

**DEPARTMENT OF COMMERCE  
FISCAL YEAR 2016 BUDGET TESTIMONY  
APRIL 14, 2015**

**EXECUTIVE SUMMARY**

**DEPARTMENT MISSION AND FUNCTION**

**Mission:** To make Philadelphia a global city where businesses choose to start, stay and grow.

**Description of Major Services:** The Department of Commerce (Commerce) is the umbrella organization for all economic development activity in the city. Coordinating the work of related agencies, including the Philadelphia Industrial Development Corporation (PIDC), the Philadelphia Housing Authority and the Philadelphia Redevelopment Authority (PRA), Commerce leads efforts to attract new companies to Philadelphia, to develop business-friendly strategies to help small businesses and major corporations to succeed, and to facilitate real estate development across the city.

**PROPOSED BUDGET HIGHLIGHTS/FUNDING REQUEST**

**Budget Highlights:** The FY16 Proposed Budget increases the General Fund allocation by \$1.1 million to fund the Philadelphia Talent Collaborative, a new initiative in partnership with the Mayor’s Office of Education which will be managed by the Department of Commerce starting in FY16 and an additional \$2 million for the Economic Stimulus Fund.

Fund	Class	FY14 Actual	FY15 Current Projection	FY16 Proposed Budget	FY16-FY15 Change	FY16-FY15 Percent Change
General	100	1,837,393	1,925,825	1,943,211	17,386	0.9%
	200	16,627,647	16,627,929	19,727,929	3,100,000	18.6%
	300/400	26,583	26,654	26,654	0	0.0%
	500	500,000	500,000	500,000	0	0.0%
	<b>Total</b>	<b>18,991,623</b>	<b>19,080,408</b>	<b>22,197,794</b>	<b>3,117,386</b>	<b>16.3%</b>
	Positions	27	27	27	0	0.0%
Other*	100	883,087	940,951	985,268	44,317	4.7%
	200	7,991,318	22,652,878	19,273,236	(3,379,642)	-14.9%
	300/400	1,435	55,000	8,000	(47,000)	-85.5%
	500	56,321,000	59,137,000	62,700,000	3,563,000	6.0%
	<b>Total</b>	<b>65,196,840</b>	<b>82,785,829</b>	<b>82,966,504</b>	<b>180,675</b>	<b>0.2%</b>
	Positions	13	11	12	1	9.1%
All	<b>100</b>	<b>2,720,480</b>	<b>2,866,776</b>	<b>2,928,479</b>	<b>61,703</b>	<b>2.2%</b>
	<b>200</b>	<b>24,618,965</b>	<b>39,280,807</b>	<b>39,001,165</b>	<b>(279,642)</b>	<b>-0.7%</b>
	<b>300/400</b>	<b>28,018</b>	<b>81,654</b>	<b>34,654</b>	<b>(47,000)</b>	<b>-57.6%</b>
	<b>500</b>	<b>56,821,000</b>	<b>59,637,000</b>	<b>63,200,000</b>	<b>3,563,000</b>	<b>6.0%</b>
	<b>Total</b>	<b>84,188,463</b>	<b>101,866,237</b>	<b>105,164,298</b>	<b>3,298,061</b>	<b>3.2%</b>
	Positions	40	38	39	1	2.6%

\* Other Funds includes: County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, Healthchoices Behavioral Health Fund, Hotel Room Rental Tax Fund, Grants Revenue Fund, Community Development Fund, Car Rental Tax Fund, Housing Trust Fund, Water Fund, Water Residual Fund, Aviation Fund, Acute Care Hospital Assessment Fund, and Undistributed Pension Fund.

