one major institution and one of the city's younger activist leaders for what they felt was Pew's nationalizing its philanthropy and not providing financial support to important local reform efforts.)

## **Other Negative Factors**

### **1. The high cost of living and doing business in Philadelphia**

In our general findings we note that, as a rule, cities are more expensive to live in and do business in than their suburban competitors—and that what city residents and businesses get in the way of services for these costs is of much lower quality. These costs include higher taxes, higher insurance premiums for real estate and automobiles because of higher crime, and high tuition for the private schools that many middle-class parents prefer to the often dismal and dangerous public schools, as well as the costs of corruption and even payoffs to city officials to get something done. The municipal services that city dwellers receive are often maddeningly bureaucratic, inefficient and ineffective, a fact of life often blamed on strong municipal unions who myopically defend outdated, inefficient, costly work rules as a means of preserving jobs.

As an old city whose economy once centered on heavily unionized private industries, Philadelphia still has strong private sector unions, especially in construction, that resist change in an effort to preserve jobs, but that, perversely, end up driving employers away. We were told, for instance, that construction unions still often resist enrolling minority workers. These unions also oppose new construction techniques that could lower costs and advance environmental goals.

Recently, the plumbers union opposed installing 116 no-flush waterless urinals in the men's restrooms of Comcast's 58-story Center City headquarters, now under construction. Comcast and the developer wanted the building to earn a

coveted certificate as the tallest “green” building in the United States from the U.S. Green Building Council. Some say the plumbers union opposed this innovation largely because it requires less plumbing work. It took mayoral intervention to work out a compromise to allow the urinals to be installed, but the developer, Liberty Property Trust, will still pay for the union workers to install the water lines that would service normal urinals, ostensibly as a back-up in case the new urinals do not work effectively.<sup>9</sup>

While municipal bureaucracy and union resistance to change make cities costly, the clearest factor mitigating against individuals, families and employers locating in cities is taxes. In our sample of cities, Philadelphia had the highest and most damaging tax levels for both residents and businesses.

Overall taxes on households in Philadelphia are among the highest in the nation. A 2006 study by the District of Columbia of comparative municipal tax burdens found that Philadelphia had the second-highest tax burden for a family of three earning \$50,000 per year; only Bridgeport, Conn., was higher. For a family of three earning \$25,000 per year, Philadelphia had the country’s highest tax burden. (Such results also reveal the regressive nature of the city’s tax structure.)

But most frequently cited in our interviews were the business taxes that drive away employers and jobs. In the late 1990s, studies showed that Philadelphia had the highest tax burden on businesses of any major U.S. city, with interviewees then almost unanimously terming the city’s business taxes “disastrous” and “devastating,” and one saying, “Nothing is more important than reducing taxes” if the city is to gain jobs. One business observer then said, “No one in their right mind would put a business inside Philadelphia when they can save so much by putting it across the border in a suburb.” Studies indicated that business taxes were responsible for fully half of the city’s job losses.

The main culprits then and now were a wage tax and a business privilege tax. The wage tax had been levied at different rates on both residents and commuters, with both rates the highest in the nation. The resident portion at its highest

## CITIES WITH THE HIGHEST ESTIMATED TAX BURDENS FOR A HYPOTHETICAL FAMILY OF THREE

*Includes major state and local taxes. Rankings are among the largest cities in 50 states, and Washington, D.C.*

### \$50,000 income

Rank/City	Income	Property	Sales	Auto	Total	Rate
2. Philadelphia	\$3,589	\$2,303	\$714	\$232	\$6,838	13.7%
7. Boston	1,701	3,478	424	271	5,878	11.8%
8. Detroit	2,757	1,834	748	233	5,571	11.1%
12. Baltimore	2,013	1,999	790	217	5,020	10.0%
22. Atlanta	1,033	2,198	947	286	4,465	8.9%

### \$25,000 income

Rank/City	Income	Property <sup>1</sup>	Sales	Auto	Total	Rate
1. Philadelphia	\$1,833	\$1,577	\$535	\$186	\$4,131	16.5%
2. Detroit	1,157	1,562	554	172	3,445	13.8%
6. Atlanta	559	1,783	711	185	3,238	13.0%
10. Boston	241	2,424	298	168	3,131	12.5%
49. Baltimore	7	1,464	574	182	2,227	8.9%

1. Based on 20 percent of annual rent.

SOURCE: Government of the District of Columbia: Tax Rate and Tax Burdens in the District of Columbia - A Nationwide Comparison 2005 (August 2006)

was close to 5 percent (the state allows all jurisdictions but Philadelphia to levy a wage tax of up to 1 percent). The business privilege tax had two components: a tax on gross receipts and one on gross profits from Philadelphia sources. Businesses were thus taxed on receipts whether they were profitable or not, which businesses understandably found outrageous.

