Quality Jobs Tax Grant Program Design

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Executive Summary

In general, tax incentives are expensive, poorly designed, and difficult if not impossible to evaluate. At the same time, they are critical to the economic future of a city, state, or region and their ability to attract or retain businesses. They are popular among politicians for their ability to make a splash - creating jobs and scoring points with voters. The reality is there are too many programs that don't offer enough data on their performance. In Philadelphia alone there are 21 separate programs that offer economic incentives - the most among major cities included in a recent Pew Research center study. And yet, Philadelphia struggles with growing the right kinds of jobs - those offering good wages, health insurance, and other benefits that help families thrive. To make better use of funding dedicated to economic incentives, Philadelphia and cities across the country must embrace transparency, evaluation, and inclusive policies that maximize benefits for all residents. The Quality Jobs Tax Grant program represents a design that incorporates these ideas and much more by relying on best practices, high-quality research, and expert opinions. Improvements will be needed across the full portfolio of economic incentives, but Quality Jobs can serve as the new standard for inclusive growth incentives in Philadelphia.

Tax Incentives and Economic Development

Economic development and tax policy will always be closely linked. Many members of the public may even assume that they are one in the same, and that would be easy to understand. Incentive deals are easy to understand at a high-level - company A receives $X to create Y jobs in my region. They are also easy for politicians and administrators to communicate as winning policy for their constituents. When the next election comes along, they will be quick to point out all of the high-paying jobs that they alone created through their brilliant political actions. In reality, economic development is an incredibly complex and interdependent process in which tax incentives play a role. Explaining that a company chose another municipality because our workforce is less talented or that others wouldn't want to move into town is not a winning message. Claiming it was because someone else paid them more for the privilege keeps the administration off the hook.

The most famous recent example of this was the Amazon HQ2 RFP. In 2017, the tech giant sent out a public call for proposals in search of their proposed HQ2 project. The prize, collected over ten to fifteen years, included as many as 50,000 jobs with average annual salaries over $100K (HQ2 RFP 2017). What followed was months of frenzy from every municipality in the country - a non-stop courtship to be the brightest jewel in any Mayor or Governor's economic development crown. The types and sizes of incentives offered were staggering - 99 year income tax discounts, billions in grants, and tax credits that would all but eliminate Amazon's annual tax burden. It would be easy to take the cynical approach and point to these cartoonish bags of cash as what Amazon was after all along. In reading the RFP closely though, one finds a list of priorities that does not emphasize taxes (HQ2 RFP 2017).

- Metropolitan areas with more than one million people
- A stable and business-friendly environment
- Urban or suburban locations with the potential to attract and retain strong technical talent
- Communities that think big and creatively when considering locations and real estate options

Based on that list, it could be argued Amazon was always going to choose somewhere like New York City or Washington, DC. Both cities represent excellent social and economic environments for any business. But both cities were “outbid” by other municipalities in their region (Florida and Bartik 2019). In Virginia, much of the subsidy was in the form of extensions to the Virginia Tech campus and public transit - both are much more expensive but offer much more long-term value than other bids (Florida and Bartik 2019). Yes, business-friendly could be read as having low taxes, but given that Amazon was very explicit about tax credits further in the document it’s reasonable to take it in a broader sense. Locations that are business-friendly provide great amenities for employers and employees alike, and prioritize high-quality jobs for their residents. Of course, Amazon will likely get billions in tax relief for their efforts, but if it were simply a contest to give away the most money, then other options might have been better deals for Jeff Bezos.

Since not every city or town is the center of the political or financial universe, municipalities continue to compete on the financial playing field. A 2012 investigation by the New York Times found that more than $80 billion per year was given away by governments at all levels (Story 2012). While this figure has aged a bit, citing any statistics in the aggregate has been nearly impossible. The Times found that many municipalities don’t know the value of the incentives they’ve provided, and even where they do track the value, they rarely track how many jobs are eventually created (Story 2012). More recently, researchers at Princeton University published a study based on a unique dataset of state tax credits and firm-specific subsidies. The authors used a new methodology in an attempt to analyze comprehensive data - combining “expenditure-based” and “narrative-based” counting. They estimated a much lower figure - $30 billion annually - which was attributed in part to double-counting as “firm-specific subsidies can be recorded twice, both as the individual subsidy deal and as part of the total state spending on an incentive program” (Slattery and Zidar 2020). At the same time, Slattery and Zidar’s data included only state and local governments, so the true total amount is still higher than the estimate.

The average across these subsidies show businesses received approximately $178 million per deal in exchange for 1,500 jobs created (Slattery and Zidar 2020). Calculating the cost per job, a simple ROI measure, actually becomes quite complicated. One must consider everything from job churn and its associated costs to a business to discount rates on investment (Slattery and Zidar 2020). However, dividing the average cost per-job of a subsidy ($120,000) by 10 years - the dominant timeframe for deals analyzed - yields an average cost per-job per-year of $12,000 (Slattery and Zidar 2020). When examining the upper and lower limits, one finds a huge variation across municipalities - from $1,300 per job at the 10th percentile to $100,000 at the 90th (Slattery and Zidar 2020). One potential factor at the high end is industry, where an in-demand sector might promise fewer jobs but a significant capital investment, are less mobile as a result, and have shorter tracks to becoming a full taxpayer (Slattery and Zidar 2020). Given the wide range of firms, municipalities, and associated outcomes, it would be difficult to say one way or another whether these expenditures are “worth it” to the municipalities who make them.