**Staff Demographics Summary (as of December 2014)**

	Total	Minority	White	Female
Full-Time Staff	39	23	16	23
Executive Staff	6	1	5	3
Average Salary - Executive Staff	\$126,121	\$143,218	\$122,701	\$117,429
Median Salary - Executive Staff	\$108,675	\$143,218	\$119,025	\$119,025

**Employment Levels (as of December 2014)**

	<b>Budgeted</b>	<b>Filled</b>
Full-Time Positions	40	39
Part-Time Positions	0	0
Executive Positions	6	6

**Contracts Summary (\*as of December 2014)**

	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15*</b>
Total amount of contracts	\$60,000	\$87,500	\$75,000	\$75,000	\$75,000	\$84,399
Total amount to M/W/DBE	\$12,840	\$32,000	\$31,875	\$31,875	\$31,875	\$41,274
Participation Rate	21%	37%	43%	43%	43%	49%

## PERFORMANCE, CHALLENGES AND INITIATIVES

### DEPARTMENT PERFORMANCE (OPERATIONS)

With more jobs created in Philadelphia last year than any time since 1999-2000, the strategy of the Department of Commerce continues to be assisting existing businesses through a range of new and existing programs, as well as attracting new organizations to the city, such as the recently announced moves of the American Bible Society, Hill International or EisnerAmper.

The Office of Neighborhood and Economic Development supports small businesses and commercial corridors through a range of programs such as the Storefront Improvement Program, the InStore Program, the Targeted Corridor Management Program, and the Business Security Camera Program.

The Office of Business Services (OBS), which provides one-on-one support to businesses and entrepreneurs starting a business in Philadelphia, has become more hands-on with its approach to small businesses by proactively informing small business owners of major issues or policy changes. For example, when new legislation impacting businesses is considered or has been passed, OBS will conduct a workshop and OBS managers will inform and educate businesses in their service area. By determining key needs and areas for education, the number of phone calls and cases has gone down, while OBS has improved in providing consistent information to the business community. In addition, the Department is focusing more on proactive projects to make the City more business friendly, such as forming several business associations and creating cross functional teams from various City agencies to address process constraints faced by businesses, rather than reactive case management. The number of new business case contacts in decreased between FY13 and FY14 by 14.4% primarily due to the proactive improvements in communicating with the business community. Additionally, the number of OBS cases continues to rise over in the first half of FY15, up 17.7% from the same period in FY14.

The Office of Economic Opportunity continues to increase participation of Minority/Women/Disabled-owned Business Enterprises (M/W/DSBE) businesses in City contracts. The Mayor has sustained the M/W/DSBE participation goal at 30% for FY16. The participation rate for FY14 was 29.4% and is at 32.4% as of the first half of FY15. OEO continues to stretch its resources to cover the dramatic increase in EOPs which have increased from 15 in 2009 to 717 in March of 2015. OEO will provide the World Meeting of Families and the DNC 2016 Host Committee with strategic support to optimize economic inclusion.

In addition, the Business Attraction and Retention Unit includes staff dedicated to manufacturing, international, startup, and commercial/retail businesses.

Finally, the hospitality industry metrics are strong. While the number of hotels rooms is projected to remain the same in FY15 and FY16, two new properties will be under construction during that time frame: the combined 755 room W/Element Hotel (15<sup>th</sup> and Chestnut Streets) and the new 200 room Kimpton Hotel (18<sup>th</sup> and Vine Streets). The City expects that by the end of 2017 it will have reached its goal of adding an additional 2,500 hotel rooms since 2008. Furthermore, the hotel occupancy rate has remained above the goal of 72% for FY15.

Performance Measure	FY08	FY13	FY14	FY14- FY13 Change	FY14 Q1-Q2	FY15 Q1-Q2	FY15- FY14 Q1-Q2 Change	FY15 Goal	FY16 Goal
Number of New Business Contacts in DB	N/A	1,874	1,605	-14.4%	699	1,001	43.2%	2,000	2,000
Number of OBS Cases	N/A	562	1059	88.4%	492	579	17.7%	800	680
Percent of Customers Satisfied with OBS Services	N/A	95%	94%	-1.1%	97%	93%	-3.6%	100%	100%
Annual M/W/DSBE Participation*	18.0%	28.0%	29.1%	3.9%	27.3%	29.5%	8.1%	30.0%	30.0%
Number of Hotel Rooms**	10,045	11,238	11,410	1.5%	N/A	N/A	N/A	11,410	11,410
Hotel Occupancy	72.1%	74.4%	73.7%	-1.0%	72.3%	75.9%	5.0%	72.0%	72.0%

\* FY15 Q1-Q2 estimate contains Q1 data only; as of FY12, the OEO report includes quasi-public contracts and deductions for contracts with "few or no" M/W/DSBE participation available

\*\* Number of hotel rooms calculated on an annual basis.