Then and since, there have been strong movements by business groups and others to reduce business taxes to “competitive” levels, generally defined as a wage tax between 2 and 3 percent, the elimination of the gross receipts tax, and a reduction in the gross profits tax to levels comparable with business taxes in other cities. Such tax reductions, when combined with the city’s relatively lower real estate costs and other desirable characteristics, would make the city more competitive with its suburbs—and begin to bring jobs back into the city.

There has been some progress. The wage tax has been cut via tiny annual decrements to 4.3 percent (still the nation’s highest) and the hated gross receipts tax cut by more than half. (The tax on profits has not been cut.) And the

9 The city had previously adopted the widely used Building Officials and Code Administrators provisions that authorize the use of modern construction techniques and materials. However, Mayor Street signed a waiver that kept the old plumbing code in place, which, among other things, prohibits the use of PVC pipe.

Commonwealth has promised that the city's share of the forthcoming casino revenues can be used to cut the wage tax another estimated half a percent or so (other jurisdictions will use their shares to cut property taxes).

For some, this is significant progress. For one thing, larger corporations may feel less burdened by the city's business taxes. One corporate senior executive said, "I have personally in recent years recruited a couple of hundred executives to come to Philadelphia, and not one of them has complained about our taxes." This may well be so for well-paid executives and managers.

More significantly, a story we heard from more than one source suggests that, at least for some, the city's costs may be within reach of being competitive with its suburbs. It seems that a moderately sized company recently had to move into the city from the suburbs. The owner gave his employees a raise to compensate for the higher wage tax they would pay, and he absorbed the increased city employer taxes. But his particular city real estate costs were lower than in the suburbs so that the move was essentially a wash.

While such stories can be heartening, the city's wage, commuter, and other business taxes remain the nation's highest, and jobs are still seeping away. For the chamber and Philadelphia Forward and most of the rest of those interviewed in all walks of life this time—and, reportedly, for most of the likely mayoral candidates, too—reducing business taxes is a top priority. The issue is how much and how fast.

The chamber, Philadelphia Forward and others are demanding larger and faster cuts to stimulate job growth. City officials say that the mayor has cut overall business taxes by \$1.2 billion and that his slow but steady strategy avoids having to severely cut city services.

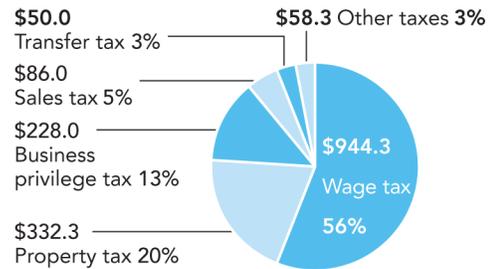
The mayor's critics counter that he has dragged his heels, in part because the tax cut agenda is being promoted by his political opponents and in part because he is unable or unwilling to confront harsh political reality: the city's workforce is the same size as when the city's population was 2.1 million instead of the present 1.5 million, they argue, and the city keeps open

## PHILADELPHIA TAX REVENUE SOURCES

Percentage of Philadelphia tax revenue from each tax.  
Dollar amounts in millions.

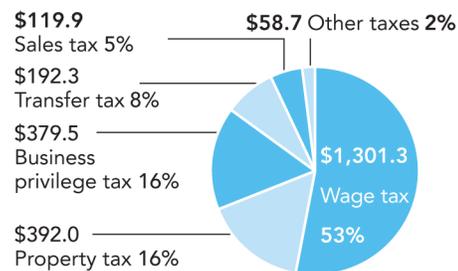
### 1995

Total tax revenue: \$1,698.9 million



### 2005

Total tax revenue: \$2,443.6 million



SOURCE: Pennsylvania Intergovernmental Cooperation Authority

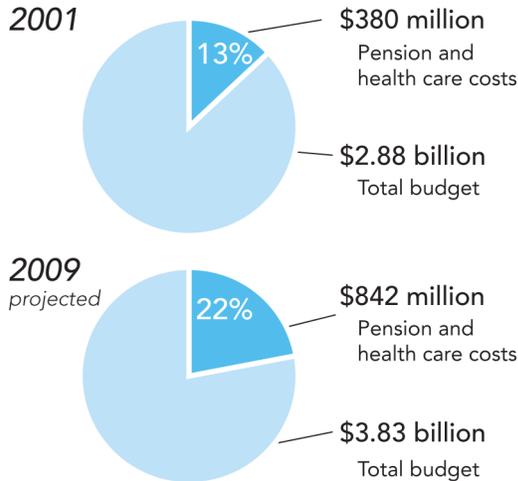
redundant firehouses that were built when fire engines were hauled by horses.