While every scenario is different, the firm-specific deals appear to be the worst of the bunch. Slattery and Zidar tracked 543 subsidies between 2002 and 2017 which totalled $96 billion alone (Slattery and Zidar). Comparing subsidy receipt by establishment size to the universe of establishment entry in the Census Business Dynamics Statistics reveals that more than 30 percent of all establishments with over 1,000 employees receive discretionary subsidies, while the percentage is less than 0.2 percent for establishments with under 250 employees. Taking a single year as an example, in this case 2014, we see the extent of the inequality inherent to the award process. In that year, it was estimated that 670,000 businesses established a new office location across the United States. Those firms created more than 5 million new jobs in those locations. States handed out nearly $7 billion to just 48 firms who promised to create 50,000 jobs. That means for the year 2014, states spent about a third of all state incentive funding on incentives that went to just 1.4% of all jobs created (Slattery and Zidar 2020).

In contrast, a well-designed incentive can have benefits beyond its total cost. Municipalities can achieve this by considering opportunity costs and policy goals, as well as financing for the eventual awards. A set of simulations run by the UpJohn Institute showed that cutting back on services that deliver significant value such as K-12 education have very negative effects on local incomes and highly regressive effects on the income distribution (Bartik 2018). It also showed that who gets hired matters a great deal. In groups designated as low- and middle-income, incentive effects are greater if local unemployed people move into the newly created jobs as opposed to people migrating in to fill the roles. The analysis also found timing of payments can have a significant impact on the effectiveness of incentives. Following the typical uniform payment schedule (i.e. 1/10th each year for 10 years) is highly inefficient, whereas moving to a full upfront payment could lead to impact 1.5 times the cost (Bartik 2018).

All of this research concludes that economic incentives have historically missed the mark in terms of equitable outcomes and sustained economic growth. While tax incentives are only one piece of the economic development puzzle, they do have an important role to play in attracting and retaining firms. Given Philadelphia’s status as one of the poorest big cities in America, the City can ill-afford to continue with expensive policies that do not result in a more robust and inclusive economy. Incentives must be well-designed - prioritizing equity, effectiveness, and the ability to measure and report on activity to the taxpayer. Through our most recent work on the Quality Jobs Tax Grant, the Department of Commerce believes we can use these policy tools to improve the well-being of underemployed and low-income workers in Philadelphia.

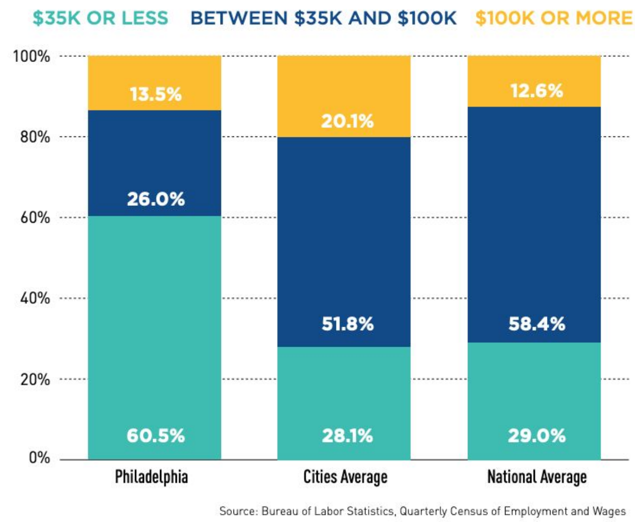
Context to Program Development

Since 1970, Philadelphia's economy has developed into a tale of two cities. In the two largest "job nodes" - Center City and University City - there has been great strides in job growth, poverty reduction, and tax revenue generated to the City. In fact, even the most recent recession ending 2010 did not significantly slow this progress - the city added people and jobs every year since ("Growing with Equity" 2019). Unfortunately, in many neighborhoods the story has been the opposite. Continued disinvestment in areas like West Philadelphia, North Philadelphia, and Kensington has led us to our dubious distinction of having the highest poverty rate of the 25 largest cities in the United States ("An Incomplete Revival" 2018). At the end of the day, Philadelphia doesn't have the quantity nor quality of jobs needed to compete with other major cities in the United States.

In 2019, the Kenney Administration published "Growing with Equity,"a plan to extend the benefits of Philadelphia's economic growth to every corner of the City. The guiding principles include an emphasis on economic inclusion and growth, calling them "interdependent" ("Growing with Equity" 2019). Three goals are identified to help achieve the Mayor's vision. It should be no surprise that the number one goal of the initiative is "Grow the economy to create family-sustaining jobs for all Philadelphians" ("Growing with Equity" 2019). The strategies identified to achieve this goal shine a light on how complex economic development truly can be in a large city like Philadelphia. Everything from tax efficiency to support and services for businesses to a global brand identity are included, and that's only for one of the three goals ("Growing with Equity" 2019). The emphasis on family-sustaining jobs is meaningful, but creates a much higher standard for Philadelphia and challenges policy-makers and businesses to address wage gaps across demographics.

Of all jobs created in Philadelphia since 2009, 60.5% are in sectors that pay on average $35,000 or less ("An Incomplete Revival"). It is better to have one of these jobs than be unemployed, but for a family of four, this income would put you at 133% of the poverty line (US HHS Poverty Guideline 2020). Only 26% of jobs created since '09 are in sectors paying family sustaining wages between $35,000 and $100,000 ("An Incomplete Revival" 2017). When looking at the national level, it is a mirror image of Philadelphia. Over the same timeframe, 29% of all new jobs created in the United States pay $35,000 or less, while 58.4% pay between $35,000 and $100,000 (Figure 1, via "Growing More" 2019). At the upper end of the wage scale, Philadelphia is actually slightly above average(13.5%) of recently created, local jobs paying over $100,000, compared to 12.6% nationally. That figure lags far behind the group of 25 largest cities, where 20.1% of the recently created jobs pay more than $100,000 ("Growing More" 2019).