## DEPARTMENT CHALLENGES

The major challenge in recent years has been overcoming the effects of the recession and supporting businesses looking to grow at a time when many were struggling to make ends meet. Through programs such as the Goldman Sachs 10,000 Small Businesses Initiative and the new Kiva Zip program, and working closely with our partners at PIDC, we have attracted new, non-City resources to help local small businesses access the capital they need to grow. As the economy begins to grow again we are seeing encouraging job growth across a whole range of sectors which Commerce expect to accelerate during the course of 2015.

## ACCOMPLISHMENTS & INITIATIVES

**Unemployment Rate Reduced and Jobs Created:** The number of jobs in Philadelphia for 2014 was 674,000, an increase of approximately 8,800 in 2013, the largest annual increase since 1999-2000. The annual average unemployment rate for 2014 was 7.8%, an encouraging 2.2 points below the previous year's average (-22.1% change) and a dramatic improvement from our peak unemployment rate of 11.7 in July 2012. We are narrowing the gap between Philadelphia's unemployment rate and the nation's, even as the national rate continues to fall; our average rate for 2014 is 110% of the national average compared to 149% of the national average in 2013. Commerce anticipates a further reduction in the unemployment rate and the addition of a variety of new companies and organizations moving to Philadelphia, including EisnerAmper, Philadelphia Financial, the American Bible Society, Integrichain, and HOK Architects.

Through the efforts of Commerce and its partners, Commerce has retained or attracted 120 companies to Philadelphia representing 4,700 jobs since 2008.

**Implementation of Economic Development Strategy:** The City's economic development strategy focuses on initiatives and investments that help businesses start, stay, and grow in Philadelphia. The economic development strategy includes efforts to help business start in Philadelphia by supporting entrepreneurs starting businesses, alleviating the tax burden on new businesses, attracting domestic and international businesses and increasing investment capital in the city. In efforts to help businesses stay in Philadelphia, the strategy is continuously reformed to make it easier for businesses to operate and invest in Philadelphia and so that it supports the implementation of the *Philadelphia 2035* Comprehensive Plan and the City's new zoning code, as described in more detail in the City Planning Commission chapter (page 137). Lastly, the economic development strategy helps spur growth by building capacity in small businesses, expanding opportunities for minority women and disabled-owned businesses and aligning the workforce development system with the needs of the city's economy.

**Tax Reform:** The City continues to take steps to make the city more tax-friendly for new businesses and is working to promote the incentives and tax reductions available to existing companies. Over the past four years, City Council and the Administration have supported these reforms designed to lessen the tax-burden on Philadelphia businesses and give advantages to locating a business in the city:

- Since January 1, 2012, new businesses and entrepreneurs have been fully exempt from the Business Income and Receipts Tax (BIRT) for the first two years of operation if they create three new jobs in their first year and six in their second.
- Since January 1, 2012, all fees have been waived for qualifying new businesses for a variety of licenses and registrations.
- A \$5,000 tax credit, or a credit of 2% of the annual wages paid, has been available for each qualifying new job since January 2013. For jobs created in 2015, the credit is \$25,000 per job, earned in \$5,000 increments over 5 years.
- A \$4,000 tax credit towards the gross receipts portion of the BIRT will be for certified sustainable businesses for tax years 2012 through 2017.
- As of January 1, 2014, the commercial activity fee has been eliminated for all businesses.
- A phased-in exemption of the first \$100,000 in gross receipts and a proportionate share of net income from the BIRT also started January 1, 2014 at \$50,000 and will be fully implemented by 2016, providing substantial tax relief to all businesses.

