

# innovation in economic DEVELOPMENT

By John Grady

Philadelphia's economic strength lies in the diversity and innovation of its people, its institutions, and its business community. That's why the Philadelphia Industrial Development Corporation (PIDC) works with businesses, non-profits, and developers in all sectors and neighborhoods to provide financing and real estate resources resulting in job creation and economic growth. PIDC's unique position at the intersection of the public and private sectors has enabled it to compete for new resources and develop innovative new products to keep up with the needs of the marketplace.

PIDC has been the City's economic development corporation since 1958. As a non-profit, public-private joint venture founded by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce, PIDC plans and implements financing and real estate transactions throughout all neighborhoods that attract investment and jobs to Philadelphia. PIDC's investments serve to diversify the City's economic base and improve the quality of life for businesses and residents alike. Over the past 54 years, PIDC has settled over 6,000 transactions – including \$10.5 billion of financing and 3,000 acres of land sales – which have leveraged over \$20 billion in total investment and assisted in retaining and creating hundreds of thousands of jobs in Philadelphia.

Local economic development officials are asked to promote market growth against the backdrop of a challenged national and international economy while also addressing varied public policy concerns such as small business formation, job creation for low-income residents, sustainable development, leading edge development in under-performing or blighted markets, and brownfield site reclamation. With limited pub-



Philadelphia's skyline as seen from the Philadelphia Museum of Art.

lic resources and many challenges, PIDC's innovation strategy focuses on attracting capital to address current and anticipated market needs and repositioning land for future development.

## ATTRACTING CAPITAL TO ADDRESS MARKET NEEDS

Like many economic development organizations, the Philadelphia Industrial Development Corporation (PIDC) has traditionally drawn on an array of economic development programs funded at the federal, state, and local levels that are available at low or no cost. PIDC, in turn, has structured these varied sources into a spectrum of subordinated and below-market financial offerings that are designed to fund gaps in the private markets and to meet the City's policy goals. As governmental resources shrink, we are turning more and more to internal and private sector resources to supplement

John Grady is president of the Philadelphia Industrial Development Corporation. (jgrady@pidc-pa.org)

## TRANSFORMING PHILADELPHIA'S ECONOMY

*The Philadelphia Industrial Development Corporation (PIDC) is at the forefront of the nation's leading public-private partnerships. Working collaboratively with the City of Philadelphia and the Greater Philadelphia Chamber of Commerce, PIDC has been able to attract and retain businesses through innovative financing and real estate solutions. Understanding the needs in the marketplace and developing new resources and programs to meet those needs has been a key to PIDC's success. Whether promoting entrepreneurship and small business growth, or helping large corporations with business location or expansion, PIDC's financing and real estate solutions work well in both a struggling and bustling economy.*

public funds and address additional needs of Philadelphia's business sector.

### ***Flexible Capital for Small and Emerging Businesses***

Since the start of the 2008 recession, PIDC has found increasing demand from emerging businesses, including small, minority, woman and disabled-owned businesses, for working capital. Since such uses of funds are typically discouraged by public sources of funds, PIDC has looked to its own balance sheet and bank partnerships to develop pilot programs to meet this important market need.

PIDC has used internal funds to create the Emerging Business Loan program, offering working capital secured by specific contract receivables. For example, PIDC was able to provide a loan under this program to Bittenbender Construction, a woman-owned construction firm that was suffering from a slow-paying construction contract and had otherwise tapped out its bank lines of credit. PIDC has administered 67 Emerging Business Loans over the last five years.

To create the Emerging Business Guarantee program, PIDC partnered with three local community banks – United Bank, Valley Green Bank, and East River Bank – to provide loan guarantees for small business loans that fall just short of the banks' credit criteria. With a guarantee from PIDC, Valley Green Bank provided financing to a growing bakery, Philly Cupcake, which allowed the company to expand into a third retail location in a formerly vacant storefront on an important commercial corridor. In 2012, PIDC guaranteed seven loans totaling nearly \$1 million. In 2013, PIDC will introduce a third product, the Emerging Business Bonding program, which will enable small contractors to access surety bonding and thereby bolster their ability to bid on construction projects.