Figure 1



One potential reason for this disparity could be the business income and receipts tax (BIRT), which taxes profits and revenue of businesses located in Philadelphia. Only 11 of the nation's 30 largest cities impose levies on corporate profits or revenue, and Philadelphia is the only city which taxes both. Research found that Philadelphia has 21 city-approved business tax reduction programs or provisions, the most among the nation's 30 largest cities. Known as tax expenditures, they constitute an integral but little-understood aspect of the city's business tax policy. Supporters view the expenditures—which do not appear in the city's budget or financial statements—as investments in growing, maintaining, and attracting businesses, thereby enhancing the tax base. Critics see them as drains on public resources that have little accountability, major design flaws, and, in many cases, no evaluation required by law (Warner 2016).

Economic development is about far more than tax policies and incentives, but these can make a difference when employed strategically. Well-designed incentives that allow for consistent evaluation and improvement must be pursued in all cities, especially Philadelphia. Mayor Kenney and his administration included "Deploy smart business incentives" as a key strategy to creating an inclusive economy ("Growing with Equity" 2019). To this end, in 2019, the City worked with HR&A Advisors to conduct an evaluation of seven of its 21 incentive programs. Their findings pointed to a lack of equity and effectiveness in most of the programs studied. Following the presentation of the report to the City Council, the Department of Commerce began a process to design the first new incentive program that would leverage the evidence-based recommendations from HR&A. The goal was to design a pilot program that would eventually serve as the new standard for economic incentives in Philadelphia.

Program Design

Previously, Philadelphia's economic incentive programs were developed ad hoc across many different administrations and economic climates. Some were designed to increase investment such as the Keystone Opportunity Zone (KOZ) which the city participates in through a state program. Others had very narrow focuses, like the Sustainable Business Tax Credit (SBTC) designed to encourage businesses to improve their social or environmental impact (“Philadelphia Incentives” 2019). Like many cities, there was no requirement for Philadelphia to evaluate these programs and share data with the public. In 2017, legislation was passed (Eichel and Chapman 2017) that mandates an evaluation of programs periodically, and one such evaluation was carried out in 2019. HR&A Advisors reviewed seven of the city's 21 economic incentives and reported their findings in three key areas: efficiency, efficacy, and accountability (“Philadelphia Incentives” 2019). What they found was not unexpected - an inconsistent and often underutilized system that is ripe for improvement.

HR&A identified challenges and provided recommendations to improve the portfolio overall. In particular, program evaluation and peer benchmarking were highlighted (“Philadelphia Incentives” 2019). The analysts pointed out our relatively complex tax structure, overlapping programs which undermines efficiency, and the lack of centralized administration of the programs which harms communication and marketing efforts (“Philadelphia Incentives” 2019). The recommendations, which were also provided at the portfolio level, provided the Department of Commerce with direction for a redesign of the incentive creation process. These included an emphasis on consolidating programs, common standards for evaluation and comparisons, and better publicity of available programs to businesses (“Philadelphia Incentives” 2019). Based on the report and recommendations as a foundation, the Department of Commerce presented its results and next steps to City Council in September 2019.

Using this report as a launchpad, the Department of Commerce elected to design a new process and a new incentive program that would incorporate the recommendations of HR&A as well as best practices from across the country. When looking for a particular area for focus, the data on wage growth in Philadelphia and the Mayor’s goal to increase family-sustaining were very compelling. It also aligned well, in our minds, with the second goal of “Growing with Equity” and the needs of small businesses to enhance their ability to compete for talent and retain their employees. Commerce worked with City Council staff to assemble a Working Group that would contribute to the design process of the new incentive. Representatives from six councilperson offices, plus several members of City Council staff and several members of the Department of Commerce held meetings between September 2019 and December 2019. Appendix A covers the list of meetings, dates, and topics discussed by the attendees. Facilitation of this group was challenging - each member, understandably, had strong opinions on the use of taxpayer funding and concerns about adding a new program to a crowded list. In the end, Commerce balanced research from experts with the reality of policymaking in Philadelphia.

In an effort to create a shared background knowledge for the Working Group, the Department of Commerce conducted significant research on similar programs across the country - at the state and city level. Summarized below are a few key design elements the Working Group considered based on the examples we analyzed. As one would expect from the research previously shared, none of these programs provided much transparency in their reporting, which meant we had to make our own judgement to the effects of any program design choices.

- **Wage requirements**: Minimum hourly/annual wage per job (Indianapolis, IN Opportunity Jobs) vs. Minimum total payroll added in contract period (Louisiana Quality Jobs Rebate)
- **Benefit levels:** Required to pay at least 50% of health insurance cost (Oklahoma Quality Jobs Incentive Program) vs. No requirements for health insurance coverage or access (Several programs)
- **Geographies:** Increased incentive for downtown location (Columbus, OH Downtown Office Incentive) vs. Increased incentive for low-moderate income areas (San Diego, CA Business Incentive Program)
- **Amount of award:** Percentage of tax withholdings (Columbus, OH Downtown Office Incentive) vs. Range $10K to $100K depending on bonus categories (San Diego, CA Business Incentive Program)

We also reviewed best practices for design and evaluation of incentive programs from organizations like the Pew Research Center, W.M. UpJohn Institute, and Brooking Institute. We focused on a few key factors from those reports in our program design, and those are highlighted below:

- **Embracing transparency and evaluation:** Understanding there are always resource constraints, investment in datas tools not only support transparency and evaluation, but also help target future incentives and programs (Parilla and Liu 2018).
- **Timing of incentive payment matters:** Uniform payments over the contract period are inefficient and limit benefit to the recipient businesses. One study showed paying up-front can increase the impact of an incentive by 1.5x the budget cost. (Bartik 2019).
- **Selecting metrics for measurement:** There is no single correct metric or benchmark to use when evaluating. However, it is critical that metrics align with policy goals and are consistent across similar programs in your jurisdiction (Chapman, et al. 2014).