Looking forward, the following tax-reform measures are scheduled to be implemented:

- The net income portion of the BIRT tax will move from being based on the amount of sales, property and payroll a company has in the city, to a computation only on Philadelphia-based sales. This reform, known as single sales factor apportionment, lowers the tax burden on Philadelphia-based businesses across all industry sectors. Single sales factor apportionment was implemented in 2015 and is expected to remove a “disincentive” to remain in the City.
- The Wage Tax rate, which was lowered to below 4% for residents for the first time since the 1970s under the Nutter Administration, will be lowered to 3.7976% for residents and 3.3825% for non-residents by FY19.
- The net income portion of the BIRT will be lowered to 6.25% by FY19.

**Supporting Start-Ups:** Startup PHL was launched in October of 2012 as a new joint initiative between Commerce and PIDC to support startups and entrepreneurs in Philadelphia. Components include a \$6 million public/private venture fund with leading venture capital firm First Round Capital that invests in Philadelphia-based startups and a “Call for Ideas” grant program through Commerce that offers \$500,000 for proposals that support entrepreneurs and startups in Philadelphia. The fund has made investments in seven Philadelphia startups to date and the third round of “Call for Ideas” grants will be announced in early 2015.

Philadelphia is increasingly recognized as a great city for startups due to recent tax changes and programs implemented by the Nutter Administration in partnership with City Council. A report by Cushman and Wakefield in early 2015 showed that Philadelphia had seen a 30% growth in tech jobs over the last five years, outpacing the surrounding suburbs.

**Attracting New Businesses:** With over 120 new firms moving to the city since 2008 along with 4,700 new jobs, Philadelphia is showing that it has become increasingly attractive for new companies. In January 2015, the American Bible Society announced that it is relocating its headquarters from New York City to Philadelphia this summer and bringing 200 new employees to the 5<sup>th</sup> and Market Street location. Two other companies announced plans to relocate to Philadelphia. Integrichain, a New Jersey technology company will have 50 employees at its new workspace in Eight Penn Center, and HOK, a global design, architecture, engineering and planning firm with offices on three continents will hire 40 local employees. Last January, Mayor Nutter announced that EcoSave, an energy efficiency firm, would open its U.S. Headquarters at the Navy Yard joining companies such as GlaxoSmithKline, Tasty Baking, and Iroko Pharmaceuticals. The city now boasts 11,500 employees working at the Navy Yard, the most successful re-purposing of a former naval base in the nation. In partnership with PIDC, Commerce participated in a number of business development events including a familiarization tour for prospective developers with Jones Lang LaSalle, Greenbuild 2013 and the International Economic Development Council annual conferences.

**Retail Revival:** Philadelphia has seen great growth in the retail sector over the last year, resulting from a united effort between the Commerce Department, Center City District, PIDC and the broker community to promote Philadelphia as a retail location. In 2013, Collier's International reported Walnut Street retail rents per square foot rose by 33.8% from 2012, the sharpest annual increase among destination retail streets in all U.S. cities. New retailers to the area include Theory, Madewell, Ulta, Athleta and Stuart Weitzman. Higher rents on Walnut Street are stimulating upscale tenancies on nearby Chestnut Street. Allen Edmonds and Camper opened new stores in 2013, Nordstrom Rack and Joan Shepp, and Banana Republic Factory Outlet located on Chestnut Street in 2014. Over the next year, Commerce will continue to promote Chestnut Street east of Broad Street as well as The Gallery and other properties on Market Street East as some of the best retail opportunities in downtown that are prime for investment.