To be fair, few mayors in similar circumstances can easily make such cuts. And the mayor's supporters say that a city whose population is largely poor needs more in the way of libraries and youth centers and social services than higher income cities, and that much maintenance is going undone on aging infrastructure.

To which tax cut proponents respond that the city could be much more efficient on such services and that tax cuts generate greater tax receipts (and indeed tax revenues have gone up over the past decade despite rate decreases). But, those who oppose quickly reducing business taxes say that even if tax receipts grow substantially in response to large tax cuts, that growth occurs over the longer term, while needed services

## PENSION & HEALTH COST IMPACT IN PHILADELPHIA

Percent of city budget.



SOURCE: Pennsylvania Intergovernmental Cooperation Authority

would have to shrink right away. No one knows how to bridge that gap, they say (despite some studies that purport to offer ideas to do so), so “slow but steady” reductions that can be absorbed a bit at a time make the most sense.

The controversy cycles on, but for most we talked to, the bottom line is job growth, which is anemic in the region (up 0.5 percent in this decade) and negative in the city (down 0.5 percent or so in this decade). Continued cuts are needed to make the city competitive regionally and nationally, and the sooner and the greater that the local political process allows, the better. Meanwhile, the city enjoys real estate and sales tax rates that are relatively low compared with similar cities, leading a few observers to argue for a comprehensive restructuring of all the city’s taxes. Few discuss the need for the city also to downsize its workforce and services and learn to live within its projected means.

Finally, although much attention is devoted to the business tax issue, a banker cautioned that attracting businesses and their jobs was a more complicated matter than just reducing taxes:

*I do think that the wage and business privilege taxes are offensive—I even hate the very name of the business privilege tax. But*

*don’t overweigh their importance. I’m not sure that it is just taxes that keeps business away. It is also corruption, ineffective government, the inability to get things done, the lack of civic engagement, poor schools, and so on.*

## 2. The budget challenge: benefits, pensions and infrastructure

Not only must the next mayor renew the city’s contracts with its workers during his first six months, but he must also confront two “sleeper” issues that have received scant public attention but that specialists are deeply concerned about.

The first of these are dramatic increases in pension and health benefit costs for city workers. Pension and benefit costs in Philadelphia accumulate to 42 percent of wages. In 2001, their total costs were \$380 million, or 13.2 percent of the city’s budget. They are projected to grow by 2009 to \$842 million or 22 percent of the budget. Such an increase is not sustainable. It would crowd out necessary and desirable budgetary expenditures, threatening even “slow but steady” business tax cuts. As a fiscal monitor said, “It is the ‘Blob’ that will eat everything.” The options here are not pretty. (Witness the auto industry’s current travails). Efficiencies can be sought, perhaps by combining four separate plans, improving vendor management and billing, and stressing preventive health services. Such relatively painless options will take the city only so far. Soon, much more painful and contentious changes must be negotiated with city unions, such as shifting from defined-benefit to defined-contribution pensions, changing pension formulas, reducing health benefits, and instituting higher co-payments.

The second sleeper issue is the continuing deferral of maintenance and replacement of city-owned infrastructure. The City Planning Commission estimates that the city should be devoting \$185 million per year to its capital budget for roads, bridges, water and sewer systems, traffic lights, city-owned buildings, and other facilities of all kinds. It has been eight years since the city allocated even half that much to its capital budget. Deferring maintenance and replacement is far easier than confronting what will happen when key infrastructure inevitably begins to fail.

### 3. Crime and the criminal justice system

Philadelphia is still a safer place to live and work in than it was eight years or a decade or two ago, but the recent increase in crime will clearly impair the city's efforts to attract employers and residents, particularly if homicides continue to rise.