Through this process, we identified several models of how to structure the program, how to measure success, and how to award funding. In addition to our policy goals of improving equity, we also wanted to ensure strong measurement of our effectiveness. Not only will this help move towards a culture of better reporting on incentives, but also will help to address any challenges or opportunities following the pilot test of the program in 2020. In the end, the Working Group produced a Framework document - see Appendix C - that included the goals, structure, and administrative details of the Quality Job Tax Grant. It represents months of debate and research including the best of every model we could uncover.

We then shared the Framework document more broadly to receive input and feedback from stakeholders who were not part of the design process. Our goal was to check our assumptions, as well as incorporate expert opinion on the elements we disagreed on most during the Working Group phase. Appendix D1 provides a list of participants in our review process, which were conducted as a combination of very informal interviews using a core set of questions (see Appendix D2) and follow-ups through email if schedules required. In general, we found those we spoke to were aligned to the program's specific goals, but many differed in their opinion of how to award funding. We provided two payment models, which attempted to balance cash outlays to businesses with the expected return on investment via wage taxes, and neither seemed to be a clear winner among the interview subjects.

Another one of our key review partners was the team at Pew Research Center, who attended a Working Group meeting to answer questions from our team and then analyzed our Framework document. Based on their review of our documentation and consultation with internal stakeholders, their team shared the following recommendations:

- Prioritize industries that would grow the city's economy overall;
- Consider alternatives to targeting benefits geographically;
- Clarify and reassess the award processes; and
- Ensure the city collects data to monitor compliance and evaluate effectiveness.

All of these points have been included in the process from the start, but the Department of Commerce agrees these can be clarified or updated in our documentation. Among the most relevant questions they answered was whether an ideal award amount existed and how a given award level impacts effectiveness. The team cited Bartik who found that larger awards may lead to larger impacts, but also cost more in terms of opportunity cost which roughly balances out (QJP Memo 2020). The Department of Commerce will consider Pew Research Center's feedback in the finalization of the program design in Summer 2020.

Evaluation & Measurement

The Department of Commerce and the Working Group emphasized outcomes throughout the design process. Given what HR&A showed about the number of offerings, what was the point of adding a new program if it wouldn't be effective? In the Framework document, we have provided a rough outline of how we would envision the program evaluation to be conducted. The legislative mandate is once every three years, but there will need to be an evaluation of the pilot after year one for administrative purposes.The evaluation would need to be balanced with the ability and willingness of businesses to provide accurate data. The Pew Research Center provided three key recommendations for states (Chapman and Goodman 2018) that can be applied to Philadelphia as well:

- **Ensuring access to existing data**: Enact policies to allow analysts access sensitive information by using de-identified data that can facilitate high-quality analyses.
- **Collecting new information**: Self-reported data is limiting, but some states have updated overall business reporting requirements to facilitate improved analyses.
- **Conducting high-quality analysis**: Using approaches that rely on fewer raw metrics like meta-analysis of similar program evaluations and best practices can be a useful complement for quantitative analyses.

Hopefully with updated data collection practices in place, evaluating the Pilot will be a more straightforward undertaking.

Following the pilot, the Department of Commerce will need to focus on a few key research questions. Those should include:

- What are the strengths of and challenges with the current program design?
- What are the demographics of those participating in the program - both businesses and employees?
- How has the Quality Job Tax Grant changed participants' outlook for future hiring?

Strengths and challenges may be obvious, but would be critical to future iterations of the program. In order for it to remain employer and employee centered, understanding the successes and pitfalls will be crucial. Demographics are a major point of policy interest for Commerce. As we covered in the research phase, ensuring incentives help those who need them most will help our program succeed where historically they've fallen short. Finally, understanding the impact on outlook for employers in terms of their likelihood to increase wages and benefits can serve as a baseline of data. That type of impact will absolutely be long-term, and should be treated as such in future evaluations.

Key metrics will relate to the outputs of the program, so in addition to survey data, administrative information from applications and audited payrolls will be required. These data points might include:

- Total dollar amount invested in jobs
- Number of jobs “created” or “upgraded”
- Number of small businesses/minority-owned businesses accessing program
- Average cost to the City per job
- Average wage of new jobs
- Total dollar amount generated in new wage taxes

To ensure long-term sustainability of this new program, the Department of Commerce will need to collect and present data showing its benefit to the City. Fortunately since the program is transactional, tracking the impact should be relatively simple. The program administrator will be able to calculate the total numbers based on applications and outlays of funding after the award decision. Cost to the City per job will be an imperfect measure - would the job have been created without this incentive? These “but for” analyses are difficult to conduct in practice and questions remain about whether they are effective, but a simple calculation of the average cost per job per year would allow for comparison with other municipalities as well as future iterations of this program and others the City manages.

Outcomes won't be quite as relevant to the pilot, though we might begin to see some directional change and anecdotes that point to improvements in these areas. Some of the key medium-to-long-term outcomes should be:

- Growth of small businesses
- Relative growth of participant businesses vs. average Philadelphia business
- Simple ROI to City (Wage Tax Generated/Amount Invested)
- Percentage of jobs available to Philadelphians with a 2-year degree
- Increase in jobs paying a living wage

These outcomes are very well aligned to our state policy goals in the Framework document. There is a focus on small businesses, equal opportunity for employees with less than a four-year degree, and an overall increase in jobs paying a living wage. All of these outcomes can be impacted by wider factors such as the economy, competing policy decisions, and business practices. While it will be difficult to exclude many of those variables, a focus on participant businesses versus a representative group of non-participants could be one way to isolate our impact to a limited degree.

Recommendations & Next Steps

Since the project first began in September 2019, much has changed in Philadelphia and beyond. Given the outlook as of May 2020, it is amazing how drastically different the picture was a few months ago. Last year the administration deposited $34 million into its rainy day fund for the first time ever. The City also managed to set aside $55 million in reserves to guard against any federal funding cuts by the current White House. This year, revenues were on track to once again be greater than expected allowing for similar deposits in both funds (McCrone and Vargas 2020). The Department of Commerce was focused on pursuing programs like this one that would increase equity in this new era of sustainable growth.