**International Outreach:** Commerce committed to boosting international business development by creating a new position, Director of International Business Investment, within the Business Attraction & Retention Unit in April 2013. This new role has allowed a continued positive working relationship with local, state, federal and international organizations to attract investments and raise Philadelphia's global profile. Commerce met with over 30 delegations, in fields that range from water technology to medical devices, from more than 20 countries between April and December in 2014. Commerce also established a Consular Corps Desk within the office to continue to foster the fruitful relationship with Philadelphia's dedicated 36 career and honorary consuls who act as Philadelphia's ambassadors to the world and are responsible for attracting international delegations and visitors to Philadelphia. In November 2013, Mayor Nutter and Deputy Mayor Alan Greenberger led a trade delegation of Philadelphia companies

to the United Kingdom (11 businesses) and Israel (10 businesses) to promote Philadelphia, attract foreign investment, and help Philadelphia companies establish trade relationships with partners in those key marketplaces. Following the visit to Tel Aviv, ten Israeli startups visited Philadelphia in October 2014 to participate in the Philadelphia Israel Technology Conference and a number of those companies have since returned to Philadelphia and are actively in the process of opening up operations in the city. Mayor Nutter also visited France in July 2014 and as a result of that trip Commerce is working with five French companies who are actively looking to establish operations in Philadelphia.

**Business Retention:** Commerce helped retain and grow major companies considering a move out of Philadelphia, including Beneficial Bank, a major financial services firm, retaining 300 existing jobs and adding 75 new jobs over the next three years in new space at 1818 Market Street; and FMC, a leading specialty chemical company, that signed a 16-year lease for the new FMC Tower at Cira Centre South. The firm will retain 525 current employees, adding 75 positions over the next three years and an additional 100 employees over the coming years. Rapidly expanding retailer Five Below doubled their Philadelphia office space to 60,000 square feet to accommodate anticipated employment growth from 145 positions to up to 280 over the next three years.

**Increase in Real Estate Development:** Real estate development activity is on the rise in Philadelphia. Since January 2014, approximately \$8 billion in construction activity in more than 130 projects has been completed, is under construction, or is in the advanced planning stages. In FY14, major completed projects included the Family Court Building at 15<sup>th</sup> and Arch Streets and five high-end apartment buildings in Center City with a total of over 1,100 units, which reflects a wave of investment in residential development across the city. Higher education institutions, such as the University of Pennsylvania, Drexel University and Temple University, continue to drive development of adjacent residential projects as well as buildings for office and academic expansion. Key projects soon to be completed include two towers providing a mix of office, luxury residential, and student housing by Brandywine Realty Trust at 30<sup>th</sup> Street between Chestnut and Walnut Streets and a new Mormon facility at 17<sup>th</sup> and Vine Streets. The 68,000-square-foot facility will include a Temple, a meeting house, green space, and an underground garage with capacity for 200 parking spaces. Many of these developers have utilized Commerce's Developer Services Program, which streamlines construction-related guidance for large projects.

Looking ahead, several transformative projects are on the horizon. Comcast's new Technology and Innovation Center at Arch Street between 18<sup>th</sup> and 19<sup>th</sup> Streets will become the tallest tower in the Philadelphia skyline and add an estimated 1.5 million square feet of rentable space, 6,500 temporary construction related jobs until the project is complete in 2017 and an additional 1,500 permanent employees for Comcast. The City has committed \$10 million in capital funding over three years (\$2.5 million in FY15 and FY16, \$5 million in FY17), to construct an underground concourse extension beneath 18<sup>th</sup> Street that will link the existing underground markets to the new tower. The FY16 budget commits the second of the three installments for this project. Also, a new 700-room Convention Center headquarters hotel under the combined W Hotel and Element brands will rise at 15<sup>th</sup> and Chestnut, made possible through Tax Increment Financing (TIF) legislation approved by City Council. Over the next five years, Commerce will continue to promote development along priority corridors such as North Broad Street, Market Street East and the Delaware River waterfront.

**Expanding Opportunities for Diversity and Inclusion:** The Department of Commerce also supports small businesses through its Office of Economic Opportunity (OEO) and the Business Technical Assistance Program (BTAP). OEO is committed to increasing the capacity and participation of M/W/DSE businesses on City, Quasi-Public Agencies, and Federally-funded contracts. The OEO Registry of certified firms has expanded to 2,272 businesses, a 72% increase over 2010.