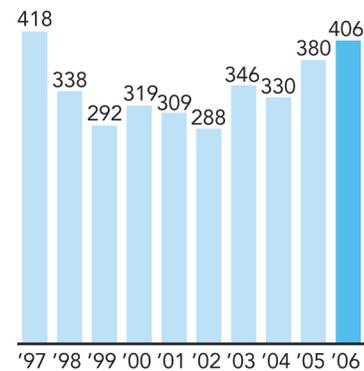
As the interviews for this study were being done this fall, the city was going through a particularly violent time. A 5-year-old had been shot and killed by stray bullets, the latest shooting in what would become the city's worst year for homicides since 1997, with 406 slayings,<sup>10</sup> up from 380 in 2005. Seventy-three percent of the victims were black men, 137 of whom were between the ages of 18 and 25 years. The mayor and the police commissioner were being roundly criticized in the press and elsewhere for what one civic leader called the "explosion of violence."

Several interviewees agreed with one who said:

*Chief Sylvester Johnson is an awfully nice man, but he's an insider and short-timer [Johnson is close to retirement] and not likely to be an innovator. He does spend a lot of time in the neighborhoods and is well-liked there, but he does not engender great confidence with civic and business leaders.*

Like Street, Johnson suffers perhaps unfairly in comparison with his predecessor, John Timoney, whom we described eight years ago as "central casting's classic Irish cop." Mayor Rendell brought Timoney to Philadelphia from his prior position as New York City's first deputy police commissioner. Timoney brought media savvy and two policing strategies that have spread across the country and contributed to major reductions in crime: New York's CompStat crime-tracking system used in weekly meetings to detect trends, hold commanders accountable, and quickly reallocate manpower; and the "broken windows" strategy of swift action against minor crimes on the theory that such perpetrators escalate to more serious crime unless stopped early. Johnson has continued Timoney's successful strategies—and has continued to spread new technology throughout the department. But Timoney was a media favorite

### HOMICIDES IN PHILADELPHIA



SOURCE: The *Philadelphia Inquirer*, Jan. 2007 citing Philadelphia Police Department data

and Johnson is not. Johnson spends a lot of time in the neighborhoods because that is where the crime is; Center City ranks low on departmental statistics of crime and only one of the murders this year was in Center City at the time of our interviews.

Our interviews, an *Inquirer* column in the summer of 2006 by Tom Ferrick Jr., and our other research place Philadelphia's crime "explosion" in perspective. Like most major cities, Philadelphia has enjoyed a double-digit drop in serious crime in the last decade, indeed, a 25 percent drop in the eight most serious felonies. During Mayor Street's tenure to date (seven years), overall serious crime rates were down 16 percent and more than 300 open-air corner drug markets had been eliminated. As noted in our General Findings, crime nationally was up 3.7 percent in 2006, and in Philadelphia, aggravated assault, rape and homicides were up. Homicides did spike to 406 in 2006, but that rate was still lower than a decade earlier, in fact lower than the rates in the terms of the last five mayors (Philadelphia hit a 17-year low for homicides in 2002, with the same police commissioner and the same policing techniques). The recent increase in murders reflects the increased availability of guns, which are "epidemic" in Philadelphia and many other cities, according to police leaders. Most police chiefs across the country now want increased gun controls, a

10 This total may increase if wounded victims die or other deaths are later reclassified.

major shift in the mind-set of law enforcement professionals. The rates also reflect a familiar range of socioeconomic factors that affect African American youths and young men.

The mayor and his administration did respond to the increase in crime with an aggressive four-part strategy called Operation Safer Streets that was announced in February and implemented in stages. Police were deployed to where crime statistics said they were needed; both crime victims and felons being released from prison received health and social services follow-ups; and communities and faith-based organizations were engaged to reach out to youths and young adult men to work against violence. The mayor spent several Sundays visiting and mobilizing communities, visiting as many as six community groups a day.

Our newspaper clipping research reflected little about Operation Safer Streets beyond initial announcements. One city official said:

*The media is just not going to give us credit for anything positive. The mayor chose to be the prime messenger on this effort. We gave out press releases and other documents, but they won't give him a fair shake.*

Another high city official—speaking in the early fall of 2006 when crime had seemed to level off—said:

*I have been amazed at how little sophisticated civic and business leaders know of this strategy. We are pretty convinced it has had a lot to do with the leveling off of violence this year but no one knows about it and we*

*get no credit for it. Sure, the press may be negative, but the mayor's office just doesn't tell his story well.*