Photo Credit: Michael Spain-Smith

*Philly Cupcake owners Johnny Columbo and Michael Lewis, participants in PIDC's Emerging Business Guarantee Program.*

Based on our positive track record with small and emerging business lending, PIDC is now turning to the community development finance world to complement and extend our existing resources for the benefit of Philadelphia's small business community. PIDC obtained its Community Development Finance Institution (CDFI) certification in 2012 and has commenced a strategic effort to attract private bank and foundation capi-

tal to the small business community which is otherwise not being served by the private sector.

In an important first step, PIDC has joined forces with Goldman Sachs and their 10,000 Small Businesses initiative to make \$10 million in lending capital available via PIDC to small businesses throughout Philadelphia. The Goldman Sachs 10,000 Small Businesses initiative is designed to help create jobs and economic growth by providing small businesses with practical business education, business support services, and access to capital. Community College of Philadelphia will deliver the business education portion of the program in Philadelphia. This partnership draws on the best of both worlds – Goldman Sachs' access to private capital blended with PIDC's on-the-ground experience with the local small business market.

### ***Investing in Sustainability***

Increasing awareness of the negative impact of inefficient buildings and storm water management practices to our environment and business' bottom line is driving a rising call for financing of environmentally sustainable practices. PIDC partnered with the City and The Reinvestment Fund (TRF), a prominent local CDFI, to successfully compete for and structure federal Department of Energy dollars along with other public and private funds to create the EnergyWorks Loan Fund. EnergyWorks provides low-interest loans to building owners who are looking to improve their overall energy usage by at least 25 percent by improving the building envelope and/or basic building systems. To date, PIDC has administered six EnergyWorks Loans to projects meeting the goals of the loan fund.

In addition, PIDC has joined forces with the Philadelphia Water Department to implement the Stormwater Management Improvement Program (SMIP). This innovative program offers grants and loans to business property owners that want to manage stormwater on-site through proven technologies such as green roofs or porous pavement.

### ***Startup PHL: New Funding for Entrepreneurs***

PIDC has witnessed tremendous recent growth in Philadelphia's start-up and early-stage community. With little or no revenue and no collateral, these high-potential start-ups are not able to access PIDC's traditional debt financing, but are nonetheless crucial to the city's economic vitality. To support this burgeoning sector, PIDC joined forces with the City of Philadelphia to announce a series of initiatives under the StartUp PHL brand.

In October 2012, the City launched the StartUp PHL website (<http://www.startupphl.com>) and a "Call for Ideas" that will provide small grants to individuals or organizations that support the entrepreneurial community. In conjunction with the City's announcement, PIDC launched a request for proposals to create the StartUp PHL Seed Fund. PIDC is offering \$3 million from its revolving loan fund resources as a lead investment in a new, privately managed SEED Fund for Philadelphia start-ups to be matched and managed by

PIDC's half century of experience has also led it to develop innovative ways to reposition land so that it can support newer forms of development.

a professional seed-stage investment firm to fill the gap between initial “family and friends” funding available to start-up companies, and the increasingly conservative financing from the formal venture and angel capital communities.

Whether it is a hard-working small business, energy-efficient building retrofit, or start-up tech company, PIDC and economic development organizations like it are continually called upon to fill the gaps left by today's private debt and equity markets. This requires innovative uses of traditional public economic development resources coupled with private resources so that Philadelphia continues to grow as an attractive place for business investment and job creation.

## REPOSITIONING LAND FOR FUTURE DEVELOPMENT

PIDC's half century of experience has also led it to develop innovative ways to reposition land so that it can support newer forms of development. With a long track record including more than 500 successful real estate transactions totaling more than 3,000 acres of land completed since its founding, PIDC is an experienced participant in Philadelphia's real estate marketplace. From the development of some of the earliest urban industrial parks in the U.S. to helping create new zoning classifications that reflect the evolution of modern industrial activity to crafting master plans for future industrial districts, PIDC has played an important role in the development of Philadelphia.

### *Industrial Land & Market Strategy*

In 2010, PIDC, working along with the City Planning Commission and the Philadelphia Commerce Department, released the *Industrial Land & Market Strategy for the City of Philadelphia (Strategy)*, a comprehensive analysis of industrial activity in Philadelphia. Based on a detailed parcel-by-parcel survey of nearly 25 square miles of industrially-zoned land, the *Strategy* provides a data-driven foundation for city policies affecting the industrial sector. While the character of industrial firms in Philadelphia has changed remarkably since the city was known as the “Workshop of the World,” with names like Baldwin Locomotive, Disston Saws, and Stetson Hats giving way to Augusta Aviation, Lannett Pharmaceuticals, and Microcision, industry remains an important component of the city's economy.