Instead, the COVID-19 pandemic has led to more than 30 million Americans losing their jobs, as of May 1, 2020. Mayor Kenney made the difficult but necessary decision to overhaul the city's budget for 2021 and corresponding Five-Year Plan to align with the reality of the situation. Some estimates show a nearly $650 million budget hole created by lack of wage taxes, tourism, and other economic factors (McCrystal and Collins 2020). The Department of Commerce has rightly shifted their focus to supporting the small businesses that support Philadelphians - already disperings nearly $3.5 million in grants and loans to more than 560 of those businesses (Briggs and Cohen 2020). When the time comes, there are three next steps that should be prioritized:

1. Testing Quality Jobs Tax Grant with business owners
2. Update and validate Framework documentation with leadership
3. Deploy targeted marketing and communications plan

Due to the timing of our work and the onset of the crisis, we did not test our ideas with a diverse set of small businesses as we intended. Once the peak of the crisis is past, this would be the best next step for the Program. Businesses have struggled to adopt past programs ("Philadelphia Incentives Study" 2019) so understanding how to communicate and facilitate their application is a key point to uncover. This can be derived from interviews and/or surveys if the Department finds that time is tight and a more flexible option is better. Data from the exercise should be shared with the Office of Neighborhood Business Services for their input and any insight they can provide. Ideally, a single online location would be developed to host all economic incentive information, per HR&A recommendation ("Philadelphia Incentives Study" 2019). Implementation of the Business Acceleration Team (BAT) referenced in "Growing with Equity" might also add value by connecting eligible businesses to programs like Quality Jobs.

Once the research is complete, it will be necessary to conduct another internal review of the framework. This process would have two major goals: 1) confirm and specify the application and process for submission and review, and 2) adjust award amounts and process to improve the likelihood of adoption by businesses. The Working Group was very clear on the need to address both of these areas in particular as being key to successful adoption. The Pew Research Center provided guidance in these areas, and business feedback will be available to incorporate as well. The Department of Commerce should have as close to complete information as would be reasonable at this stage and can move to close out the design phase. Final review and approval of the framework for program administration should be reviewed internally by the Department of Commerce staff, but no additional feedback should be sought until following the pilot of the program.

To roll out the program to the business community, a simple communications plan has been developed (see Appendix E). The plan highlights several opportunities for spreading the word on the Quality Jobs Grant Program, and includes suggested channels and data points to track for feedback. Included for the purposes of long-term planning are recommendations from HR&A to develop digital tools to determine eligibility as well as "concierge-style" service for business attraction and retention ("Philadelphia Incentives Study" 2019). A key consideration for the communications plan was the work of Damon Centola, a researcher and professor at the University of Pennsylvania. His research on how behaviors spread emphasizes social influence and spatial factors that produce more reliable adoption of new behaviors (Centola 2018). In our plan, this correlates to the "business influencer campaign" - an opportunity to identify central figures in each neighborhood to enlist in our communications. By taking advantage of overlapping social networks in the areas where small business owners live and work, we should be able to drive higher adoption rates than prior incentive programs.

Ultimately, the program should aim to attract as much attention and as many applications as possible. In opposition to current programs which lack transparency and aren't widely known in the business community, Quality Jobs should stand alone in its reception. If the money available for the pilot is indeed claimed very quickly, that in itself would be a sign of success in the program. As an added bonus, a broad adoption of the pilot program would ideally provide more data for a more successful evaluation. By capping the total amount of funding available in the first phase, the exposure to the Department of Commerce and City can be limited. Any future offering of the incentive could be tailored to slow adoption or increase the available total accordingly.

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Appendix A - Working Group Meeting Schedule and Topics

Meeting Topic	Date	Notes
Working Group Strategy / Planning Meeting	9 - 27 - 2019	Met with core working group to determine necessary list of stakeholders to invite to regular meetings
Kick-off Meeting	10 - 11 - 2019	Met with full Working Group to discuss parameters for the project as well as roles and goals
Goals and Questions to Answer	10 - 17 - 2019	Reviewed consolidated goal categories from prior meeting and discussed priorities / questions to answer
Goal Statement	10 - 28 - 2019	Drafted goal statement collaboratively based on prior input from Google Forms completed by meeting attendees
Definition of a Quality Job & Grant Categories	11 - 08 - 2019	Discussed specific requirements for a quality job, plus preliminary discussion on what types of categories we needed for grant applicants, if any
Review Draft Framework	12 - 06 - 2019	Reviewed feedback from meeting attendees submitted prior via Google Forms and agreed to edits based on discussion
Review Award Amounts / Pew Q&A	12 - 20 - 2019	Discuss potential award amounts and their associated costs/benefits to grantees and the City; Representatives from Pew Research Center attended to answer questions and provide feedback to the Working Group