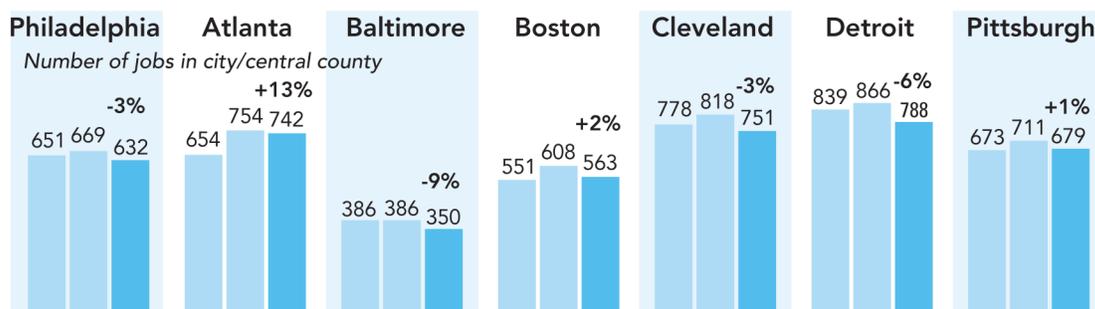
The fact remains that Philadelphia's surge in violent crime in 2006 picked up and continued. By year's end, the city had 1,934 shooting victims (the highest number since 2001) and \$135.6 million in drugs seized, the city's most ever in a year (including 142 kilos of cocaine). And the homicide rate just kept climbing. It should come as no surprise then that polls show crime as the number one problem facing the city today.

On other fronts, Philadelphia has long been criticized for an almost embarrassing lack of coordination and cooperation among three critical components of the criminal justice system—the police, the prisons and the courts—which must cooperate to move defendants through the system. A recent suit by inmates brought the matter to a head, and three agencies are now meeting regularly and devising a 24-point plan designed to fix much of a system that has frequently been described as “broken.”

#### 4. Workforce development

No one mentioned this subject in our interviews unless we brought it up, and it did not come up in our research on city issues. We place it on the list of negative factors because it does not appear to be high on the city's agenda, and it should be. It is a prime component of any city's strategy to attract new jobs by ensuring employers that the city has job training systems, especially those found at community colleges, that can prepare a workforce to meet prospective employers' specific needs.

**JOBS** In thousands. Percent changes are from 1995 to 2005.



NOTE: Because of the way data is reported Philadelphia and Baltimore figures are for city; for the other cities it is the number of jobs in the county containing the city and thus includes some jobs in areas outside the city limits.

SOURCE: The Urban Institute

This situation may be changing. The Commonwealth of Pennsylvania under Governor Rendell is becoming a national leader in workforce development, and its initiatives may benefit the city. Also, the chamber's CEO Council for Growth has crafted an agenda on "human capital" for fiscal year 2007. Its early focus seems mainly to be on higher-level talent, which a survey of its members disclosed as their top need, but it does mention mid- and lower-level skill requirements.

The city needs to produce workers with the post-secondary but pre-baccalaureate skills and credentials needed to fill jobs that can be classified as "technician level." Labor market studies indicate that this is where massive numbers of the jobs of the future will be, the *de facto* replacement of the highly paid, low- and mid-skill blue collar jobs of the past. Further, if city school reforms continue to increase graduation rates, many of those earning high school diplomas will need to go on to short-term skills training and two-year degree programs to qualify for those jobs. The Community College of Philadelphia seems well led, inventive, and to understand its mission in these circumstances. Unfortunately, it seems to be an afterthought in the minds of most city government, business, and civic leaders, upon whose doors it must now knock to plead to be involved in policy discussions and planning for education and economic and workforce development. The college should, instead, be one of the first to be invited to such deliberations.

## 5. Race

It is odd that in two studies of Philadelphia, eight years apart, race barely came up. After all, in past decades, Philadelphia had generated local and national headlines about its racial strife. No more. The last two mayoral elections pitted black and white candidates, and the city and the candidates were praised for showing restraint in using race as an issue. Yet, the voting still fell largely along racial lines in Mayor Street's first election in 1999.