Today, industrial firms are the source of more than 100,000 jobs with a combined annual payroll of \$5 billion. In recognition of the importance of industrial activity to Philadelphia, the *Strategy* has led PIDC to focus on several new ways to nurture and support industry.

The *Strategy* documented the characteristics modern industrial users need to thrive – industrially-zoned land with adequate infrastructure, modern facilities, workforce access, and separation from incompatible uses.

Since the *Strategy's* release, PIDC has coordinated an inter-agency review of proposed zoning changes and variances on industrial land in Philadelphia. Annually, this review team evaluates approximately 300 zoning requests to determine what impacts proposed non-industrial uses will have on the integrity and function of industrial districts. The City Planning Commission made use of the research in the *Strategy* during its development of *Philadelphia2035*, the city's comprehensive plan which identified industrial legacy areas that require protection and support, and the 2011 overhaul of the Philadelphia Zoning Code which included the simplification and modernization of the city's 50-year-old code and two new industrial classifications designed to reflect new forms of industry.

### *Lower Schuylkill Master Plan*

The *Strategy* also included a comprehensive survey of Philadelphia's industrial districts. This survey identified a 3,700-acre section of the district along the Schuylkill River containing nearly 70 percent of the city's vacant or under-utilized industrial land as a prime candidate for redevelopment. While large, under-utilized industrial zones are unfortunately all too common in older cities, the Lower Schuylkill does have features which make it suitable for redevelopment into a 21st century industrial district.



*A future aerial view of the 3,700-acre Lower Schuylkill River district to include three campuses; Innovation District, Logistics Hub and Energy Corridor.*

The Lower Schuylkill is located adjacent to areas which drive Philadelphia's economy, notably University City – home to several world-class universities and research centers; Philadelphia International Airport; and the PIDC-managed Navy Yard – an emerging industrial, commercial, and energy campus. The area is industrially-zoned and has parcels with the scale required by modern industry. The Lower Schuylkill has access to two interstates and is served by both passenger and freight rail. Finally, the district straddles a riverfront that is increasingly being rediscovered as a recreational amenity by Philadelphians thanks to the extension of

the Schuylkill River Trail that will provide connections to both residents and employees to important park space along the river.

In recognition of these strengths, in 2011, the City of Philadelphia and PIDC embarked on a planning process to develop a Master Plan for the Lower Schuylkill River. Funded collaboratively by the City of Philadelphia and the William Penn Foundation, this effort identified the benefits of its redevelopment, constraints preventing it, and established a strategy, schedule, and cost for public investments required to overcome impediments to the attraction and deployment of private capital in this area. Recently completed, the *Lower Schuylkill Master Plan* now serves as a guide for a series of public interventions intended to leverage private investment, development, and employment to re-establish this district as a vibrant part of Philadelphia's economy.

### **Planning and Funding Waterfront Infrastructure**

Like many cities, Philadelphia has struggled to successfully redevelop its waterfront. Recent waterfront planning initiatives, led by the Delaware River Waterfront Corporation (DRWC) and Penn Praxis, a University of Pennsylvania planning initiative, have sparked new excitement, particularly along a six-mile stretch of the Delaware River dubbed the "Central Delaware."

In 2010, DRWC developed *A Plan for the Central Delaware*, a detailed blueprint for transforming 1,100 acres of Delaware River waterfront into a vibrant destination for recreational, cultural, commercial, and residential activities. DRWC completed several early action projects, including artistic and well-lit connector streets, the widely-acclaimed Race Street Pier, an ecological park, and a waterfront trail. New restaurants and entertainment venues have followed. With this new momentum, a number of large-scale, privately-led projects are beginning to emerge.

To support this new development, particularly the residential and retail development envisioned by the *Plan*, new financing resources are required to address cost premiums and market risk associated with waterfront redevelopment. In late 2012, PIDC teamed up with the City, Delaware River Waterfront Corporation (DRWC), the William Penn Foundation, and Forsyth Street Advisors to evaluate the viability of a public-private investment fund capable of providing long-term, patient capital to facilitate this new development. Currently under development, this fund will serve as a new mechanism for public-private collaboration to fund and implement transformative development in Philadelphia.