Appendix B - Selected State and Local Quality Job Tax Incentive Programs

					Quality Job Definition			
Office / Location	**Name of Program**	**Type of Compensation**	**Amount of Award**	**Timeframe**	**Wage Requirement**	**Health Insurance Requirement**	**Industry/Sector**	**Geographies**
City of Columbus (OH)	Downtown Office Incentive	Cash payment	50% of tax withholdings on qualified jobs	Negotiated term	N/a	N/a	N/a	Downtown Columbus gets a higher incentive (50%) than elsewhere (25%)
City of Cleveland (OH)	Job Creation Incentive Program	Cash payments (annually)	Up to 0.5% of new payrolls	Three years	Must be full-time, W-2 jobs but no minimum salary requirement; must create at least 5 new jobs; can be used by expanding or new businesses	N/a	Excludes restaurants, retail, daycare, and 1099 jobs	Any
Oklahoma Department of Commerce	Quality Jobs Incentive Program	Cash Payments (Quarterly)	5% of new payrolls over 10 years (at least $2.5MM in payrolls to qualify)	Must hire a minimum amount over 12 quarters	Minimum average salary for added payroll based on county where jobs are located; maximum in the state currently would be $34K annually	Must offer Health Insurance and pay at least 50% of premium for all workers completing at least 30 hours per week	Must be in defined sectors - though it is fairly broad including everything from retail to manufacturing to insurance processors	No requirements, though there are potential inclusions for companies who have at least 75% of sales outside the state
Louisianna Economic Development	Louisiana Quality Jobs Rebate	Cash rebate	$18/hour: 4% rebate $21.66/hour: 6% rebate	Advances are valid for 24 months	For 50 employees or fewer: 5 new jobs and $225,000 payroll 51 employees: 15 new jobs and $650,000 payroll	Provide a basic healthcare plan that is in compliance with federally mandated healthcare requirements or, if no federally mandated healthcare requirements exist, shall be determined to have a value of at least one dollar and twenty-five cents per hour	Bioscience, Manufacturing, Software, Clean Energy Technology, Food Technology, Advanced Materials, Headquarters of Multi-State Businesses, Aircraft MROs or Oil & Gas Field Service	Not a requirement, but employers located in one of the bottom 25% of parishes based on per capita income are eligible for the incentive regardless of industry/sector
Michigan Economic Development Corporation	Michigan Economic Development Program	Grants, loans and other economic assistance	$7,000 - $8,000 per job (based on Pew conference)	Determined based on project	No requirement, but considered when awarding incentive	N/a	Any but certain sectors such as high-tech jobs have lower minimums for eligibility	Any
Michigan Economic Development Corporation	Good Jobs for Michigan	Retained withholding taxes via certificates	50% to 100% of withholding taxes on created jobs	Must complete hiring within 5 years	At least equal to prosperity region average wage; NOTE: number of required jobs drops if wages are 125% of this wage	N/a	Any but only 15 projects per year	Any but only 15 projects per year
City of Austin (TX) Economic Development Department	Business Expansion Program	Dependant on which category of hiring an employer quailfies for (Existing Expansion, Opportunity Employment, External Relocations)			Must be above median industry wage	Must offer Health Insurance OR provide access to it in a meaningful way as defined by city; must also extend to spouses / domestic partners	Any	Any
Indy Chamber (Indianapolis, IN)	Opportunity Jobs	Not an incentive program, but rather another definition for us to consider	N/a	N/a	Pay at least $37,440/yr or $18/hr	"Employer-sponsored"	N/a	N/a
City of San Diego (CA) Economic Development Department	Business Incentive Program	Tax credit	Range from $10K to $100K depending on bonus categories	3 years	Must hire 10 employees OR 3 employees if located in a low-moderate income area; Wages must be 80-120% of area median income (in 2018 it was $46K-69K)	N/a	N/a	Any but bonus for location in low-moderate income areas

Appendix C - Quality Job Tax Grant Framework

City of Philadelphia Department of Commerce

Quality Jobs Program Framework

DRAFT DOCUMENT - Updated **March 5, 2020**

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Application 6
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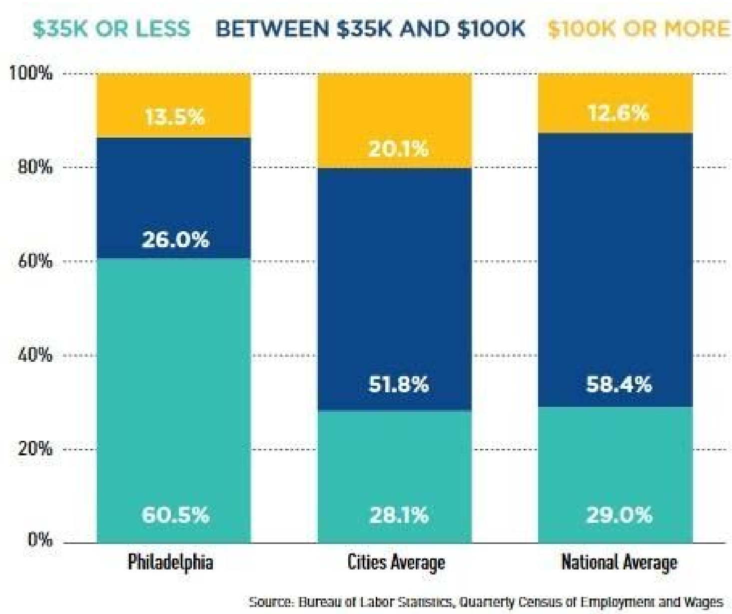
Evaluation / Reassessment 7

Context to City Program Development

In recent years, Philadelphia has enjoyed the benefits of a strong national economy and robust job growth. After decades of population and job decline, people and businesses are returning to the city. In 2018, Philadelphia grew private sector jobs at a rate of 2.3%, exceeding the average of the 25 largest cities (2.1%) and the national average (1.8%).

However, Philadelphia faces many challenges related to sustained economic growth. While Philadelphia has enjoyed 9 straight years of economic expansion, Philadelphia has also lagged behind competitor cities over the same period of time. Some challenges to Philadelphia's economy include a challenging business tax structure (Philadelphia is the only major city to tax gross receipts and net income, while also levying a wage tax on both residents and non-residents), low educational attainment (73% of working age Philadelphians do not have a four-year degree), low labor force participation rates (59.6%), and high poverty (24.5%). Additionally, recent studies have shown that much of Philadelphia's job growth has been concentrated in jobs that pay lower wages, as shown in the chart[1] below.



A recent third party evaluation of Philadelphia's economic incentives found varying levels of adoption, effectiveness, and inclusivity among 7 of the city's 21 business tax reduction programs. The report resulted in a recommendation to consolidate job creation tax credits into a more streamlined, effective, and accessible job creation grant. This recommendation is in line with the City's inclusive growth strategy, "Growing with Equity.