Somehow, there seems to be a tacit agreement among the city's leaders that race and racism will be kept off center stage. This has its utility for everyone, but it also means that racial issues continue to simmer below the surface without significant leadership attention. A new business leader said, "Everything here is about race, more

so than other cities I've worked in. The mayoral elections are all about race. But it's not up front." A civic leader said that other cities were doing more to generate an African American middle class, especially business leaders. Another long-time public and private nonprofit (and minority) leader said:

*Much of the new, positive leadership is mainly white males. We have to find ways of getting the African American community involved. The only black leadership seems to be on the political side. African Americans have actually lost some civic leadership position and influence. We need to foster and develop and involve emerging black leadership. We need to push diversity, even if some of the new minority leaders are a bit shrill. We just have to find more ways for white and black leaders to interact and communicate and learn from each other.*

This leader, and some others, felt that the city's foundations should experiment with ways to do this, but no one had suggestions as to how.

## Does It All Come Down to "Bos-troit"?

So, how do all of these positive and negative factors balance out now and for the next several years? Is the optimism of the moment among many of those leaders we interviewed justified?

There are still some naysayers (they would call themselves realists), and they raise important cautions about the likelihood of Philadelphia's becoming "the next great American city."

One academic said:

*Look, we've had a nice run of a few years of progress, but this may well be looked back upon as a blip in a trajectory of continuing decline. The fundamentals haven't changed. This is still a largely minority poor city that is still losing population and is not gaining many jobs on net. Washington these days is no friend of cities. Harrisburg is now, somewhat, but it can return to its normal hostility after the next election. OK, Center City seems real, but what we have is a 'Bos-troit';*

*that is, a Center City with the pizzazz of Boston's surrounded by miles of neighborhoods like Detroit's. We are still basically managing decline.*

Others point out that even though 81 of 83 expiring business leases in Center City have been renewed in recent years, those shiny skyscrapers have a lot of empty floors—more than 4 million square feet of vacant space deriving from new construction, cutbacks by firms, and few new firms moving in. (One million square feet of office space was absorbed in 2006, according to commercial real estate firm Grubb & Ellis, though the partial conversion of Two Liberty Place to residential use was mostly responsible.)

Some worry whether the new leadership will continue to look so good “if a Paul Levy or Meryl Levitz gets tired or recruited away and leaves.” Or they say the leadership has changed, but not enough. Some agree with one comment that “too many private sector business leaders are lawyers and bankers with a lot of irons in the fire with city agencies, too many for them to really lead true reforms.” Others cite rising crime rates and wonder how long Center City will gleam if the kids with guns in the neighborhoods start shooting tourists or suburban restaurant goers or new condo residents. And still others agree with one who said, “Sure, Paul Vallas is doing great things with the schools, but with the concentrated poverty among students, he’ll never make them attractive enough for middle-class parents with school-age kids.” The Center City District admits that the population of children downtown drops 26 percent once they reach school age because their families move to better school districts in the suburbs.

Finally, some point out that the polls released in August 2006 on voter opinions were strikingly negative. By 64 percent to 28 percent, respondents felt the city was moving in the wrong direction; more than half (55 percent) believed the city had gotten worse as a place to live, up from 23 percent three years ago; and 70 percent felt the mayor was doing only a fair or poor job. (A later poll, in November, had similar results.) Is the euphoria about Philadelphia’s progress confined to the “new leaders” and others in Center City (which, after all, has only 88,000 of the city’s 1.5 million residents)? People riding the

crest of a wave they have helped create perhaps understandably think it is the wave of the future. Is it in this case?

At least for the moment, the optimists seem to hold the field. A long-term city government and civic leader said:

*I don't think 'Bos-troit' is fair. In fact, it is just not so. Center City is real and the neighborhoods are cleaner and development is occurring in a lot of them. New people are moving into the neighborhoods. We'll eventually get the taxes down, and the jobs will begin to come back.*

Another academic said:

*This is the most hopeful I've been about Philadelphia in a long time, and I'm the ranking cynic about the city. I think we're approaching a critical mass of new leaders and new activities—Paul Levy and Jeremy Novak<sup>11</sup> types.*

One of the new, locally generated leaders said:

*The negative mentality is beginning to disappear; it has declined. It does feel like we've turned a corner. I do think there is a new optimism and a sense of potential and pride. Morale is up.*

Perhaps a journalist summed things up best:

*Is this a five-year blip that will go away, and we'll go back to managing decline? Who knows? What we've had recently is very good progress and we have to try to maintain and continue it. You really have no other choice.*

Indeed, there is no choice but to keep going. Whether Philadelphians have a city resurgent or one still in slow decline will depend in large part on how the factors discussed here play out during the next several years, especially on whether the new mayor “gets it” and on whether he and the newly positive business and civic leaders can make common cause when needed. Stay tuned; it promises to be an interesting ride.