The Business Technical Assistance Program (BTAP) contracts with six organizations that provide a range of services targeted to businesses on neighborhood commercial corridors, business owners with limited English proficiency, businesses in emerging industries, and other under-served entrepreneurs. In 2014 the City increased the microlending capacity of BTAP providers by providing four one-time Micro-Loan Fund grants through a competitive Request for Proposals.

Commerce funded the grants, which supported lending activities by providing funding for loan-loss reserves and general operating expenses, using remaining funds from the Philadelphia Commercial Development Corporation. The

awards were as follows: Finanta \$180,000; Entrepreneur Works \$120,000; The Enterprise Center \$100,000; and Women's Opportunities Resource Center \$100,000.

**Expanded Support and Resources for Small Businesses:** In addition to traditional methods of small business support Commerce has aggressively pursued new resources such as Goldman Sachs 10,000 Small Businesses Initiative and the Kiva City program, created new programs such as the InStore Program. The Goldman Sachs 10,000 Small Businesses Initiative in conjunction with PIDC and the Community College of Philadelphia which has served 170 companies since January 2013 has provided new capital and business development support for Philadelphia small businesses. In December 2014, Mayor Nutter announced that Philadelphia would become a Kiva City which will provide crowd-sourced 0% interest loans to small businesses. The InStore program, in its first 18 months, has assisted 21 businesses, through forgivable loans averaging \$44,000, in opening or expanding restaurants and retail on neighborhood commercial corridors around the city.

**STAFFING**

**Staff Demographics (as of December 2014)**

<i>Full-Time Staff</i>				<i>Executive Staff</i>			
		Male	Female			Male	Female
	African-American		African-American		African-American		African-American
<i>Total</i>	3		15	<i>Total</i>	0		1
<i>% of Total</i>	7.7%		38.5%	<i>% of Total</i>	0.0%		16.7%
	White		White		White		White
<i>Total</i>	12		4	<i>Total</i>	3		2
<i>% of Total</i>	30.8%		10.3%	<i>% of Total</i>	50.0%		33.3%
	Hispanic		Hispanic		Hispanic		Hispanic
<i>Total</i>	0		3	<i>Total</i>	0		0
<i>% of Total</i>	0.0%		7.7%	<i>% of Total</i>	0.0%		0.0%
	Asian		Asian		Asian		Asian
<i>Total</i>	1		1	<i>Total</i>	0		0
<i>% of Total</i>	2.6%		2.6%	<i>% of Total</i>	0.0%		0.0%
	Other		Other		Other		Other
<i>Total</i>	0		0	<i>Total</i>	0		0
<i>% of Total</i>	0.0%		0.0%	<i>% of Total</i>	0.0%		0.0%
	Bi-lingual		Bi-lingual		Bi-lingual		Bi-lingual
<i>Total</i>	1		8	<i>Total</i>	0		1
<i>% of Total</i>	2.6%		20.5%	<i>% of Total</i>	0.0%		16.7%
	Male		Female		Male		Female
<i>Total</i>	16		23	<i>Total</i>	3		3
<i>% of Total</i>	41.0%		59.0%	<i>% of Total</i>	50.0%		50.0%



**CONTRACTING**

**M/W/DBE Participation on Large Contracts  
FY15 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DBE Participation Achieved	\$ Value of M/W/DBE Participation	Total % and \$ Value Participation - All DSBEs	Living Wage Compliant?
Econsult	Disparity Study	\$75,000	11/1/10 with 3 amendments	7/1/11	MBE:	43%	\$32,250		Yes
					WBE:	0%	\$0	43%	
					DSBE:	0%	\$0	\$32,250	
JT Goldstein	Audit	\$9,399	5/29/14	7/16/14/to 6/30/15	MBE:	100%	\$9,399		Yes
					WBE:	0%	\$0	100%	
					DSBE:	0%	\$0	\$9,399	

## **OTHER BUDGETARY IMPACTS**

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### FEDERAL AND STATE (WHERE APPLICABLE)

The continued decrease in CDBG funding has an impact on programs within Commerce.

Commerce is hopeful that additional proposed state capital funding will assist more real estate development projects in Philadelphia.

### OTHER

N/A