[1] 60.5% of jobs added between 2009 and 2018 pay $35,000 or less (Center City District, 2019).

Program Overview

Goal Statement

The purpose of the Quality Jobs Program is to encourage inclusive economic growth by providing grants to businesses based on the creation of new, quality jobs in Philadelphia that are accessible to more Philadelphians.

Guiding Policy/Principles

The Quality Jobs Program will be [has been] designed in conjunction with multiple stakeholder groups, including by not limited to economic development professionals within the City of Philadelphia, City Council staff, outside policy experts and analysts, and business organizations, accountants, and owners. Significant policy research has been performed to identify best practices. A working bibliography of the sources reviewed is available for reference.

The City of Philadelphia's Inclusive Growth Strategy, third-party evaluation of existing incentives, and stated policy goals related to economic development will guide the implementation of this program.

Program Requirements

Definition of a Quality Job

For the purposes of this program, the definition of a Quality Job is as follows:

- Jobs must be located in Philadelphia
- Job must be filled by a Philadelphia resident
    - Residency (permanent address) must be established at the time of employment or within 6 months of hiring
- Full-time, permanent position
    - 30 hours or more per week or 1,500 hours or more per year
    - Job must be defined as permanent- cannot be defined as a temporary position or independent contractor
- Pays the Philadelphia Living Wage[2] or annual salary of at least $30,000/year
- Provides employer-sponsored health insurance
    - Employer covers at least 50% of the cost; OR
    - Employer facilitates access to health insurance coverage (for example, by providing a stipend to purchase insurance on the healthcare exchanges)
- Paid time off
    - Employer must offer a benefit to match or exceed the current City requirement for paid sick leave (1 hr for every 40 hours worked), regardless of the number of employees

Additional Requirements

- Recipients must comply with all other local, state, and federal laws and regulations that are currently in place.
- The City of Philadelphia Living Wage must be paid to all Philadelphia-based employees of the business receiving the incentive.
- Recipients of a Quality Jobs grant/loan are not eligible for the Philadelphia Job Creation Tax Credit in the same year that any grant funds are received.
- Recipients *may* access the Fair Chance Hiring program in addition to the Quality Jobs Program for the same position, so long as they meet the requirements set out by both programs.

[2] Living wage is set at $13.25 as of July 1, 2019; $13.75 as of July 1, 2020; $14.25 as of July 1, 2021; and $15.00 as of July 1, 2022.

Program Tiers

	Small Business Quality Jobs	High Impact Quality Jobs
Minimum Job Creation	6 new in 3 years, up to 50 jobs	50 new or retained in 5 years
Qualifications	To qualify, the business must be locally and independently owned and meet EITHER of the following criteria: -Business is owned by someone who is economically disadvantaged (net worth less than $250k); and/or -Business is located in a low-income census tract	To qualify, the business must meet ALL of the following criteria: -Project includes capital improvement component of at least $ million -Project is deemed to have high economic impact due to hiring plans, sector/industry, local investment, or other criteria -Project can demonstrate high potential for success
Payment Model A	-$5,000 grant per job	$2,500 per job disbursed as forgivable loan
Payment Model B	-10% of annual wages, up to $6,000 per job[3]	-7% of annual wages, up to $6,000 per job[4]
Caps and Set-Asides	-Cap: $100k per business per year -At least one-third of total Quality Jobs commitments will be made in the Small Business category annually	-Cap: $1 million per business per term of agreement

Payment Examples (Totals)[5]

	Job Creation	Avg. Annual Sal.	Payment Model A	Payment Model B
Small Biz	20	$40,000	$100,000	$80,000
High Impact	80	$80,000	$200,000	$448,000

[3] 3-year wage tax return on investment of 10%
[4] 5-year wage tax return on investment of at least 161%
[5] The Working Group considered several models for the award amount and payment schedule. We believe Model B (the percentage model) smooths out differences in wage levels above and beyond the $15/hr minimum. Capping the payment per job in each tier allows for more predictability in terms of outlays in each year of the program.

Administration – Small Business Quality Jobs Grant

Application

- Firm completes online pre-screen application.
- If criteria are met, firm submits additional documentation for grant based on anticipated qualified job growth, such as:
    - General description of business
    - Business plan
    - Project information
    - The Commerce Department reserves the right to request financial statements as part of the application process
- Applications reviewed on a quarterly basis and firms are notified if they are approved and provided with a beginning and ending date for the term of the agreement.

Job Verification/Payment

- To verify job growth, firm is required to submit a certified payroll, BIRT receipts, and Wage Tax receipts to the Department of Commerce every 12 months.
- After documentation is received and jobs are verified, payments administered by PIDC based on the prior 12 month's qualified job creation.
- To minimize the need for clawbacks:
    - Grants will be provided only *after* the job creation takes place.
    - Grounds for terminating an agreement and clawing back funds include:
        - Intentional violation of local, state, or federal laws; and
        - Submitting false documentation during the application or job verification process.
        - The Commerce Department may choose to not clawback funds if a business makes a good faith effort to create the required minimum number of jobs but falls short due to economic conditions or unexpected emergencies.

Administration – High Impact Quality Jobs Award

Application

- If a business wishes to locate or expand in Philadelphia and believes it meets all of the criteria of a high impact project listed above, the business should contact the Office of Business Development at (###) ###-#### or *****@phila.gov.
- Business will be asked to provide documentation such as:
  - Overview of business and plans for growth
  - Project information, including anticipated location/lease terms and investments in leaseholds improvements, equipment, furniture, and fixtures
  - Projected job creation and average salaries
  - The Commerce Department reserves the right to request financial statements as part of the application process
- Upon review of the application, the Office of Business Development will determine if the project meets the criteria of the High Impact Quality Jobs program [and notify the business within 30-60 days?]