### **THE NAVY YARD: INNOVATION IN ACTION**

Traditionally, economic development has centered on two fundamental drivers – financing and real estate – to catalyze the private marketplace. Today, innovation in attracting and developing new financial tools and real estate assets is critical to the continued transformation of Philadelphia's economy for the future. There is no better example than the ongoing successful redevelopment of The Navy Yard in South Philadelphia.



Photo Credit: Michael Spain-Smith

*The Navy Yard at full build-out, expected to support up to 13.5 million square feet of facilities, attract \$3 billion in private investment, and employ more than 30,000 people.*

The Navy Yard is a 1,200-acre former military base that was closed in 1995 as part of the U.S. Department of Defense Base Realignment and Closure (BRAC) process. In 2000, the federal government conveyed the property to the City of Philadelphia with PIDC serving as master developer and manager for all aspects of the property's management and development, including master planning, leasing, property management, infrastructure development, utility operation, and structuring leasing and development transactions.

Upon transfer of the property, PIDC's 1994 plan focused initially on stabilizing and revitalizing the property's industrial assets and securing employment opportunities for its workforce. Once the industrial sector was stabilized, PIDC focused on attracting new office, research, and industrial investment selecting Liberty Property Trust and Synterra Partners as a commercial and industrial development partner.

Together with Liberty/Synterra and the City, PIDC undertook a new master planning process for a mixed-use campus in addition to the property's industrial assets. Since the release of that plan in 2004, there has been more than \$700 million in private investment and in excess of \$130 million in public infrastructure investment. The 2004 plan has the development of The Navy Yard as a highly sustainable place that includes environmentally friendly workplaces, significant architecture, industrial development, great public spaces, waterfront amenities, improved mass transit, and the potential for residential development.

In 2006, The Navy Yard Smart Energy Campus was created as a collaboration of businesses, universities, and government, focused on establishing The Navy Yard as a national center for energy research, education, and commercialization. By actively engaging all of The Navy Yard's assets – its people, infrastructure, and buildings – the Smart Energy Campus is developing and deploying the next generation solutions in energy efficiency, smart grids, and related engineering and IT fields.



In 2011, The Navy Yard was chosen by the U.S. Department of Energy (DOE) as the national headquarters for the Energy Efficient Buildings Hub (EEB Hub). The EEB Hub is led by the Pennsylvania State University, funded by a \$129 million renewable federal grant from DOE, and supported by three other federal agencies and the Commonwealth of Pennsylvania. The EEB Hub is a 27-member consortium focused on solving energy efficiency challenges by designing and deploying proven, economically viable technologies that significantly reduce energy consumption in the nation's commercial buildings, while also promoting economic growth and job creation. With the creation of the EEB Hub, more and more energy-efficiency related companies have begun locating to The Navy Yard.

Today, The Navy Yard is a dynamic, urban waterfront campus that is home to more than 130 companies and 10,000 employees in the office, industrial/manufacturing, and research and development sectors, occupying 6.5 million square feet of real estate in a mix of historic buildings and new LEED® certified construction. PIDC recently released an update to the Master Plan in combination with an Energy Master Plan calling for The Navy Yard and the community to continue demonstrating these innovations around energy and collaboration. At full build-out, The Navy Yard will support up to 13.5 million square feet of facilities, attract \$3 billion of private investment, and employ more than 30,000 people.

Every day brings something new to PIDC. Making investments and building relationships with institutions


and for-profit and non-profit businesses that are diverse, dynamic, and fun to work with never gets old. By attracting capital to address market needs, repositioning land for future development, and putting it all together at The Navy Yard, Philadelphia and PIDC stand as leaders in innovation and economic development. 

Photo Credit: Michael Spain-Smith



Photo Credit: Michael Spain-Smith



*Welcome to The Navy Yard, a 1,200-acre former military base; now a dynamic, urban business campus that is home to over 10,000 employees and 130 businesses occupying 6.5 million square feet of space.*

*The Corporate Center, developed by Liberty Property Trust/ Synterra Partners, a vibrant district of The Navy Yard that offers collaborative, progressive, and environmentally friendly workplaces.*

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