Forgivable Loan Terms

- The Office of Business Development reserves the right to withdraw the offer if not accepted within 60 days from notification.
- Funds will be disbursed by the Philadelphia Industrial Development Corporation on behalf of the City of Philadelphia at the outset of the project.
- Prior to disbursement, a business may be required to show:
  - An executed lease agreement a minimum number of years,
  - A construction contract for development of a location,
  - Evidence of tenant improvement work and/or purchase of equipment, fixtures, and furniture.
- Firms will be required to submit documentation on an annual basis containing information about the number and types of jobs created, salary and benefits offered, and capital investments made.
- Funds shall be disbursed as a loan repayable after the fifth anniversary of the issuance of a certificate of occupancy at an interest rate of 0%.
- However, $2,500 shall be forgiven for each full-time equivalent position retained at the site in the last 6 months of the 5-year period, up to the agreed upon amount of the loan.
- Other terms: A 1% origination fee will be due and payable to PIDC upon execution of the loan agreement.

Evaluation / Reassessment

In order to evaluate the effectiveness of this program in achieving the City's policy goals, the application will collect information about industry codes, occupation codes, workforce development efforts, additional employee benefits offered, and sustainability/social impact related to the new jobs that are created. To the extent possible, this information will be disaggregated by race, ethnicity, and gender.

Additionally, the Commerce Department will ask businesses for permission to access Department of Revenue data related to business income and receipts tax and wage tax.

Possible Evaluation Framework:

Research Questions - Did the Quality Job Grant...

- Increase utilization over former tax credit program utilization by converting to grants?
- Increase job creation in neighborhoods outside of Center City?
- Lead to the hiring of people who were previously unemployed/working low-wage jobs/living in low-income census tracts?
- Lead to increased hiring of women, people of color, immigrants?
- Support the growth of small businesses, and businesses owned by women, people of color, and immigrants?
- Incentivize business to raise wages for existing employees?
- Incentivize hiring practices in line with City's policy goals- higher wages, better benefits, affordable health care, more opportunities in sectors that have career paths for those without a college degree?

Metrics:

- $ amount invested in jobs
- Number of jobs "created" (incentivized?)
- Number of small businesses/minority-owned businesses accessing program
- Average cost to the City per job
- Average wage of new jobs
- $ amount generated in new wage taxes

Outcomes:

- Growing small businesses
    - Percent of recipients hiring their first 1-15 employees
- Targeting growth sectors
    - Ratio of job growth in targeted sectors/businesses to overall job growth in Philadelphia before and after implementation of incentive
- Simple ROI to City (Wage Tax Generated/Amount Invested)

- 3-year
- 5-year

- Percentage of jobs available to Philadelphians with a 2-year degree
  - Based on SOC codes
- Increase in jobs paying a living wage

Program will be evaluated by a third-party as part of the next incentive evaluation, legislatively mandated every three years, and reassessed.

Appendix D1 - List of interview subjects for Framework review

Name	Organization/Title
Maari Porter	Deputy Chief of Staff for Policy & Strategic Initiatives, Mayor's Office
Sarah De Wolf	Chief of Staff & Deputy Finance Director for Policy and Practice
Miguel Garces	Dept of Revenue
Lauren Cox	Mayor's Comms
Stephen G. Leeper	President, Cincinnati Center City Development Corporation
Lauren Hansen Flaschen	Shultz Williams, formerly Visit Philly

Appendix D2 - Question set for interviews conducted

#	Question	Type
1	Should we require that new jobs are filled by a Philadelphia resident to count towards this program?	Yes/No
2	Which payment model is most effective and equitable?	Multiple Choice
3	When should we administer payment for the Small Business program?	Open end
4	What do businesses need most when it comes to hiring new employees?	Open end
5	What is one metric this program might track that you would find valuable?	Open end
6	From your perspective, what would be the biggest challenge in administering a program like this one?	Open end
7	Who else do you think would be good for us to talk to?	Open end
8	How might a program like this one contribute to your work / improve your service delivery?	Open end
9	If you were managing this program, how would you market it to businesses? (Messages, channels, partners, etc.)	Open end
10	What do you feel is the strongest element of the program?	Open end
11	What's one thing you would change about our design?	Open end

Appendix E - Marketing and Communications Plan

Task / Opportunity	Channels	Steps / Details	Measurement
Press release	• Email	• Provide a unique URL and/or phone number for businesses to call • Choose a day/time for sending - early Tuesday mornings have been shown to be more effective	• # of follow-ups from journalists • # of hits / calls to unique number / URL
Digital resources (FAQs, application material, etc)	• Website • Social media • Newsletter	• Refine message and summary of program into a one-page format • Develop FAQ documents to answer questions about requirements, due dates, etc.	• Amount of traffic to these pages • Newsletter clicks • Social media clicks / likes / comments
Stories from pilot	• Email • Advertising • In-person	• Share success stories from pilot through written content • Invite them to speak at community meetings / events, if willing	• Number of stories collected • Applicants referring to story (anecdotally)
NextDoor Campaign	• Online	• Create an agency profile on NextDoor • Leverage the account to post updates on the program, opportunities to learn more	• Referrals from NextDoor • # of comments, likes on posts
Business influencer campaign	• All channels	• Identify influential small business owners, community leaders, etc to promote the program • Provide talking points and leave-behind materials to be used in conversations • Provide feedback loop for influencers to share learnings with Commerce	• Channel-specific traffic measures • Number of influencers engaged • Number of referrals from materials
Eligibility Tool[6]	• Online	• Digital tool to determine eligibility for all incentives available	• Amount of traffic to website
BAT Concierge[7]	• All channels	• Dedicated, bespoke support for businesses to access incentives	• Channel-specific traffic measures

[6] Via Philadelphia Incentives Study, Recommendation #3; Assumed as long-term aspect of this plan
[7] Via Philadelphia Incentives Study, Recommendation #3 and “Growing with Equity”; Assumed as long-term aspect of this plan